



Press Release

Nestor Pharmaceuticals Limited (NPL)

August 21, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Facility	70.17*	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed
2.	Short Term Fund Based Facility	(13.25)^	IVR A3 (IVR A Three)	Reaffirmed
3.	Short Term Non Fund Based Facility	25.00**	IVR A3 (IVR A Three)	Reaffirmed
	Total	95.17		

*This facility includes proposed CC of Rs. 15 Crore

^This facility is a sublimit of CC

**This facility includes proposed non fund based facility of Rs. 5 Crore

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Nestor Pharmaceuticals Limited (NPL) derives comfort from its experienced promoter alongside experienced management team, established market position with a wide product portfolio, reputed clientele, stable financial performance with satisfactory profitability parameters and a healthy order book position indicating a near to medium term revenue visibility.

However, the rating strengths are constrained by moderation in operating scale of operations in FY20, NPL's working capital intensive nature of operations and vulnerability to change in government/regulatory policies and volatility in raw material prices.

The outlook remains stable due to NPL's established position in the pharmaceutical industry over the medium term, supported by its promoter's extensive industry experience and established long-standing relationship with its clientele.



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Key Rating Sensitivities

Upward Rating Factors

- Substantial & sustained improvement in revenue with improvement in profit margins
- Sustenance of the capital structure with improvement in debt protection metrics
- Improvement in working capital management with improvement in liquidity position

Downward Rating Factors

- More than expected dip in operating income and/or decline in profit margins leading to deterioration in debt protection metrics
- Elongation in the operating cycle impacting the liquidity position

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter & management team

The company is being managed by experienced promoter, Mr. Rahul Sehgal has a rich experience of more than four decades in the pharmaceuticals industry and is instrumental in development of the company. Having operated in industry since years now, the management has established a strong network with suppliers and customers. Beside the promoter, the company has a team of experienced and capable professionals, having over two decades of experience in the segment, to look after the overall operations and day-to-day management.

Established Market Position with a wide product portfolio

NPL has an established market position in India in pharmaceutical formulations supported by extensive experience of its promoter, its established marketing network and a wide product portfolio consisting of Tablets, Capsules, Inject able, Syrups / Suspension, Ointments, Dry Powder, Ear/ Eye Drops representing a range of clinically proven products developed from scientifically validated and licensed products. The pharmaceutical formulations in different therapeutic groups include 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.

Reputed Clientele



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The company derives majority of its revenue from State Government Institutions and has developed an established & longstanding relationship with various state bodies. The institutional segment contributes approximately ~70% to the total revenues over the years. The clientele of the company includes Madhya Pradesh Public Health Services Corporation Ltd, Gujarat Medical Services Corporation Limited, Rajasthan Medical Services Corporation Ltd, Haffkine Bio-Pharmaceutical Corporation Ltd, Haryana Medical Services Corporation Ltd, Jharkhand Medical & Health Infrastructure Development & Procurement Corporation Ltd, Punjab Health System Corporation Ltd, Odisha State Medical Corporation Ltd and Uttar Pradesh Medical Supplies Corporation Ltd. The company's good quality products at a reasonable pricing has led to continuous and strong order book from various State Government Institutions.

Stable financial performance with satisfactory profitability albeit moderation in FY20

The total income of the company remained stable over the past two fiscals ending in FY19 on the back of steady and increasing order flow given the promoter's strong relationships with its customers. However, the company has witnessed a dip in operating income during FY20 as compared to the corresponding period of last financial year by ~ 7%. The dip, however, is due to the fall out of COVID-19 pandemic circumstances as the lockdown constrained the movement of goods and personnel and deferment of orders from various State Government Institutions. However, despite the moderation in scale of business the EBITDA margins of the company improved in FY2020 at 17.73% (FY 19: 12.08% and FY18: 13.14%).

The company has a moderate gearing ratio at 1.49x on March 31, 2020 and comfortable debt protection metrics. The debt protection metrics of the company remained comfortable at interest coverage ratio of 1.84x on March 31, 2020. With a steady increase in cash accruals, the financial risk profile is expected to remain comfortable over the medium term.

Healthy order book position indicating a near to medium term revenue visibility

The company has a strong order book comprising orders from various State government Institutions to the tune of approximately ~Rs.165.75 Crore as on June 30, 2020 (~1.5x of its FY20 revenue). The orders are to be executed in the next 1-2 fiscals which indicates a strong revenue visibility in the near to medium term. Moreover, the company has been diversifying its revenue model and during the last year has started 'Nestor Online' which is a B2B platform and caters to retail chemists for various OTC products as well as Branded Generics.



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Key Rating Weaknesses

Working capital intensive nature of operations

NPL's business has large working capital requirements, as reflected in the collection period cycle days of 166 days as on March 31, 2020, thereby affecting the operating cycle of the company, which stands at 255 days as on March 31, 2020. Furthermore, high inventory holding period of 166 days as on March 31, 2020 has also resulted in deterioration of the operating cycle. Moreover, the Average utilization across all the bank borrowings stood at 99.59% during the last 12 months period ended June,2020 leaving limited liquidity buffer from its working capital limits.

Vulnerability to change in government/regulatory policies and volatility in raw material prices

The pharmaceutical industry is highly regulated, and hence, any adverse change in government/regulatory policies can impact the business risk profile of the Company. Moreover, intense competition in the generics business limits the pricing flexibility of players. Raw materials account for 60-70% of the cost of sales, and operating margin remains susceptible to any sharp change in input prices.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Stretched

The liquidity position of the company is expected to remain stretched in the near term due to limited liquidity buffer from its working capital limits, with average utilization of 99.59% over the 12 months ended June 2020 due to an increase in receivable and inventory days and a modest cash balance of Rs. 0.08 Cr as on FY2020. The company, however, is expected to generate cash accruals in the range of ~Rs.21-31 crore during FY21-23 driven by its healthy order book.



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About the Company

Nestor Pharmaceuticals Ltd (NPL) incorporated in 1975 is in the pharmaceuticals business for more than four decades with expertise in manufacture and marketing of a wide array of ethical allopathic branded and generic formulations. The existing product portfolio consists of approximately 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 and both the facilities are WHO-GMP compliant. These plants have large production capacities to produce the pharmaceuticals products.

Financials: Standalone

For the year ended/ As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	122.6	112.1
EBITDA	14.82	19.88
PAT	3.13	-46.34
Total Debt	61.28	69.64
Tangible Net-worth	71.0	32.5
Ratios		
EBITDA Margin (%)	12.08	17.73
PAT Margin (%)	2.55	-41.32
Overall Gearing Ratio (x)	0.79	1.49

* Classification as per Infomerics' standards. The PAT in FY2020 is negative on account of one-time impairment loss of Rs. 53.36 crores in the investment made in the WOS Nestor UK Ltd. The impairment of the assets has been done as per the Indian AS-28 on impairment of assets.

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.



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Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years			
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	65.16*	IVR BBB- /Stable Outlook	--	--	--	--
2.	Term Loan	Long Term	5.01	IVR BBB- /Stable Outlook	--	--	--	--
3.	Letter of Credit	Short Term	10.00^	IVR A3	--	--	--	--
4.	Bank Guarantee	Short Term	15.00	IVR A3	--	--	--	--
5.	Pc/PCFC (sublimit of Cash Credit)	Short Term	(6.25)	IVR A3	--	--	--	--
6.	FBP/FUBD/REBA/A ACB (sublimit of Cash Credit)	Short Term	(7.00)	IVR A3	--	--	--	--

* This facility includes proposed CC of Rs. 15 Crore

^ This facility includes proposed non fund based facility of Rs. 5 Crore

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's



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long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based - Cash Credit	-	-	Revolving	65.16*	IVR BBB-/Stable Outlook
Long Term Fund Based - Term Loan	-	-	Upto April 2022	5.01	IVR BBB-/Stable Outlook
Short term Fund based - Pc/PCFC (sublimit of Cash Credit)	-	-	-	(6.25)	IVR A3
Short Term Fund based - FBP/FUBD/REBA/AACB (sublimit of Cash Credit)	-	-	Upto 180 days	(7.00)	IVR A3
Short Term Non Fund Based – Letter of Credit	-	-	Upto 120 days	10.00^	IVR A3
Short Term Non Fund Based – Bank Guarantee	-	-	-	15.00	IVR A3

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^This facility includes proposed non fund based facility of Rs. 5 Crore