

Press Release

Nestor Pharmaceuticals Limited

September 20, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 71.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 71.00 crore bank facilities of Nestor Pharmaceuticals Limited (NPL). The outlook is '**Stable**'.

The Delhi-based, Nestor Pharmaceuticals Limited (NPL) was incorporated in 1975 by Mr. Rahul Sehgal. NPL is engaged in the manufacturing of wide range of pharmaceutical formulations, both generic and branded in the form of Tablets, Capsules, Injectable, Syrups / Suspension, Ointments, Dry Powder, Ear/ Eye Drops. The company has 2 manufacturing plants one at Faridabad (Haryana) and another at Goa. The company also has an overseas manufacturing unit based in Suffolk (United Kingdom) under its wholly owned subsidiary named Nestor UK Limited. Currently, the UK subsidiary is not operational and is expected to start its operations by September 2018. The management plans to bring the facilities to India from UK.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Nestor Pharmaceuticals Limited (NPL) to arrive at the ratings.

Key Rating Drivers:

Strengths

- **Established track record of operations with an experienced management**

NPL was incorporated in 1975 by Mr. Rahul Sehgal. The day to day operations are managed by Mr. Rahul Sehgal, Mr. Bharat Sehgal, Mr. Bhisham Singh and Mr. Rajpal Bishnoi who have been associated with the pharmaceutical industry for more than two decades. About 90 percent of NPL's revenue is generated from various state governments including Haryana, Rajasthan, Kerala, Madhya Pradesh, Orissa to name a few. Acuite believes that the established track record of NPL along with extensive experience of the directors will help the company maintain stable relations with its customers and suppliers.

- **Moderate financial risk profile**

NPL has moderate financial risk profile marked by high tangible net worth of Rs.64.86 crore as on 31 March, 2018 (Including quasi equity of Rs.3.40 crore) as against Rs.53.44 crore as on 31 March, 2017. The gearing (debt/equity) stood at 0.68 times as on 31 March, 2018 as against 0.97 times as on 31 March, 2017. The total debt of Rs.44.40 crore as on 31 March, 2018 comprises Rs.0.93 crore of long term debt and Rs.43.47 crore of short term debt from the bank. The interest coverage ratio (ICR) improved to 1.94 times in FY2018 as against 1.49 times in FY2017. The debt service coverage ratio (DSCR) stood at 1.68 times in FY2018 as against 1.43 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) ratio also improved to 1.16 times as on 31 March, 2018 as against 1.53 times as on 31 March, 2017. The net cash accruals for FY2018 stood at Rs.5.94 crore as against the debt obligation of Rs.0.43 crore in FY2017.

Weaknesses

• Working capital intensive nature of operations

NPL's operations are working capital intensive marked by high Gross Current Assets (GCA) of 237 days in FY2018 against 275 days in FY2017. This is mainly dominated by high debtors of 169 days in FY2018 against 176 days in FY2017. The high debtor days are mainly on account of high credit period offered to government institutions which contributes to ~90 percent of the revenue. The inventory days stood at 68 in FY2018 against 87 days in FY2017. The average bank limit utilisation stood at ~97 percent for last six months ending August 2018.

• Investments in non-operational subsidiary

NPL has invested Rs.45.99 crore in non-operational subsidiary which is based in United Kingdom. The company plans to bring the machineries in India and is expected to start its operations by September 2018. The adjusted net worth stood at Rs.18.87 crore as on 31 March, 2018 (Previously, Rs.12.85 crore as on 31 March, 2017). The adjusted gearing stood at 2.35 times as on 31 March, 2018 (Previously, 4.02 times as on 31 March, 2017). Further, timely start of these operations will remain a key rating sensitivity.

• Intense competition

The company is exposed to intense competition from organised and unorganised players in the pharmaceutical industry. However, NPL has more than four decades experience and has been able to establish itself in the Indian pharmaceutical industry.

Outlook: Stable

Acuite believes that NPL will maintain a 'Stable' outlook over the medium term owing to its established presence in the pharmaceutical industry. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile on account of higher-than-expected increase in debt-funded working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	112.02	100.56	136.18
EBITDA	Rs. Cr.	14.78	14.09	12.07
PAT	Rs. Cr.	4.06	2.61	2.55
EBITDA Margin	(%)	13.20	14.01	8.86
PAT Margin	(%)	3.62	2.60	1.88
ROCE	(%)	11.94	11.83	19.62
Total Debt/Tangible Net Worth	Times	0.68	0.97	1.37
PBDIT/Interest	Times	1.94	1.49	1.47
Total Debt/PBDIT	Times	2.98	4.21	5.17
Gross Current Assets (Days)	Days	237	275	191

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.60*	ACUITE BB- / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	22.03	ACUITE BB- / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4
Proposed	Not Applicable	Not Applicable	Not Applicable	0.37	ACUITE BB- / Stable

* PC/PCFC as a Sublimit of Rs.6.25 crore, FBP/FUBP/REBA/AACB as a sublimit of Rs.7.00 crore, FLC/ILC as a sublimit of Rs.10.00 crore.

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About Acuité Ratings & Research:

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