

## PRESS RELEASE

### ACCORD PHARMACEUTICALS LIMITED

November 2022

#### Rating

Instruments/ Facilities	Amount (NPR. Mn)	Ratings	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Assigned

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BB- (Is) [Double B Minus (Issuer)]. Issuers with this rating are considered to have the moderate risk of default regarding timely servicing of financial obligations.

#### Detailed Rationale

The issuer rating assigned to Accord Pharmaceuticals Limited (APL) derive strength from its experienced board of directors supported by proficient and experienced management team leading to an established marketing & distribution network all over Nepal. The rating also positively factors in the strategic location of the manufacturing unit which is inside Kathmandu Valley at ~5 Km from ring road. Further, the implementation risk of the project nullifies as the capacities are already operational; however, stabilization of operation remains a concern. These strengths are partially constrained by the limited track record of operation, large working capital requirement as reflected in the GCA<sup>1</sup> of ~460 days as of mid-July 2022, susceptibility to risks related to regulatory changes and intense competition inherent to pharmaceutical industry. Going forward, the ability of the company to scale up its operation while improving its margins, gearing and coverage indicators will remain a key rating sensitivities.

#### Detailed Description of Key Rating Drivers

##### Key Rating Strengths

##### **Experienced board of directors supported by proficient management team**

APL is managed under the overall guidance of its Board of Directors, having an extensive experience in the pharmaceutical industry. Dr. Kiran Raj Pandey, Chairman, has over a decade of experience in health sector. He is also an internal medicine physician and a health services researcher. Mr. Bishal Pandit, Managing Director, has over four decades of experience in various sectors. Mr. Pandit is also an established entrepreneur as well as industrialist in Nepal. Mr. Shreedhar Khanal, Director, has over three decades of experience in pharmaceuticals marketing. Further, with the experienced promoters and professionally qualified and experienced management team, their strong understanding of market dynamics and healthy relationships with suppliers and dealers is further expected to support the business risk profile moving forward.

##### **Strategic location with established marketing & distribution network**

The company's manufacturing facility is inside Kathmandu valley in a distance of ~5Km from ring road. Kathmandu is the main economic hub hosting several major hospitals and health clinics supporting the pharmaceutical industries. Also, APL's wide network of more than 85 distributors all over Nepal distributing above 59 products across multiple segments (general & chronic) with presence of its own brand name "Accord" should continue to support the business.

##### **Recently concluded capex nullifies the project implementation risk, however stabilization risk remains a concern**

<sup>1</sup> Gross Current Assets

With the commissioning of its first manufacturing unit, the implementation risk for the project has reduced. APL has already started its commercial production with recorded sales revenue of ~NPR 54 Mn in FY22 which was the first full year of operation. However, given the competition induced pricing pressure, the risk of stabilization of operation remains a major challenge to the company.

## Key Rating Weaknesses

### Limited track record and low scale of operation

The company manufacturing unit has been in operation for less than 2 years, with low capacity utilization of ~15% as of now. The company ability to report commensurate growth in revenues and market share remains to be seen. The ability of the company to penetrate the competitive geographies and thus improving the revenue margins would remain crucial.

### Intense competition and exposure to regulatory risk inherent in pharmaceuticals industry

The company remains exposed to the competitive pressure given large number of established players in the domestic markets. The industry being highly regulated by virtue of its direct bearing on the public health, any adverse change in the government/regulatory policies, can impact the business risk profile of the company. Moreover, intense competition in the generic business limits the pricing flexibility of players. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. Also, with the low entry barriers to new entrants along with the capacity expansion of the existing players, the competition remains further intense. Similarly, low tariff rate of ~5% in the finished medicine also intensifies competition from pharmaceuticals traders involved in the import of foreign medicine.

### Deteriorated capital structure with weak debt coverage indicator, given its initial year of operation

APL is a new entrant in the pharmaceutical industry in Nepal. FY22 was the first full year of operation where it reported sales of ~NPR 54 Mn. The overall gearing ratio and capitalization ratio of APL remains very high given its high debt funded capex of ~NPR 1,300 Mn in a debt equity ratio of 80:20. Nonetheless, these ratios are expected to normalize with the stabilization of operation going forward.

### Working capital intensive nature of business

Gross current assets were sizeable at 460 days as of mid-July 2022, driven by large inventory of 375 days and high credit offered to customers leading to credit period of 85 days. Given the nature of business, operations are expected to remain working capital intensive over near to medium term.

**Analytical Approach:** Standalone

### Applicable Criteria:

[Issuer Rating Methodology](#)

### About the Company:

Incorporated in September 2013, APL was established as a private limited company which was later in July 2021 converted to public limited company. APL is in a business of pharmaceutical molecule formulation and drug production using Active Pharmaceutical Ingredients (API) and excipients, mostly imported from India. API has its manufacturing unit located at Mahalaxmi, Lubhu with marketing license for 59 different products as of date.

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