

Rating Rationale
National Healthcare Private Limited

Rating

Facility/ Instrument	Amount (Rs. In Million)	Rating ¹	Rating Action
Long Term Bank Facilities (Proposed)	610.00	CARE-NP A [Single A]	Assigned
Short Term Bank Facilities	390.00	CARE-NP A1 [A One]	Assigned
Total facilities	1000.00		

Details of Facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has assigned the rating of ‘CARE-NP A’ to the long term bank facilities and ‘CARE-NP A1’ to the short term bank facilities of National Healthcare Private Limited (NHC).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of National Healthcare Private Limited (NHC) take into account comfortable financial profile of the company marked by healthy profitability and gross cash accruals coupled with comfortable capital structure and debt service coverage indicators and established track record of operations with growing market share. The ratings also factor in prior experience of the management team in distribution of pharma products and diversified product range with strong distribution network along with growing demand of pharmaceutical products in Nepal.

The ratings are however, constrained by project execution risk associated with debt funded project, and elongated operating cycle. The ratings also factor in competition from existing players in the Nepalese market and exposure to regulatory risk and volatile interest rates.

Ability of the company to increase its scale of business while maintain its profitability and market share would be the key rating sensitivities. Furthermore, timely completion of the capex within proposed cost estimations and realizing envisaged benefits therefrom would also be the key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Experienced promoters directors and established track record of operations

The company is promoted by individuals who have long track record of experience in distribution of pharma products. NHC commenced its operations from 1998 and has an operational track record of more than 2 decades. The company is currently managed by Mr. Jagdish Kumar Roongta, Radheshyam Mahato and Mr. Pramod Kumar Chaudhary. All these directors have over two decades of experience in their respective fields and in pharmaceutical industry. Mr. Jagdish Kumar Roongta is a Chartered Accountant by

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com

qualification and is looking after the overall functions of the company. Mr. Radheshyam Mahato, Director looks after human resource and marketing activities of the company. The management is assisted by a team of qualified professionals, looking after the operations of the company. The promoters have a proven track record of scaling up the business successfully to become one of the leading pharma company in Nepal.

Established distribution network with growing market share and diversified product range

NHC has a strong marketing network with an established distribution channel comprising of over 750 stockiest distributed all over Nepal. NHC's long standing relationship with its dealers for over 20 years, has helped it to gain incremental growth. The company has also been expanding its product portfolio across different therapeutic segments over the years which has led to diversify its end-user customer base.

NHC is one of the leading pharma manufacturing company of Nepal and holds a market share of ~ 5.50 % in the Nepalese pharmaceutical industry. Over the years, NHC has carved out a niche market for itself in over-the counter medicines mainly because of the strong distribution background of the promoters. NHC currently produces ~ 360 different types of drugs in ~ 22 categories with focus on the antimicrobial drugs.

Comfortable financial profile marked by healthy profitability and gross cash accruals

For the period FY18-FY20 (FY refers to period between July 15 to July 14), the company's total operating income grew from Rs. 1,784 Mn to Rs. 2,222 Mn reflecting a compounded annual growth rate of around ~ 12%. Furthermore, during H1FY21 (refers to period between mid-July 2020 to mid-January 2021), the company has achieved sales of Rs. 1,243 Mn. With increase in scale of operations, PBILDT margin has also been improving on y-o-y basis during the same period from 22.19 % in FY18 to 28.72 % in FY20. The company has diversified product portfolio having varied margins and normally chronic disease drugs have better profitability. The improvement in profitability margins over the stated years were on account of economies of scale and change in product mix. The growth in PBIDLT margins also support the increase in PAT margin of the company.

Comfortable capital structure and debt service coverage indicators

The capital structure of the company has been historically comfortable on account of continuous infusion of equity and lower reliance on external borrowings. Attributed to prepayment of all the long term debt, the debt equity of the company stood nil at the end of FY20. Company is generating sufficient cashflows to meet the increasing requirement of its working capital to support the growing scale of operations. The same also resulted in the low dependence on working capital borrowings and the overall gearing stood at 0.04x at the end of FY20. The company has moderate utilization (33%) of working capital loans for the last 12 months period ended mid-November 2020.

Low debt levels of the company and growing GCA levels due to healthy profitability margins has led to comfortable total debt/GCA, which stood at below unity for the last two financial years (FY19-FY20). Further on account of low interest obligations, the interest coverage ratio is healthy and stood at above 18 times in the last three financial years (FY18-FY20).

Demand of pharmaceuticals products

Pharmaceutical products in Nepal is mostly imported and has seen a steady growth which is evident by increasing imports of pharmaceutical products in the country. With increasing access of health facilities along with increase in new health facilities across the country, demand for pharmaceutical products is expected to increase in future. . Furthermore, share of Nepalese companies has sbeen increasing steadily in Nepalese Pharma Market. As per the report released by IQVIA, Market Feedback Report December 2020, Nepal Pharma market is valued at ~ Rs. 420 Billion where the share of Nepalese companies has increased from 47% in December 2018 to 52% in December 2020. Also, the demand of pharmaceuticals products is not influenced by macroeconomics parameters and all these factors argue favorably for the company

Key Rating Weaknesses***Implementation and stabilisation risk associated with debt funded brownfield project***

The company is expected to incur a capex of Rs.1,000 Mn in the next 2 years by setting up a new manufacturing facility which would be EU GMP (European Union- Good Manufacturing Practices) compliant. The funding of the same would be done by a combination of debt: equity mix of 3:2 and debt for the same is yet to be tied up. The ongoing expansion is on account of company's plan to expand its export market. The capital expansion will increase the installed capacity and product profile/portfolio, however company remains susceptible to risk related with implementation and funding. Any delays in the implementation may impact the company's financial risk profile and is also crucial from credit prospective. The debt funded project is expected to moderate the gearing levels in the medium term.

Elongated operating cycle

The operations of the company are elongated marked by an average operating cycle of approximately 132 days for FY20, primarily on account of the high inventory holding. Being a highly competitive business, the average collection period remained high at around 63 days during FY20. The company imports raw materials and is required to maintain adequate inventory of raw material for smooth running of its production processes. Being a manufacturer and with large product range, the company has to maintain inventory of its finished products to meet the immediate requirement of its customers which leads to high inventory holding for the company. Furthermore, the company receives a payable period of upto one month from its suppliers and average payable period stood at 18 days for FY20; combining all entails to an elongated operating cycle.

Competition from existing players

Pharmaceuticals industry is competitive and fragmented with presence of more than 50 domestic players along with importers of pharmaceuticals products from large pharmaceutical industry in foreign countries who have pricing advantage over domestic players. Further, with the low entry barriers and low product differentiation, with new entrants into the market the competition is expected to intensify which may

moderate the margins of the existing players. Also, as the import barriers on pharmaceutical products are low, local manufacturers like NHC are exposed to import threats especially from Indian players. This remains a concern as NHC’s sales is heavily concentrated towards antimicrobial drugs which has been contributing a significant portion of sales from the last three years.

Exposure to regulatory risk

Pharmaceutical sector being a matter of public interest is highly regulated industry. Department of Drug Administration (DDA) under Ministry of Health and Population is the major government institution responsible for regulating pharmaceuticals sector in Nepal. Policies like fixing of maximum retail price on selected products could have impact on profitability of pharma sector. Further, as only ~30% of the medicines manufactured by the company in volume basis falls under government price controlled category, the impact of the same on the profitability of the company is expected to be minimal. However, DDA’s decision to ban on import of few products could benefit local players. Hence, sector is prone to regulatory risk and changes in other policies of Government of Nepal.

About the Company

National Healthcare Private Limited (NHC) is a Private Limited company, incorporated on April 30, 1996. It is promoted by group of individual pharmaceuticals distributors of Nepal for manufacturing pharmaceuticals products at a plant located in Chhatapipra, Bara, Nepal.

Brief Financial Performance during the last 3 years is as follows:

(Rs. In Million)

For the year ended Mid July	FY18	FY19	FY20
	<i>Audited</i>		
Income from Operations	1,784	2,136	2,222
PBILDT Margin (%)	22.19	27.04	28.72
Overall Gearing (times)	0.14	0.13	-
Interest coverage (times)	27.62	18.30	39.54
Current Ratio (times)	1.66	2.19	1.93
Total Debt/Gross Cash Accruals (times)	1.13	0.71	0.10

<p>Analyst Contact Ms. Shalini Sanghai shalini.sanghai@careratingsnepal.com Tel No.: +977-01-4012629</p>	<p>Relationship Contact Mr. Achin Nirwani achin.nirwani@careratingsnepal.com Tel No.: 9818236069/+977-01-4012628/29/30</p>
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Annexure 1: Details of the Facilities Rated

Nature of the Facility	Type of the Facility	Amount (Rs. Million)	Rating
Long Term Bank Facilities (Proposed)	Term Loan	610.00	CARE- NP A
Short Term Bank Facilities	Working Capital Limits	110.00	CARE-NP A1
Short Term Bank Facilities	Non-Fund Based Limits	280.00	CARE-NP A1
Total		1,000.00	