

## National Healthcare Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	500.00	<b>CARE-NP A [Single A]</b>	<b>Reaffirmed</b>
Short Term Bank Facilities	500.00	<b>CARE-NP A1 [A One]</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>1,000.00 (One Thousand Million Only)</b>		

*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 leading to steady gross cash accruals coupled with comfortable capital structure and debt service coverage indicators of the company. 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 over the medium-term.

The ratings, however, remain constrained by project execution and stabilisation risk thereafter associated with NHC's partially debt funded project. The ratings also factor in working capital intensive nature of business resulting in elongated operating cycle owing mainly due to high inventory holding requirement, which however is offset by a steady collection period leading to low reliance on bank borrowings. The ratings also consider the increasingly competitive landscape of the Nepalese pharmaceutical industry and NHC's exposure to regulatory risk.

*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 500 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 365 different types of drugs in 15 categories with major presence in antimicrobial/antibacterial drugs.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications

**Growing scale of operations with healthy profitability**

During FY22, NHC's Total Operating Income (TOI) increased by ~22% over FY21 to Rs. 3,199 Mn supported by healthy growth across multiple drug segments including antimicrobial, respiratory, anti-diabetic and other drugs. Amid sustained demand, capacity utilization remained healthy at ~70% during FY22. Profitability of the company has also remained relatively healthy vis-à-vis competition with PBILDT margin remaining rangebound over the last three financial years (FY20-Fy22). Similarly, gross cash accruals of the company increased by ~11% year-on-year in FY22 supported by the increase in scale of operations. The growth momentum is likely to sustain 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 remain low supported by steady cash flows from operations.

Interest coverage ratio of the company remained healthy at above 160x during FY22 improving from 146x during FY21 supported by higher PBILDT generation amid growing scale coupled with stable interest outgo. Total debt/GCA of the company also remained low at 0.02x as on mid-July 2022.

**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 imports of more than half i.e. ~54% of the pharmaceutical products in Nepal still being imported, thus providing ample opportunities for growth of 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. The capex would be funded through debt of Rs. 500 Mn and remaining from the internal accruals of the company. The debt component for the same has already been tied up. The commercial operation is expected by first half of FY24. 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 FY22, 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 FY21 and FY22. 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. 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 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. In Million)

For the Period	FY20 (A)	FY21 (A)	FY22 (A)
Income from Operations	2,222	2,622	3,199
PBILDT Margin (%)	28.72	31.62	28.41
Overall Gearing (times)	0.04	0.03	0.01
Total Outstanding Liabilities/Tangible Net worth (times)	0.31	0.20	0.19
Interest Coverage (times)	39.54	146.35	160.30
Current Ratio (times)	1.93	3.05	2.79
Total Debt/Gross Cash Accruals (times)	0.10	0.10	0.02

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	500.00	CARE-NP A [Single A]
Short Term Bank Facilities	Fund Based Limits	130.00	CARE-NP A1 [A One]
Short Term Bank Facilities	Non-Fund Based Limits	370.00	CARE-NP A1 [A One]
<b>Total</b>		<b>1,000.00</b>	

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