Press Release

Jay Formulations Limited (JFL)

September 8, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Bank Facility – Cash Credit	25.00	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	Assigned
2.	Long Term Fund Based Bank Facility – Term Loan	8.80	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	Assigned
3.	Short Term Non Fund Based Bank Facilities	16.25	IVR A4+ (IVR Single A Four Plus)	Assigned
	Total	**50.05**		

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Jay Formulations Limited (JFL) derives comfort from its experienced promoter alongside experienced management team, established market position with a wide product portfolio, healthy revenue growth albeit moderate profit margins, reputed clientele. However, the rating strengths are constrained by Moderate financial risk profile and capital structure and vulnerability to change in government/regulatory policies and volatility in raw material prices.

The Outlook is Positive due to JFL's established position in the pharmaceutical industry, supported by its promoter's extensive industry experience, satisfactory order book position and established long-standing relationship with its customers along with overall improvement in financial performance.

Key Rating Sensitivities

Upward Factors

- Substantial & sustained improvement in revenue and/or profitability leading to improvement in debt protection metrics.

Downward Factors

- Any decline in revenue and/or profitability leading to deterioration in debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoter & management team

The company is being managed by an experienced director, Mr. Rakshit A Patel, who has a rich experience of more than two decades in the pharmaceuticals industry and is instrumental in development of the company. Having operated in industry since years now, the management has established a strong network with suppliers and customers. Beside the promoter, the company has a team of experienced and capable professionals, having over two decades of experience in the segment, to look after the overall operations and day to day management.

Established Market Position with a wide product portfolio

JPL has an established market position in India in pharmaceutical formulations supported by extensive experience of its promoter, its established marketing network and a wide product portfolio consisting of Tablets, Capsules and others representing a range of clinically proven products developed from scientifically validated and licensed products. The pharmaceutical formulations in different therapeutic groups include Ibuprofen, Ampicillin, Azythromycin, Diclofenac and Amoxyllin to name a few.

Reputed Clientele

The company derives majority of its revenue from selling products to other multinational companies and has developed an established & longstanding relationship with various state bodies. The clientele of the company includes Cipla Limited, Procter and Gamble Limited, Maruti Pharma Chem Private Limited, Glencoe Investment Limited and so on.

Healthy revenue growth improving EBITDA margins:

The Company's topline is on a steady increase with a CAGR of ~27% in the last three years ended FY2020 as company has established a good presence in the regions it operates, given the promoters' strong relationships established with it's clients over the years. The company's

EBITDA margins are witnessing the improving trend as it increased to 6.34% in FY2020 (FY19: 6.12% and FY18: 4.91%).

Key Rating Weaknesses

Moderate financial risk profile and capital structure

The financial risk profile of the group is marked by moderate capital structure. The company's net worth stood at Rs. 20.5 crore as on March 31,2020. The overall gearing stood moderate at 1.39x as on March 31,2020. The total indebtedness of the company as reflected by TOL/ATNW remained moderate at 2.27x.. To arrive at the tangible net worth Infomerics has considered unsecured loans aggregating to Rs.7.8 crore as quasi-equity. Further, the debt protection metrics also remained moderate with interest coverage at 1.76x in FY20 (1.99x in FY19 and 2.28x in FY18).

Vulnerability to change in government/regulatory policies and volatility in raw material prices

The pharmaceutical industry is highly regulated, and hence, any adverse change in government/regulatory policies can impact the business risk profile of the Company. Moreover, intense competition in the generics business limits the pricing flexibility of players. Raw materials account for 60-70% of the cost of sales, and operating margin remains susceptible to any sharp change in input prices.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Adequate

The current ratio remained comfortable at 1.30x as on March 31, 2020. The company's cash flow from operation also remains adequate. The liquidity of the company expected to remain Adequate in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. The average Cash Credit utilisation during the last twelve months ended July 2020 remained at 92%.

About the Company

Incorporated in 1995, Jay Formulations Limited (JPL) is in the pharmaceuticals business for more than three decades with expertise in manufacture and marketing of a wide array of allopathic branded and generic formulations. The company's product portfolio consists of generic drug formulations such as Ibuprofen, Ampicillin, Azythromycin, Diclofenac and Amoxyllin and so on. JPL's manufacturing plant located in Gujrat is ISO and WHO-GMP compliant. JPL has two manufacturing facilities with a total manufacturing capacity of 120 Crore tablets and capsules p.a.

Financials: Standalone

(Rs. crore)

For the year ended/ As On	31-03-2019	31-03-2020
	(Audited)	(Audited)
Total Operating Income	105.5	125.1
EBITDA	6.46	7.94
PAT	1.01	1.71
Total Debt	30.79	39.41
Tangible Net-worth	16.8	20.5
Ratios		
EBITDA Margin (%)	6.12	6.34
PAT Margin (%)	0.95	1.36
Overall Gearing Ratio (x)	1.25	1.39

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

Brickworks in their press Release dated on June 09, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information.

ICRA in their press Release dated on July 29, 2019 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information.

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	25.00	IVR BB+/Positive Outlook	--	--	--
2.	Term Loan	Long Term	8.80	IVR BB+/Positive Outlook	--	--	--
3.	LC/Credit exposure limit	Short Term	16.25	IVR A4+	--	--	--

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.

Name and Contact Details of the Rating Team:

Name: Shreshtha Singhvi
Tel: (022) 62396023
Email: ssinghvi@infomerics.com

Name: Amit Bhuwania
Tel: (022) 62396023
Email: abhuwania@infomerics.com

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.

Annexure I: 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 - Cash Credit	-	-	Revolving	25.00	IVR BB+/Positive Outlook
Long Term Fund Based - Term Loan	-	-	Upto February 2027	8.80	IVR BB+/Positive Outlook
Short Term Non Fund Based – Letter of Credit	-	-	Upto 120 days	16.00	IVR A4+
Short Term Non Fund Based – Credit Exposure Limit	-	-	-	0.25	IVR A4+