

Press Release

Harman Finochem Limited

May 08, 2019

Rating

Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
Long Term Fund Based Limits	50.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
Short Term Non-Fund Based Facilities	10.00	IVR A2+ (IVR A Two Plus)
Total	60.00	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives strength from established and resourceful promoters, established relationship with clients, Healthy profitability margins, Strong capital structure and Comfortable liquidity position. However, the rating is constrained by modest improvement in scale of operations, Exposure to volatility in raw material prices and foreign exchange fluctuations, Working capital intensive operation and Exposure to intense competition. Stability in Margins with growth in scale of operations, Input price volatility and the consequential profitability and improvement in working capital management are the key rating sensitivities.

Key Rating Drivers along with detailed description

Key Rating Strengths

Established and resourceful promoters

The company is promoted by Mr. Bhupinder Singh Jagdevsingh Manhas and his family. Mr. Bhupinder Singh is the Managing Director of the company. Inderjeet Kaur Bhupinder Singh, Mr. Harpreet Singh Bhupinder Singh, Dr. Gurpreet Singh Minhas and Savreen Minhas are Directors of the company. Mr. Bhupinder Singh has over four decades of experience in Pharma industry. Mr. Harpreet Singh has extensive industrial experience in the pharmaceutical industry and personally led various departments of the company. Dr. Gurpreet Singh Minhas leads the Marketing, Purchase, Regulatory and R&D teams. Experienced management has helped the company to maintain healthy and long-standing relations with the customers and suppliers. They are actively involved in the overall operations and day to day affairs of the company.

Established relationship with clients

The Company has well diversified customers, since top 10 customers contribute only ~12% of the total sales. The company enjoys long term association with reputed players.

Healthy profitability margins

Though the profitability margins of the company have declined in FY18 due to increase in raw material cost, they continue to be healthy with EBITDA margin and PAT margin at 29.46% and 8.66% respectively in FY18.

Strong capital structure

Due to low external borrowings & strong tangible net worth the overall gearing ratio was at 0.03 times as on March 31, 2018, indicating low financial risk and future financial flexibility to raise the funds.

Comfortable liquidity position

Sound liquidity position as reflected in current ratio & quick ratio at 2.50 and 2.04 times respectively in FY18, with efficient operating cycle.

Certifications & Accreditations:

The company is accredited by various regulatory authorities like the Certificate of Suitability (COS) from European Directorate of Quality Medicines (EDQM), Pharmaceutical Inspection Convention (PIC) members' countries, TGA-Australia, HPB Canada, Japanese Ministry of Health & Labour Welfare, etc. The company is also recognised as an 'Export House' by Ministry of Commerce, Government of India.

Key Rating Weaknesses

Modest improvement in scale of operations with decline in margins

The revenue from operations of the company has increased marginally by 7.70 per cent from Rs. 359.44 Cr in FY17 to Rs. 387.12 Cr in FY18. However, EBITDA and PAT margins are declined by 8.85% and 49.71% respectively due to increase in raw material cost.

Exposure to volatility in raw material prices and foreign exchange fluctuations

Primary raw material for manufacturing process is DMA.HCL, TEOF, DCDA and Various other Chemicals. ~75% of the raw material requirement is imported. The Company is exposed to volatility in margins due to change in raw material prices. However, the company purchases raw material in bulk quantities in advance in order to mitigate the raw material price volatility to some extent.

Working capital intensive operation

Operations of the company are working capital intensive. The inventory holding period stood at around 30-50 days. The raw material days are high at around 60-70 days, as the raw material is largely imported. The debtor collection days increased from 69 days in FY16 to 90 days in FY18. The creditor days also increased from 38 days in FY17 to 51 days in FY18.

Exposure to intense competition

The pharmaceutical industry is highly regulated and hence any change in government policies may impact the performance company's performance.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The company is earning a healthy level GCA and the same is expected to increase gradually with increase in scale of operation and level of margin. Indicating an adequate degree of liquidity support to the company in meeting its interest obligations. The liquidity position is expected to remain moderate in the medium term.

About the Company

Harman Finochem Limited is a Pharmaceutical Company which specializes in the manufacture and export of more than 45 Active Pharmaceutical Ingredients (APIs) & Intermediates of which 10 are Essential Drugs as per the WHO Model List. The company was incorporated in the year of 1983. Initially it is incorporated as a private limited company, however in the year of 2000 the company changed its constitution as a Limited Company. The Company is promoted by Mr. Bhupinder Singh Jagdev Singh Manhas. He is a dedicated pharma professional since past 40 years. The company has 2 manufacturing units located at MIDC, Aurangabad. The manufacturing facilities comply with cGMP requirement as per ICH Q7 A, with customized particle size options viz. Milling & Micronizing. The in-house QC laboratories are equipped with sophisticated instruments to assure high quality standards of APIs. The Company exports its products to more than 35 countries across the globe. The company is in the process of commissioning a new R&D facility at Navi Mumbai, Maharashtra, India.

Financials (Standalone)

(Rs. crore)

For the year ended/ As On	31-03-2017	31-03-2018
	(Audited)	(Audited)
Total Operating Income	359.44	387.12
EBITDA	125.13	114.05
PAT	66.69	33.54
Total Debt	33.21	13.70
Tangible Net worth	446.09	479.32
<u>Ratios</u>		
EBITDA Margin (%)	34.81	29.46

PAT Margin (%)	18.55	8.66
Overall Gearing Ratio (x)	0.07	0.03

Note: Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits	Long Term	50.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)	-	-	-
2.	Short Term Non-Fund Based Facilities	Short Term	10.00	IVR A2+ (IVR A Two Plus)	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crores)	Rating Assigned/ Outlook
Long Term Fund Based Limits	-	-	-	50.00	IVR A-/Stable Outlook (IVR Single A Minus with Stable Outlook)
Short Term Non-Fund Based Facilities	-	-	-	10.00	IVR A2+ (IVR A Two Plus)