

PRESS RELEASE

HUKAM PHARMACEUTICALS PRIVATE LIMITED

February 2025

Ratings

Instrument/ Facilities	Amount (NPR Mn)	Ratings	Rating Action
Long Term Bank Facilities	408.76	IRN BB	Assigned
Short Term Bank Facilities	340.63	IRN A4	Assigned
Total	749.39		

Details of facilities are in Annexure 1 below

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the rating of IRN BB (Double B) to the long-term bank facilities of NPR 408.76 Mn and IRN A4 (A Four) to the short-term bank facilities of NPR 340.63 Mn.

Detailed Rationale

The ratings assigned to the bank facilities of Hukam Pharmaceuticals Private Limited (HPL) derive strength from experience of HC Dugar Group, a diversified conglomerate with extensive experience across multiple sectors, including pharmaceuticals. The company benefits from the strategic guidance of its Chairman, Mr. Vijay Kumar Dugar, having more than two decades of experience in the group along with experienced management team. HPL's strategic joint venture with Akums Drugs and Pharmaceuticals Limited (Akums), a Contract Development and Manufacturing Organization (CDMO) in India, is expected to bolster its market position and financial performance by leveraging Akums' technological capabilities, intellectual property, and manufacturing know-how. Additionally, HPL demonstrated robust revenue growth, with a ~16% CAGR over the last five years (FY20-FY24) and ~87% growth in FY24 compared to FY23. Its improving profitability metrics, along with a moderate capital structure and interest coverage ratio, underscore its improving financial profile.

However, the ratings are constrained by the working capital-intensive nature of HPL's operations, as evidenced by its high operating cycle of 208 days in FY24, despite improvement from 385 days in FY23. The elongated average collection period of 152 days and rising inventory holding period exert pressure on its liquidity. The company's overall capacity utilization remains modest at ~41%, with significant underutilization in key product categories such as Oral Rehydration Solution (ORS), dry syrup, and capsules, raising concerns about operational efficiency. Additionally, HPL faces regulatory risks and pricing pressures in the highly competitive pharmaceutical industry, which is further complicated by its reliance on imported raw materials. This dependence exposes the company to supply chain disruptions, which could adversely impact operations. Going forward, the ability of the company in strengthening the financial risk profile and liquidity, by optimizing working capital utilization, and successfully implementing the MoU with Akums to enhance capacity utilization will remain key rating sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experience of group and qualified management team

HPL is part of the HC Dugar Group (formerly the Dugar Group), a diversified conglomerate with business interests spanning sectors such as food, oils, pharmaceuticals, mineral water, and agriculture. The company operates under the strategic leadership of its Board of Directors, headed by Mr. Vijay Kumar Dugar, who brings over two decades of experience within the group. Supporting him is Mr. Abhishek Kumar Dugar, Vice Chairman, who has more than a decade of expertise in the manufacturing and trading sectors. Additionally, the company benefits from a professionally qualified and experienced management team.

Strategic Joint venture with Akums Drugs and Pharmaceuticals Limited

Akums Drugs and Pharmaceuticals Limited (Akums), is a Contract Development and Manufacturing Organization (CDMO), holding 30.2% market share by value in the Indian domestic CDMO market, with a 10% share by volume in the Indian Pharmaceutical Market (IPM) in FY24. HPL entered into a Memorandum of Understanding (MoU) with Akums to establish a joint venture (JV) with a 51:49 equity split in favor of Akums. The primary objective of the JV is to capitalize on Akums' technological expertise, intellectual property, and manufacturing know-how, along with HPL's investment capabilities, strategic management, and marketing, to manufacture and market pharmaceutical products in Nepal. The JV will lease HPL's manufacturing facility in Nepal and will procure pharmaceutical products from HPL. Profits will be distributed in proportion to the shareholding structure. This strategy is expected to strengthen HPL's market position along with increase in its financial performance.

Moderate financial risk profile

HPL reported a total operating income (TOI) of NPR 708 Mn in FY24, a substantial 87% growth over the previous year, driven by increase in products portfolio. Over the past five years (FY20-FY24), the company maintained a healthy CAGR of ~16% in revenue, showcasing sustained growth. The EBITDA margin remained stable at ~19% in FY24 vis-à-vis ~20% in FY23, while the profit after tax (PAT) margin improved significantly to 6.5%, up from 0.85% in FY23, supported by cushion from growth in TOI. The company's capital structure stood moderately leveraged albeit improved with a reduction in overall gearing to 2.48x as of mid-July 2024 from 4.56x as of mid-July 2023, aided by a capital infusion of NPR 60 Mn and higher reserves. Additionally, interest coverage ratio improved from 1.23x in FY23 to 2.16x in FY24, while DSCR stood at 1.89x in FY24 vis-à-vis 1.22x in FY23.

Key Rating Weaknesses

Modest Capacity Utilization

The production facilities of HPL include tablet, liquid, ORS, dry syrup, and capsule production. The overall capacity utilization in FY24 remains modest. Although tablet production's utilization of ~58%, followed by liquid production at ~48% is moderated, the utilization levels for other product categories, such as ORS (~34%), dry syrup (~33%), and capsules (~32%), remain notably low, contributing to an overall capacity utilization of just ~41%. These figures indicate significant underutilization of the company's production capabilities across multiple segments, raising concerns about operational. Improving the effective utilization of these facilities will be critical for enhancing the company's operational performance and competitiveness in the coming years.

Working capital intensive nature of business

HPL's business has large a working capital requirement as reflected in the operating cycle of 208 days in FY24, albeit decreasing from 385 days in FY23. The high operating cycle is mainly due to high average collection period of 152 days in FY24 vis-à-vis 272 days in FY23. As per the company's policy, the credit period provided to its debtors is around 120-150 days. HPL is involved in procuring its raw materials majorly from India through LC and advances. The inventory holding period stood moderate at 86 days in FY24, although increased from 43 days in FY23. Due to the high operating cycle, the working capital utilization remained fully utilized. The extended operating cycle is expected to exert pressure on its short term liquidity profile in the future.

Exposure to regulatory risks and dependence on import

The company faces significant competitive pressures due to the presence of numerous well-established players in the domestic market. The industry's highly regulated nature, driven by its implications for public health, leaves the company vulnerable to potential adverse changes in government or regulatory policies, which could impact its business risk profile. Moreover, intense competition in the generic pharmaceutical market limits pricing flexibility. Key challenges in the

sector include pricing pressures, stricter regulatory compliance, and increased sensitivity to product quality and performance. Additionally, HPL's reliance on imported raw materials exposes it to risks associated with supply chain disruptions.

Analytical Approach: Standalone

Applicable Criteria:

[Corporate Credit Rating Methodology](#)

About the Company:

Hukam Pharmaceuticals Private Limited (HPL) was established as a private limited company in August 1996. The principal objective of the company is manufacturing and supplying various types of medicines. HPL is situated at Madhyapur Thimi, Bhaktapur, Bagmati Zone, Nepal. It has been manufacturing pharmaceutical dosage in the form of tablets, capsules, syrup, suspension and dry syrup. As of January, 2025, the company is actively selling 26 different medicines from the Department of Drug Administration (DDA). HPL is a part of HC Dugar group, and Mr. Vijay Kumar Dugar is the sole promoter.

Financial Indicators (Standalone)

For the year ended* As on	FY20	FY21	FY22	FY23	FY24
	Audited	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	391	399	346	376	708
EBITDA Margin (%)	19.66	18.56	13.73	19.98	19.46
Interest Coverage Ratio (x)	2.25	2.17	1.36	1.23	2.16
Overall Gearing Ratio (x)	12.69	7.36	7.45	4.56	2.48
DSCR (x)	1.95	1.94	1.35	1.22	1.89
TOL/TNW	15.29	8.94	8.87	5.70	2.60
Total Debt/ EBITDA (x)	4.41	5.06	8.50	5.91	3.62
Current Ratio (x)	1.41	1.25	1.17	1.19	3.50

*Classification as per Infomerics Nepal standards

Earnings before Interest Tax Depreciation Amortization (EBITDA)

Annexure:1 Detail of Facilities:

Name of Instruments/ Facilities	Type of Facilities	Amount (NPR Mn)	Rating
Fund Based Bank Facilities- Term Loan	Long Term	185.43	IRN BB
Fund Based Bank Facilities – Permanent Working Capital Loan	Long Term	193.33	IRN BB
Fund Based Bank Facilities – Permanent Working Capital Loan (Proposed)	Long Term	30.00	IRN BB
Fund Based Bank Facilities- Short Term Loan	Short Term	170.63	IRN A4
Non-Fund Based Bank Facilities – Short Term Loan (Proposed)	Short Term	170.00	IRN A4
Total Facilities		749.39	

Analyst Contacts

Mr. Atish Ratna Shakya

Tel No.+977-1-4583304/4585906

atish.shakya@infomericsnepal.com



Infomerics Credit Rating Nepal Limited

Mr. Sanjeev Dangol

Tel No. +977-1-4583304/4585906

sanjeev.dangol@infomericsnepal.com

Relationship Contact

Mr. Rabin Pudasaini

Tel No. +977-1-4583304/4585906

rabin.pudasaini@infomericsnepal.com

About Infomerics Credit Rating Nepal Limited:

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Infomerics Credit Rating Nepal Limited

Tanka Prasad Marga, Baneshwor Height, Kathmandu

Phone: +977-1-4583304/4585906

Email: info@infomericsnepal.com

Web: www.infomericsnepal.com

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