

Magnus Pharma Private Limited

Ratings

Facilities	Amount (Rs. Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	508.96	CARE-NP BB [Double B] (Credit watch with negative implications)	Revised from CARE- NP BBB and placed on watch with negative implications
Short Term Bank Facilities	250.00	CARE-NP A4 [A Four] (Credit watch with negative implications)	Revised from CARE- NP A3+ and placed on watch with negative implications
Long Term/ Short Term Bank Facilities	150.00	CARE-NP BB/ A4 [Double B/ A Four] (Credit watch with negative implications)	Revised from CARE- NP BBB/ A3+ and placed on watch with negative implications
Total Facilities	908.96 (Nine Hundred Eight Million and Nine Hundred Sixty Thousand Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has revised the rating assigned to the bank facilities of Magnus Pharma Private Limited (MPPL) to 'CARE-NP BB/A4' from 'CARE-NP BBB/A3+'. Also, the ratings have been placed on credit watch with negative implications amid likelihood of sustained stretched liquidity of the company over the near-term owing to slow debtor realization. The liquidity position of the company also remains adversely impacted by the increased inventory pile-up at the end of FY23 (Unaudited, FY refers to the twelve-month period ending mid-July). Increased working capital intensity, particularly amid relatively sluggish income profile, heighten risk of asset-liability mismatch of the company going forward. CRNL will resolve the rating watch once clarity emerges on the extent and scope of impact on MPPL's liquidity profile of the sustained increase in collection period and inventory holding.

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of MPPL factors in stretched liquidity position attributed to substantial elongation of its net operating cycle during FY23 due to increase in collection period and inventory holding leading to higher dependence on bank borrowings. The ratings assigned to the bank facilities of MPPL also remain constrained by project execution and stabilization risk thereafter associated with MPPL's partially debt funded project, presence in an increasingly competitive market and exposure to regulatory risk and volatile interest rates.

The ratings, however, continue to derive strengths from MPPL's established track record of operations along with experienced management team, diversified product range with moderate distribution network, and steady demand outlook for pharmaceutical products in Nepal over the medium term. The ratings also take cognizance of MPPL's fairly steady operating performance trend over FY21-FY23 with stable income levels and improved profitability margins, which however is offset to a large extent by the increasing debtor accumulation trend over the same period.

Going forward, the ability of the company to increase its scale of business while maintaining profitability margins coupled with rationalization of its debt levels through efficient working capital management leading to improved liquidity position will be the key rating sensitivities. Furthermore, timely completion of the ongoing project within estimated cost and realization of envisaged benefits therefrom will also remain a key monitorable aspect.

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

Detailed Description of the Key Rating Drivers**Key Rating Weaknesses****Elongation of operating cycle resulting in stretched liquidity position**

The operations of the company are working capital intensive marked by a net operating cycle of 290 days in FY23, primarily on account of the high collection period and inventory holding. MPPL's liquidity position during FY23 has mostly remained stretched on account of delays in realization of debtors, which is also reflected by the near full utilization of its fund based working capital bank facilities at FY23 end. Furthermore, there have been instances of mismatches between receipts (realization) which led to instances of overutilisation in the past 12 months. MPPL's average collection period has been on an increasing trend over the past three financial years (FY21-FY23) and remained high at 168 days in FY23 (FY22: 149 days). Additionally, the company's inventory holding period also remains on a higher side, adding to the elongated operating cycle. The company imports majority of its raw materials and is required to maintain adequate inventory for smooth running of its production processes. Being a manufacturer with large product range, the company also has to maintain inventory of its diverse finished products to meet the immediate requirements of its customers which leads to high inventory holding for the company. Furthermore, the company receives a payable period of up to one month from its suppliers; combining all entails to an elongated operating cycle. An elongated operating cycle resulted in increased reliance on bank finance to meet its working capital needs, resulting in increased debt levels with some instances of delays in servicing of debt obligations in recent past. Timely realization of debtors is crucial for the company to maintain its liquidity position and will be key monitorable aspect from credit perspective.

Implementation and stabilisation risk associated with partially debt funded brownfield project

MPPL is currently setting up a new manufacturing facility with estimated cost of Rs. 600 Mn to be funded in debt : equity mix of 60:40. The debt component for the same has already been tied up. The commercial operations are expected to commence by the first quarter of FY25 which were extended from initial estimate of September 2023 due to some changes in scope of the project. The ongoing capex is on account of company's plan to expand into injectable segment. Although the capital expansion is likely to help MPPL to expand its product portfolio and improve its revenue base over the medium term, the company remains susceptible to project implementation risk and operations stabilization risk thereafter. Furthermore, the debt funded project is likely to lead to increased gearing levels of the company over the near term. Successful execution of the project within the cost and time estimates and early stabilization thereafter leading to incremental revenue generation as envisaged will be crucial from credit perspective. Considering the size of the project whereby the company is increasing its gross asset base significantly, any substantial delays in the timely implementation of the project may have an adverse bearing on the company's financial risk profile.

Competition from existing players and exposure to regulatory risk

Pharmaceuticals industry is competitive with presence of few domestic players and importers of pharmaceuticals products from large pharmaceutical manufacturers in foreign countries. Furthermore, with low product differentiation and controlled pricing for some of the essential drugs, pricing ability remains a key hurdle in this industry. This remains a concern as MPPL's sales is concentrated towards chronic drugs which has been contributing a significant portion of sales from the last three years.

Pharmaceuticals 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. Hence, sector is prone to regulatory risk and changes in other policies of Government of Nepal.

Key Rating Strengths

Established track record of operations, moderate distribution network and diversified product range

MPPL has an established track record of over a decade in Nepal in manufacturing and distribution of drugs. MPPL is currently managed under the overall guidance of its experienced promoters. Mr. Sudhir Prakash Maskey, Managing Director, has experience of more than two decades in pharmaceutical industry. The management team is aptly supported by experienced professionals across various departments.

MPPL sells its products through its established distribution channel comprising of over 200 stockists. Furthermore, the company's growing business profile is also underpinned by a continually expanding product portfolio across different therapeutic segments, which has led to a diversified end-user customer base. MPPL currently manufactures ~190 different types of drugs across 29 categories with presence in both chronic and acute drugs segment.

Moderate financial performance in FY23

During FY23, MPPL reported Total Operating Income of Rs. 1,113 Mn which decreased from Rs. 1,117 Mn during FY22. PBILDT margin of the company increased by 327 bps year-on-year to 27.09% in FY23 due to change in product mix and share of higher margins products have been increasing. However, PAT declined by ~10% y-o-y to Rs. 136 Mn during FY23 amid higher interest and depreciation cost. Gross Cash Accruals (GCA) of the company increased by ~6% to Rs. 196 Mn during FY23 which was supported by increase in PBILDT Margin.

The capital structure of MPPL is moderately leveraged marked by overall gearing ratio of 0.86x as on mid-July 2023, deteriorated from 0.67x as on mid-July 2022 mainly on account of increased loans availed by the company to support its capital expenditures and funding its working capital requirements which was partially offset by infusion of Rs. 34 Mn as share application money during FY23. The debt funded project and projected increase in working capital borrowings is expected to increase gearing levels in the medium term. Interest coverage ratio of the company stood moderate at 5.05x in FY23, deteriorated from 8.25x in FY22 on account of higher interest outgo. Similarly, Total debt/GCA of the company deteriorated to 2.99x as on mid-July 2023 from 1.96x as on mid-July 2022 amid increased borrowings.

Steady demand outlook for pharmaceuticals products

Consumption of pharmaceutical products has been on a growing trend in Nepal supported by increasing access of the general public supported by growing income levels and increasing awareness, particularly in the rural geography. Almost half of the pharmaceutical products in Nepal is still being imported, thus providing ample opportunities for growth for domestic manufacturing companies. With increasing access of health facilities along with increase in new health facilities across the country, demand for pharmaceutical products is expected sustain over the medium-term. Furthermore, demand of pharmaceuticals products generally remains unaffected by macroeconomics parameters unlike other industries, hence domestic players like MPPL stand to benefit from the increasing demand scenario, if they are competitive in price and quality vis-à-vis imported products.

About the Company

Magnus Pharma Private Limited (MPPL) is a private limited company, incorporated on March 16, 2007, promoted by group of individuals of Nepal for manufacturing pharmaceuticals products at a plant located in Bara, Nepal.

Financial Performance

(Rs. Million)

For the Period	FY21 (A)	FY22 (A)	FY23 (UA)
Income from Operations	1,016	1,117	1,113
PBILDT Margin (%)	21.69	23.82	27.09
Overall Gearing (times)	0.79	0.67	0.86
Total Outstanding Liabilities/Tangible Net worth (times)	1.48	1.08	1.14
Interest Coverage (times)	12.83	8.25	5.05
Current Ratio (times)	1.45	1.51	1.66
Total Debt/Gross Cash Accruals (times)	1.76	1.96	2.99

A: Audited; UA: Unaudited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. Million)	Ratings
Long Term Bank Facilities	Term Loan	508.96	CARE-NP BB [Double B] (Credit watch with negative implications)
Short Term Bank Facilities	Fund Based Limits	250.00	CARE-NP A4 [A Four] (Credit watch with negative implications)
Long Term/ Short Term Bank Facilities	Non-Fund Based Limits	150.00	CARE-NP BB/ A4 [Double B/ A Four] (Credit watch with negative implications)
Total		908.96	

Contact Us

Analyst Contact

Ms. Anusha Thapa

+977-01-4012630

anusha.thapa@careratingsnepal.com

Mr. Santosh Pudasaini

+977-9802312855

pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani

+977-9818832909

achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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