

## Rating Advisory

December 18, 2020 | Mumbai

### Kwality Pharmaceuticals Limited

#### Advisory as on December 18, 2020

This rating advisory is provided in relation to the rating of Kwality Pharmaceuticals Limited

The key rating sensitivity factors for the rating include:

#### Upward factors

- Improvement in operating income by more than 20% and operating margin by 200 basis points
- Increase in cash accrual and efficient working capital management

#### Downward factors

- Decline in operating income (by more than 15%) and profitability from fiscal 2019 levels
- Larger-than-expected, debt-funded capital expenditure (capex) weakening the financial risk profile

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Kwality Pharmaceuticals Limited (KPLM) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If KPLM continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt.Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/CIR/P/2017/71dt.June 30,2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### About the company

Established in 1980 as a partnership firm and reconstituted as a private limited company in 1983, KPL manufactures formulations in the form of injectables, tablets, capsules, and syrups. It has one unit each in Amritsar (Punjab) and Kangra (Himachal Pradesh), with capacity to produce 3.5 million and 8.5 million tablets per day, respectively. The Kangra unit commenced production in October 2008. KPL is listed on Bombay Stock Exchange Ltd.

KPLM (Mozambique) is a wholly owned subsidiary.

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## Rating Rationale

April 01, 2020 | Mumbai

### Kwality Pharmaceuticals Limited

*Rated amount enhanced*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.52 Crore (Enhanced from Rs.43 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings on the bank facilities of Kwality Pharmaceuticals Limited (KPL).

The ratings continue to reflect KPL's established position in the formulations segment and comfortable financial risk profile. These strengths are partially offset by moderate scale and working capital-intensive operations.

#### Analytical Approach

CRISIL has consolidated the business and financial risk profiles of KPL and its wholly owned subsidiary, Kwality Pharmaceuticals Africa LDA (KPLM; Mozambique) as KPL is the sole shareholder in KPLM and it has significant control over the company along with business synergies.

#### Key Rating Drivers & Detailed Description

##### **Strengths:**

- \* **Established player in the formulations segment:** Over the past three decades, KPL has developed a diverse portfolio of more than 2,000 drugs in the form of tablets, capsules, small volume liquid injections, liquid syrups, dry syrups, dry injections, dental cartridges, and suppositories. It has also added new products such as anti-cancer drugs and penicillin antibiotics. Furthermore, clientele is diverse, with domestic sales having contributed around 49% of total turnover in fiscal 2019, exports 48%, and sales through subsidiary 3%.
- \* **Comfortable financial risk profile:** Gearing was healthy at 0.81 time as on March 31, 2019, and is expected to remain below 1 time over the medium term on account of a comfortable network. However, capital expenditure (capex), if any, and its funding mix will remain key rating sensitivity factors. Debt protection metrics are above average.

##### **Weaknesses:**

- \* **Working capital-intensive operations:** Gross current assets were 165 days as on March 31, 2019, due to stretched receivables of 84 days.
- \* **Moderate scale of operations:** Intense competition continues to constrain scalability: revenue was moderate at Rs 166.70 crore in fiscal 2019. Although revenue grew 21% year-on-year in fiscal 2019 and is expected to improve over the medium term, backed by higher demand and expansion in the export market, scale should remain moderate.

## Liquidity Adequate

Net cash accrual is expected at Rs 8.7-10.2 crore per annum in fiscals 2020 and 2021 against moderate debt repayment of Rs 2.42-3.22 crore. Bank limit utilisation averaged 86% over the 12 months through February 2020. Current ratio was 1.24 times as on March 31, 2019.

## Outlook: Stable

CRISIL believes KPL will continue to benefit from the established presence and its improving revenue and operating margins.

## Rating Sensitivity factors

### **Upward factors**

- \* Improvement in operating income by more than 20% and in operating margin by 200 basis points
- \* Increase in cash accrual and reduction in working capital cycle

### **Downward factors**

- \* Decline in operating income by more than 15% from fiscal 2019 level and fall in operating profitability from fiscal 2019 level
- \* Larger-than-expected debt-funded capex weakening financial risk profile

## **About the Company**

Set up in 1980 as a partnership firm and reconstituted as a private limited company in 1983, KPL manufactures formulations in the form of injectables, tablets, capsules, and syrups. It has one unit each in Amritsar (Punjab) and Kangra (Himachal Pradesh), with capacity to produce 3.5 million and 8.5 million tablet per day, respectively. The Kangra unit commenced production in October 2008. KPL is listed on Bombay Stock Exchange Ltd (BSE).

Kwality Pharmaceuticals Africa LDA (Mozambique) is a wholly owned subsidiary.

## **Key Financial Indicators - Consolidated**

Particulars	Unit	2019	2018
Revenue	Rs cr	166.7	137.7
Profit after tax	Rs cr	7.56	4.04
PAT margin	%	4.5	2.9
Adjusted debt/adjusted networth	Times	0.81	0.95
Interest coverage	Times	7.1	5.6

**Any other information:** Not applicable

## **Note on complexity levels of the rated instrument:**

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## **Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	16	CRISIL BBB-/Stable

NA	Letter of Credit	NA	NA	NA	6	CRISIL A3
NA	Term Loan	NA	NA	Mar-23	6	CRISIL BBB-/Stable
NA	Pre Shipment Credit	NA	NA	NA	2.0	CRISIL A3
NA	Capex Letter of Credit	NA	NA	NA	4.0	CRISIL A3
NA	Foreign Bill Purchase	NA	NA	NA	4.88	CRISIL BBB-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	13.12	CRISIL BBB-/Stable

## Annexure - List of entities consolidated

Name of entities	Extent of Consolidation	Rationale for Consolidation
Kwality Pharmaceuticals Ltd	100% consolidation	Kwality Pharmaceuticals Africa LDA (Mozambique) is a wholly owned subsidiary of KPL
Kwality Pharmaceuticals Africa LDA (Mozambique)	100% consolidation	Kwality Pharmaceuticals Africa LDA (Mozambique) is a wholly owned subsidiary of KPL

## Annexure - Rating History for last 3 Years

Instrument	Current			2020 (History)		2019		2018		2017		Start of 2017
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	42.00	CRISIL BBB-/Stable/CRISIL A3			28-06-19	CRISIL BBB-/Stable/CRISIL A3	20-03-18	CRISIL BB+/Positive/CRISIL A4+			CRISIL BB+/Stable/CRISIL A4+
						22-01-19	CRISIL BBB-/Stable/CRISIL A3					
Non Fund-based Bank Facilities	LT/ST	10.00	CRISIL A3			28-06-19	CRISIL A3	20-03-18	CRISIL A4+			CRISIL A4+
						22-01-19	CRISIL A3					

All amounts are in Rs.Cr.

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Capex Letter of Credit	4	CRISIL A3	Capex Letter of Credit	4	CRISIL A3
Cash Credit	16	CRISIL BBB/Stable	Cash Credit	16	CRISIL BBB/Stable
Foreign Bill Purchase	4.88	CRISIL BBB/Stable	Foreign Bill Purchase	4.88	CRISIL BBB/Stable
Letter of Credit	6	CRISIL A3	Letter of Credit	6	CRISIL A3

Pre Shipment Credit	2	CRISIL A3	Long Term Loan	4	CRISIL BBB/Stable
Proposed Long Term Bank Loan Facility	13.12	CRISIL BBB/Stable	Pre Shipment Credit	2	CRISIL A3
Term Loan	6	CRISIL BBB/Stable	Term Loan	6.12	CRISIL BBB/Stable
<b>Total</b>	<b>52</b>	<b>--</b>	<b>Total</b>	<b>43</b>	<b>--</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for the Pharmaceutical Industry](#)

[CRISILs Approach to Recognising Default](#)

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