

National Healthcare Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Long Term Bank Facilities	610.00	CARE-NP A [Single A]	Reaffirmed
Short Term Bank Facilities	390.00	CARE-NP A1 [A One]	Reaffirmed
Total Facilities	1,000.00 (One Thousand Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A' assigned to the long term bank facilities and 'CARE-NP A1' assigned 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 NHC continue to derive strength from its comfortable financial risk profile marked by growing scale of operations, healthy profitability and gross cash accruals coupled with comfortable capital structure and debt service coverage indicators. The ratings also factor in NHC's established track record of operations, prior experience of the promoters in distribution of pharma products, and diversified product range with wide distribution network along with steady demand outlook for pharmaceutical products in Nepal.

The ratings, however, remain constrained by project execution and stabilisation risk associated with partially 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.

Going forward, the ability of the company to increase its scale of business while maintaining profitability margins and any major debt funded capex/investments leading to material impact on its capital structure and solvency profile will be the key rating sensitivities. Furthermore, timely completion of the capex within estimated cost and realization of envisaged benefits therefrom will also remain a key monitorable aspect.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

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

NHC has an established track record of more than two decades in Nepal in manufacturing and distribution of drugs. NHC is currently managed under the overall guidance of experienced promoters with over two decades of experience in pharmaceuticals industry. The management team is aptly supported by experienced professionals across various departments.

NHC sells its products through its established distribution channel comprising of over 900 stockists spread all over Nepal. NHC's long standing relationship with its dealers of over two decades continues to help it gain incremental growth. 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. NHC currently produces more than 350 different types of drugs in 22 categories with major presence in antimicrobial/antibacterial drugs.

Growing scale of operations with healthy profitability and gross cash accruals

NHC achieved Total Operating Income (TOI) of Rs. 2,622 Mn during FY21 which increased from Rs. 2,222 Mn in FY20 on account of growth across various drug segments including antimicrobial, cardiovascular, gastrointestinal and nervous

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

system drugs. Amid sustained demand, capacity utilization remained healthy at ~70% during FY21. PBILDT margin of the company remained comfortable at above ~30% in FY21 and shown an improvement over previous year attributed to change in product mix coupled with growing scale leading to benefits from economies of scale. Net profitability also improved in FY21 over previous year and was above 20% in the said year. Similarly, gross cash accruals of the company increased to Rs. 651 Mn in FY21 from Rs. 495 Mn in FY20. The growth momentum is likely to have continued in coming years amid a favorable demand scenario and increasing penetration of the company in the domestic market.

Comfortable capital structure with substantial gearing headroom, and robust debt service coverage indicators

The capital structure of the company has been historically comfortable on account of infusion of equity at regular intervals and lower reliance on external borrowings. Furthermore, steady growth in reserves aided by healthy cash flow from operations has added to its net worth base. The management has conservative view towards external borrowings which led to almost negligible overall gearing on the last 2 balance sheet dates (FY21 & FY22). Furthermore, the utilization levels of working capital limits remains low supported by steady cash flows from operations.

Interest coverage ratio of the company remained healthy at above 140x during FY21, improving substantially from 39.54x in FY20 supported by higher PBILDT generation amid growing scale and lower interest outgo amid decreased interest rates. Total debt/GCA of the company also remained low at 0.10x as on mid-July 2021.

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. Growing demand for pharmaceutical products is also evident from increased imports of pharmaceutical products in the country to Rs. 36,371 Mn in FY21 from Rs. 28,153 Mn in FY20. 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 NHC stand to benefit from the increasing demand scenario, if they are competitive in price and quality vis-à-vis imported products.

Key Rating Weaknesses

Implementation and stabilisation risk associated with partially debt funded brownfield project

NHC is currently setting up a new manufacturing facility with estimated cost of Rs. 1,400 Mn against a preliminary estimate of Rs. 1,000 Mn. The increase in cost of project is mainly due to increase in scope related to procurement of better-quality machineries and also due to inflationary impact on prices. The capex would be funded through debt of Rs. 650 Mn and remaining from the internal accruals of the company. The debt component for the same has already been tied up. The expected commercial operation date is around last quarter of the FY23. The ongoing expansion is on account of company's plan to expand its exports market. The capital expansion will increase the installed capacity and product portfolio; however, company remains susceptible to risk related with residual project implementation and swift stabilization thereafter. Any delays in the implementation may impact the company's financial risk profile. Despite partially debt-funded capex, the company's overall gearing level is likely to remain at satisfactory levels, given the robust cash accruals from its current businesses which will be partially funding the outgo. The successful execution of the expansion project within cost and time estimates and early stabilization thereafter will be crucial for the company for generation of incremental revenue and key monitorable from credit perspective.

Elongated operating cycle

The operations of the company are elongated marked by an average operating cycle of approximately four months in FY21, primarily on account of the high inventory holding. 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 with large product range, the company has to maintain inventory of its finished products to meet the immediate requirements of its customers which leads to high inventory holding for the company. Being a highly competitive business, the average collection period remained high at around two months during FY20 and FY21. Furthermore, the company receives a payable period of up to one month from its suppliers; combining all entails to an elongated operating cycle.

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. Further, 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 NHC's sales is heavily concentrated towards antimicrobial 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.

About the Company

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

Financial Performance

(Rs. Million)

For the Period	FY19 (A)	FY20 (A)	FY21 (A)
Income from Operations	2,136	2,222	2,622
PBILDT Margin (%)	27.04	28.72	31.62
Overall Gearing (times)	0.26	0.04	0.03
Total Outstanding Liabilities/Tangible Net worth (times)	0.48	0.31	0.20
Interest Coverage (times)	18.30	39.54	146.35
Current Ratio (times)	2.19	1.93	3.05
Total Debt/Gross Cash Accruals (times)	0.71	0.10	0.10

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	610.00	CARE-NP A [Single A]
Short Term Bank Facilities	Fund Based Limits	110.00	CARE-NP A1 [A One]
Short Term Bank Facilities	Non-Fund Based Limits	280.00	CARE-NP A1 [A One]
Total		1,000.00	

Contact Us

Analyst Contact

Mr. Girish Bhatta
+977-01-4012630
girish.bhatta@careratingsnepal.com

Mr. Santosh Pudasaini
+977-01-4012629
pudasaini.santosh@careratingsnepal.com

Relationship Contact

Mr. Achin Nirwani
+977-9818832909
achin.nirwani@careratingsnepal.com

About CARE Ratings Nepal Limited:

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