Magnus Pharma Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings[1]	Rating Action
Long Term Bank Facilities	**508.96**	**CARE-NP BBB [Triple B]**	**Assigned**
Short Term Bank Facilities	**250.00**	**CARE-NP A3+ [A Three Plus]**	**Assigned**
Long Term/ Short Term Bank Facilities	**150.00**	**CARE-NP BBB/ A3+ [Triple B/ A Three Plus]**	**Assigned**
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 assigned rating of 'CARE-NP BBB' to the long term bank facilities and 'CARE-NP A3+' to the short term bank facilities of Magnus Pharma Private Limited (MPPL).

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of MPPL derive strength from its above average financial risk profile marked by growing scale of operations with healthy profitability with moderate capital structure and debt service coverage indicators. The ratings also factor in MPPL's established track record of operations along with experienced management team and diversified product range with moderate 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 significant increase in debt levels leading to material impact on its capital structure and solvency profile 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.

Detailed Description of the Key Rating Drivers

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. MPPL's long standing relationship with its dealers of over a decade continues to help it gain incremental growth year on year. 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 28 categories with presence in both chronic and acute drugs segment.

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

Above average financial profile characterized by growing scale of operations with healthy profitability and gross cash accruals

During FY22 (Unaudited, FY refers to the twelve-months period ended mid-July 2022), MPPL achieved Total Operating Income (TOI) of Rs. 1,120 Mn which increased from Rs. 1,016 Mn in FY21 supported by growth across various drug segments including anti-diabetic, anti-psychotics and anti-hypertensive drugs. Capacity utilization was moderate at ~60% during FY22.

PBILDT increased by ~21% to Rs. 261 Mn in FY22 with PBILDT margin of 23.20% compared to 21.22% in FY21 aided by growing scale leading to benefits from economies of scale. The company has large product portfolio having varied margins. The improvement in margins on y-o-y basis was also supported by change in product mix and share of higher margins products have been increasing on y-o-y basis. Consequently, PAT margin improved to 12.22% in FY22 from 12.18% in FY21. The increase in margins and growing scale of operations supported gross cash accruals (GCA) of the company to increase and GCA stood at Rs. 181 Mn in FY22. The growth momentum is likely to sustain over the medium term amid a favorable demand scenario and increasing penetration of the company in the domestic market.

Moderately leveraged capital structure with adequate debt service coverage indicators

The capital structure of MPPL is moderately leveraged marked by overall gearing ratio of 0.70x as on mid-July 2022, improving from 0.82x as on mid-July 2021 on account of increased net worth base supported by accrual of profits coupled with equity infusion of Rs. 50 Mn from promoters during the year. Since FY19, MPPL has had gearing ratio of less than 2x and on improving trend year on year supported by growing net worth base aided by sustained cash flow from operations. Debt coverage indicators are adequate with interest coverage ratio of 8.10x in FY22, declining from 12.55x during FY21 on account of higher interest outgo due to increased loans availed by the company to support its capital expenditures and funding its working capital needs. Similarly, Total debt/GCA of the company slightly deteriorated to 2.01x as on mid-July 2022 from 1.81x as on mid-July 2021 amid increased borrowings to support growing operations.

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. As per the report of Department of Industry on Pharmaceutical and medicine, pharmaceutical industry grew by compounded annual growth rate of ~3% to 430 Mn USD in the country in FY21 from 386 Mn USD in FY18. 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.

Key Rating Weaknesses

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. The capex would be funded through debt of Rs. 377 Mn and remaining from the internal accruals / infusion from promoters of the company. The debt component for the same has already been tied up. The expected commercial operation date would be September 2023. The ongoing capex is on account of company's plan to expand into parenteral and ophthalmic segments. 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 (more than 2 times), any substantial delays in the timely implementation of the project may have an adverse bearing on the company's financial risk profile.

Elongated operating cycle

The operations of the company are elongated marked by an average operating cycle of 200 days in FY22, primarily on account of the high collection period and inventory holding. 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.

MPPL's average collection period is getting elongated on y-o-y basis in the past three financial years (FY19-FY21) and remained high at 158 days in FY22 as compared to 138 days in FY21. Being a highly competitive business, the company has to provide extended credit period to its customers which leads to high collection period. An elongated operating period resulted in a stretched liquidity position of the company, increasing its reliance on the bank finance for meeting its working capital needs, resulting in increased debt levels. Timely realization of debtors is crucial for the company to maintain its liquidity position and will be key monitorable aspect from credit perspective.

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 MPPL's sales is concentrated towards chronic drugs under anti-diabetic, anti-hypertensive and antipsychotic segments 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

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	FY19 (A)	FY20 (A)	FY21 (A)	FY22 (UA)
Income from Operations	653	809	1,016	1,120
PBILDT Margin (%)	16.89	20.13	21.22	23.30
Overall Gearing (times)	1.65	1.13	0.82	0.70

For the Period	FY19 (A)	FY20 (A)	FY21 (A)	FY22 (UA)
Total Outstanding Liabilities/Tangible Net worth (times)	2.23	1.69	1.54	1.18
Interest Coverage (times)	4.63	7.42	12.55	8.10
Current Ratio (times)	1.50	1.64	1.47	1.70
Total Debt/Gross Cash Accruals (times)	3.67	2.39	1.81	2.01

A: Audited; UA: Unaudited

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**	**508.96**	**CARE-NP BBB [Triple B]**
Short Term Bank Facilities	**Fund Based Limits**	**250.00**	**CARE-NP A3+ [A Three Plus]**
Long Term/ Short Term Bank Facilities	**Non-Fund Based Limits**	**150.00**	**CARE-NP BBB/ A3+ [Triple B/ A Three Plus]**
Total		**908.96**	

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About CARE Ratings Nepal Limited:

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