

Press Release
NESTOR PHARMACEUTICALS LIMITED
April 18, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	62.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	30.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	92.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of 'ACUITE BBB-' (read as ACUITE triple B minus) and short-term rating of 'ACUITE A3' (read as ACUITE A three) on the Rs.92.00 Crore bank facilities of Nestor Pharmaceuticals Limited(NPL). The Outlook is 'Stable'.

Rationale for rating

The rating assigned factors in the established track record of operations and experienced management with more than 4 decades of experience in the line of same business. Further, there is an improvement in the scale of operation as evident from turnover of the company which stood at Rs.202.00 Crore in FY23 against Rs.155.30 Crore in FY22. The improvement in the turnover is driven by monthly schedule and improved demand in domestic and international markets. In addition, the diversified product portfolio is adding to the demand and top-line of the company. Further, the rating factors in the moderate financial risk profile marked with comfortable capital structure reflected by gearing ratio below unity as on 31st March 2023. However, the rating strengths are constrained by working capital intensive nature of operation, the company is working on improving its working capital management through it's focus to reduce its inventory level by rationalizing selected products as reflected in inventory days of 64 as on 29th Feb 2024 as compared to 67 days as on 31st March 2023 and 126 days as on 31st March 2022. Further, vulnerability to change in government/regulatory policies and volatility in raw material prices will remain a key sensitive factor.

About the Company

Delhi based, Nestor Pharmaceuticals Limited was incorporated in 1975. It is engaged in manufacturing of medicines, Mr. Rahul Sehgal, Mr. Bhanu Prakash Tiwari, Mr. Adarsh Pal Singh, Mr. Bharat Ram and Mr. Bisham Singh are directors of the entity. The company's expertise is in manufacturing and marketing of a wide array of ethical allopathic branded and generic formulations. The existing product portfolio consists of approximately more than 165 products in the form of Tablets, Capsules, Injectable, Syrups / Suspension, Ointments, Dry Powder, Ear/ Eye Drops and so on in various therapeutic segments including Cardiovascular, Anti Diabetic, Anti-Malarial, Anti allergic, Anti-Diarrheal, Anti TB, Anti Inflammatory, Anti-Depressant, Multi Vitamins, Antacid, Analgesic, Anti-Pyretic, Antibiotics, Cough & Cold, Pain Management, Muscle Relaxant to name a few. The company has two manufacturing plants located at Faridabad and Goa.

Unsupported Rating

Not applicable.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Nestor Pharmaceuticals Limited to arrive at the rating.

Key Rating Drivers

Strengths

Experienced promoter & established track record of operations

NPL was incorporated in 1975 by Mr. Rahul Sehgal. The day to day operations are managed by Mr. Rahul Sehgal who have been associated with the pharmaceutical industry for more than four decades. About 90 percent of NPL's revenue is generated from various state governments including Kerala, Uttar Pradesh, Andhra Pradesh, West Bengal etc. Having operated in industry since decades now, the management has established a strong network with suppliers and customers. In addition, the company is targeting to enter into new segment wherein, the company will enter the market through its distribution channel to pharmacy which would help NPL to register incremental sales.

Acuité 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

The financial risk profile of the company is moderate marked by net-worth of Rs.83.11 Crore as on 31st March 2023 against Rs.73.37 Crore as on 31st March 2022. The increase in the net-worth is on an account of accretion of profits into reserves. Also, the total debt of the company reduced and stood at Rs.59.88 Crore as on 31st March 2023 against Rs.72.12 Crore as on 31st March 2022. Further the capital structure of the company is comfortable wherein gearing ratio of the company has improved and remained below unity i.e. 0.72 times as on 31st March 2023 against 0.98 times as on 31st March 2022. The coverage indicators of the company are also comfortable reflected through interest coverage ratio and debt service coverage ratio of 2.35 times and 1.55 times respectively, as on 31st March 2023 against 2.20 times and 1.25 times respectively as on 31st March 2022. The TOL/TNW ratio of the company stood at 1.09 times as on 31st March 2023 against 1.35 times as on 31st March 2022. Further, the debt-EBITDA of the company stood at 2.44 times as on 31st March 2023 against 3.42 times as on 31st March 2022. Acuite believes that financial risk profile of the company is expected to improve in near to medium term in the absence of any additional debt to be taken.

Diversified product profile and geographical reach

NPL has offerings in anti-diabetics, anti-malarial and anti-depressant etc., with around 238 trademark registered. It also exports to few countries which comprises 2% of the total turnover achieved till February 2024. However, in addition of new product registrations and foray into new product categories and markets help in consistent scaling up of operations. The wide product basket and geographical presence provide diversity in the revenue profile. Revenue increased to Rs 202 crore in FY 2023 from Rs 155.30 crore in FY22, reporting an annual growth rate of around 30% supported by stable margins which stood at 12.09% in FY23 against 13.48% in FY22. The revenue are estimated under the range of Rs.220 Crore for the FY2024 supported by increasing capacity and entering into new segment wherein the company will directly sale to pharmacy.

Weaknesses

Working Capital Intensive Operations

The working capital operations of the company is intensive marked by GCA days of 242 days as on 31st March 2023 against 301 days as on 31st March 2022. However, the GCA days are improved on an account of the debtor days which stood at 177 days as on 31st March 2023 against 185 days as on 31st March 2022. The company supplies its products mainly to state government authorities. However, NPL is entering into supply of products to the pharmacies and exports where debtor realisations are much better than the government agencies. Further, the inventory days of the company stood at 67 days as on 31st March 2023 against 126 days as on 31st March 2022 wherein the company is rationalizing its inventory strategy by focusing on selected products as compared to previous years. On the other

hand, the creditor days of the company stood at 64 days as on 31st march 2023 against 67 days as on 31st March 2022.

Intense competition and exposure to volatility in input prices

The company is exposed to intense competition from large and small 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. Further, rise in key input prices, higher logistics cost and selling expenditure towards selling products direct to pharmacy will remain a key rating sensitivity. Further, inventory stocking might expose the company to sharp variations in input prices.

Rating Sensitivities

- Increase in the scale of operations while maintaining its profitability.
- Any elongation of the working capital cycle leading to stretch in liquidity.

Liquidity Position

Adequate

The liquidity profile of the company is adequate. The company has generated net cash accruals of Rs.14.22 Crore against the debt repayment obligation of Rs.5.46 Crore in the same period. Further, the company is expected to generate net cash accruals under the range of Rs.20 Crore against the debt repayment obligation under the range of Rs.5 Crore in near to medium term. The current ratio of the company stood at 1.98 times as on 31st march 2023 against 1.81 times as on 31st March 2022. Further, the fund based average bank limit utilization of the company stood at 77.44% in last twelve months ending Feb 2024 giving adequate legroom for growth capital in form of unutilized bank limits. Further, the company's debt-equity position of 0.72 times in FY23 shows sufficient opportunity to manage funds for the capex (if any) without much compromising the comfortable capital structure of the company.

Acuite believes that liquidity profile of the company is expected to improve in near to medium term in the absence of any major repayment obligations as the company is not planning to take any additional debt in near to medium term.

Outlook: Stable

Acuite believes that NPL will maintain a 'Stable' outlook over the medium term owing to its experienced management, its long track record of operations and its moderate financial risk profile. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt funded capex leading to deterioration in its financial risk profile particularly its liquidity.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	202.00	155.30
PAT	Rs. Cr.	11.77	9.23
PAT Margin	(%)	5.83	5.94
Total Debt/Tangible Net Worth	Times	0.72	0.98
PBDIT/Interest	Times	2.35	2.20

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

Brickwork Ratings, vide its press release dated February 13, 2023 had denoted the rating to Nestor Pharmaceuticals Limited as 'BWR B /Stable /BWR A4' (Issuer Not Cooperating).

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A3 Assigned
Punjab National Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3 Assigned
Union Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	26.56	ACUITE BBB- Stable Assigned
Union Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3 Assigned
Punjab National Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A3 Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.30	ACUITE BBB- Stable Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	08 Jan 2021	Not avl. / Not appl.	31 Mar 2026	Simple	5.42	ACUITE BBB- Stable Assigned
Union Bank of India	Not avl. / Not appl.	Term Loan	29 Dec 2021	Not avl. / Not appl.	31 Dec 2027	Simple	2.72	ACUITE BBB- Stable Assigned
Punjab National Bank	Not avl. / Not appl.	Term Loan	08 Dec 2021	Not avl. / Not appl.	30 Nov 2027	Simple	2.00	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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