

Press Release

Nayati Pharma Pvt Ltd

February 09, 2018

Ratings

Instrument / Facility	Amount (Rs. crore)	Rating	Rating Action
Fund based facilities- Cash Credit	10.00 (incl. proposed limit of Rs.5.20 crore)	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Total	10.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned derives strength from the experienced management, locational advantage, support from its associated entity (Nayati Healthcare Pvt Ltd- NHPL) along with the thrust provided by the Government to the healthcare sector.

The ratings, however, are tempered by its nascent stage of operation, thin profitability margins; albeit improvement in 10MFY18, leveraged capital structure, working capital intensive nature of operation and concentration risk,

Growth in scale of operation, maintaining profitability as per the current trend and leverage are the key rating sensitivities.

List of Key Rating Drivers

- Experienced management
- Locational Advantage
- Support from NHPL
- Increasing Government thrust to the healthcare sector
- Nascent Stage of Operations
- Thin profitability margins; albeit improvement in 10MFY18
- High Overall Gearing
- Working Capital Intensive Nature of Operation
- Concentration Risk

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management

NPPL's management rests in the hands of Ms.KarunaMenon and Mr.Satish Kumar Narula. Ms. KarunaMenon has over 30 years of experience spanning diverse sectors such as banking, hospitality, aviation, and communications wherein she has worked with the likes of the Tata & Reliance Group, Bill & Melinda Gates foundation amongst several others. Mr S.K. Narula, a former Chairman of the Airports Authority of India and a former Executive Director in Power Grid Corporation of India has an administrative experience of over 40 years in the field of Power, Infrastructure and Aviation sectors.

Locational Advantage

The company and its group entity, NHPL have set base in Mathura, which is an economically backward region and lacks healthcare amenities. As discussed with the management, NHPL's hospital is a one-off state-of-the-art facility in the entire western Uttar Pradesh, indicating potential business growth for the entity.

Support from NHPL

NPPL sells its products to NHPL, its associated entity, which owns a multispeciality hospital in Mathura along with a feeder facility located in Agra, thereby ensuring a steady stream of revenue for the company.

Increasing Government thrust to the healthcare segment

The government thrust towards the healthcare sector including steps proposed in the recent Union Budget is expected to benefit the players in this industry. NHPL may benefit from these steps which may in turn bolster impact NPPL's performance going forward.

Key Rating Weaknesses

Nascent Stage of Operations

NPPL effectively commissioned operations from February 2016. Thus the track record is very short. In FY17, the company generated a topline of Rs.20.00 crore. Also, operational performance of its group entity and client, NHPL, needs to be observed over a period of time.

Thin profitability margins; albeit improvement in 10MFY18

The company is a pure trading entity dealing majorly in pharma and other allied products. It procures the materials from the primary producers and sell them to their customers (in this case NHPL). During FY17, the company achieved an EBITDA margin of 3.80% and PAT margin of 0.62%, being quite low even though considering the trading nature of the entity.

However, as per the provisional 10MFY18 results shared, the company has earned an EBITDA & PBT of Rs.2.29 crore and Rs.1.78 crore on a topline of Rs.26.14 crore on account of increase in scale of operation resulting in higher rate of overhead recovery and increase in sales price realisation on account of widening of product portfolio encompassing higher margin medical equipments. Maintaining the profitability margin going forward is critical from the credit perspective.

High Overall Gearing

NPPL has a leveraged capital structure marked by high overall gearing ratio of 3.20x as on March 31, 2017.

Working Capital Intensive Nature of Operation

The average utilisation of the company's CC facility is 93.74% for the past 12 months ended November 2017. The company had also availed a TOD facility in June & July 2017 to ease out cash flow mismatches. Further, the company generally holds inventory of around 3.5 months due to which the operating cycle stood elongated at 75 days during FY17.

Concentration Risk

At present, the company sources most of its material requirement from a particular supplier, and sells its products solely to its associated entity, NHPL, thereby exposing the company to concentration risk.

Analytical Approach & Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

Incorporated in 2016, NayatiPharma Pvt Ltd (NPPL) is associated with the Nayati Healthcare Group, which is engaged in trading of pharmaceutical related products like antibiotics, drugs, medicines, surgical instruments, cosmetics, hospital requisites and other allied products. The entity was incorporated mainly with a view to cater to the needs of its associated entity Nayati Healthcare Pvt. Ltd (NHPL) and other hospitals situated in the vicinity with insignificant walk-in and over the counter sale is expected to be the secondary source of income for the company. Currently, NHPL is the only customer of NPPL. At present NPPL conducts its operations from its leased facility from NHPL located at Mathura. NPPL's shareholder, Ms.KarunaMenon also has a shareholding in the holding entity of NHPL. NPPL's associated entity is NHPL, whose Chairperson is former public relations veteran Ms.NiiraRadia. NHPL has recently completed the construction of a 351 bedded hospital at Mathura, the capacity of which is proposed to be expanded by another 200 beds arising out of the overwhelming response received for the same. Further, the NHPL also has a 34 bedded medicentre located at Agra, which serves as a feeder facility for the Mathura hospital, which leads to a dedicated patient flow from the catchment areas. Also, the group has plans to set up a 520 bedded hospital in Amritsar in 2 phases which is expected to commence Phase-1 of operation from FY2020. The day to day affairs of the entity are currently managed by the two Ms.KarunaMenon, who has a vast experience in diverse fields, and Mr.Satish Kumar Narula having experience in fields like Power, Infrastructure & Aviation sectors.

Financials (Standalone)

(Rs. Crores)

For the year ended / As On	31-03-2017
	Audited
Total Operating Income	20.00
EBITDA	0.76
PAT	0.12
Total Debt	5.25
Tangible Networkth	1.64
EBITDA Margin (%)	3.80
PAT Margin (%)	0.62
Overall Gearing Ratio (x)	3.20

Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information:

Disclosure: Mr. Alok Kumar Misra who is a member of the Board of Directors of INFOMERICS is also on the Board of Nayati Healthcare Pvt Ltd, which is an associated entity of Nayati Pharma Pvt Ltd. He did not participate in any of the discussions and processes related to the rating mentioned herein.

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Fund Based Limits-Cash Credit	Long Term	10.00 (including proposed limits of Rs.5.20 crore)	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)			

Infomerics Valuation and Rating Pvt. Ltd



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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. 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. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Limits- Cash Credit	April 11, 2016	NA	NA	10.00 (including proposed limits of Rs.5.20 crore)	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)