

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

MJ Pharmaceuticals Private Ltd.

February 5, 2019

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Proposed Commercial Paper	750.00*	IVR A1+ (SO) (IVR A One Plus (Structured Obligation))	Final Rating Assigned

**Based on corporate guarantee from Shanghvi Finance Private Limited (SFPL). The corporate guarantee is backed by pledge of shares held by SFPL in Sun Pharmaceutical Industries Limited (Sun Pharma).*

Details of Facility are in Annexure 1

Detailed Rationale

The ratings derive comfort from the credit enhancement provided in the form of corporate guarantee from Shanghvi Finance Private Limited (SFPL), which is backed by pledge of shares in Sun Pharmaceutical Industries Ltd (Sun Pharma) held by SFPL, defined transaction structure & payment mechanism, good credit quality of Sun Pharma and resourceful promoter. The rating also takes into consideration the inherent volatility in the stock market. The performance of the shares of Sun Pharma is the key rating sensitivity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Credit Enhancement in the form of Guarantee backed by pledge of shares

The proposed CPs of MJ Pharmaceuticals Private Ltd (MJPPL) shall be backed by unconditional & irrevocable guarantee given by the Shanghvi Finance Pvt Ltd (SFPL). The corporate guarantee shall be backed by a pledge of shares of Sun Pharma held by SFPL. The shares to be pledged shall provide a cover of 1.75 times at the time of the issuance of the CPs.

Defined transaction structure and payment mechanism

The issuer (i.e., MJPPL) will deposit the money to be paid to the CP investors in a designated account with an Issuing and Paying Agent (a commercial bank with the highest short term rating) three business days before the repayment date of the CPs. In case this does not happen, the Trustee to the issue, in consultation with the investor, will decide the course of action,

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including invocation of guarantee and sale of pledged equity shares of Sun Pharma, held as security for the CPs.

The proposed hard pledge of shares shall provide a cover of 1.75X the issue size of the CP. In the event of a fall in the share price of Sun Pharma, leading to the cover falling below 1.60X, the shares would be topped up to the level of cover at the time of the issue (i.e. 1.75X). The top up would be done by pledging additional shares of Sun Pharma held by SFPL. The time period allowed for the top up or repayment is proposed to be three trading days from the trigger breach i.e., when the trigger breach in this case being the cover falling below the level of 1.60X. In the event of failure to top up, the CPs shall be repaid. To give effect to the aforesaid transaction into a binding agreement, a Trustee Agreement, Deed of Guarantee and a Share Pledge Agreement shall be entered into between/amongst the concerned parties.

Good Credit Quality of Sun Pharmaceutical Industries Ltd

Promoted by Mr. Dilip Shanghvi, Sun Pharmaceutical Industries Ltd (Sun Pharma) is supported by 42 manufacturing facilities spread across six continents and R&D centres across the globe. Its footprint covers over 100 markets (including 6 markets in Western Europe). Sun Pharma is supported by strong R&D capabilities comprising about 2,000 scientists and R&D investments of approximately 8% of annual revenue. Sun Pharma is the fourth largest specialty generic company globally.

Sun Pharma reported a gross revenue of Rs.26489 crore and PAT of Rs.2608 crore for FY18. It had a Net Worth of Rs.31260 crore as on March 31, 2018. The market capitalization of Sun Pharma stood at around Rs.101873 crore as on December 28, 2018.

Resourceful Promoter

Shanghvi Finance Private Limited (SFPL) is promoted by Mr. Dilip Shanghvi, the promoter of Sun Pharmaceutical Industries Limited and Sun Pharma Advance Research Company Ltd. He holds 98.28% of the shares of SFPL. SFPL, is the largest shareholder of both Sun Pharmaceutical Industries Limited (Sun Pharma) and Sun Pharma Advance Research Company Ltd (SPARC). i.e. 40.02% and 51.62% respectively.

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Volatility in the stock market

Indian capital market, by its nature, is volatile arising out of many developments taking place in the social and economic front both at the national and international levels. Despite a particular equity scrip continuing to remain fundamentally strong, the market price of such scrip may get adversely impacted due to the market behaviour. As the collateral cover for debt servicing, in the instant case, is in the form of equity investment in a listed company, the same is exposed to the risk of market volatility. However, 1.75x security cover provides margin against the volatility.

Analytical Approach & Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Structure Debt Transaction (Non-securitisation Transaction)

Liquidity

MJPPL does not have any working capital limits. The company has substantial investments in real estate projects that are likely to generate returns. The corporate guarantee from SFPL backed by the pledge of shares of Sun Pharma held by SFPL also enhances the credit profile.

About the Company

Incorporated in 1996, MJPPL is involved in the pharmaceutical business and it also has interests in construction and development of real estate projects through joint ventures and partnerships. It is part of the Dilip Shanghvi group.

Financials (Standalone)

(Rs. Crore)

For the year ended	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	1.0	9.5
EBITDA	0.5	9.4
Interest	0.0	0.0

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PAT	0.4	8.4
Total Debt	3.0	3.0
Tangible Net worth	294.3	306.5
<u>Ratios (%)</u>		
a. EBITDA Margin	54.60	99.08
b. PAT Margin	43.42	89.11
c. Overall Gearing ratio	0.01	0.01

**Classification as per Infomerics standards*

About the Guarantor Company

Shanghvi Finance Private Limited (SFPL) is promoted by Mr. Dilip Shanghvi, the promoter of Sun Pharmaceutical Industries Limited and Sun Pharma Advance Research Company Ltd. He holds 98.28% of the shares of SFPL. SFPL was registered as NBFC with RBI. The company applied to RBI in June 2017, to voluntarily surrender its NBFC registration licence. During the year FY18, the Company had an income of Rs.417 crore with profit after tax of Rs.378 crore.

Financials (Standalone)

(Rs. Crore)

For the year ended	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	0.2	417.7
EBITDA	-0.1	390.3
Interest	0.0	0.1
PAT	-0.1	378.3
Total Debt	73.6	70.6
Tangible Net worth	72209.9	72588.2
<u>Ratios (%)</u>		
a. EBITDA Margin	-41.54	93.45
b. PAT Margin	-51.36	90.57
c. Overall Gearing ratio	0.00	0.00



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Status of non-cooperation with previous CRA: None

Any other information: Nil

Disclosure

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	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.	Proposed Commercial Paper	Short Term	750.00	IVR A1+ (SO) (IVR A One Plus (Structured Obligation))	Provisional IVR A1+ (SO) (Provisional IVR A One Plus (Structured Obligation)) (December 31, 2018)	--	--

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 Analyst:

Name: Mr. Sriram Rajagopalan

Tel: (022) 40036966

Email: srajagopalan@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.

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Annexure 1: Details of Facility

Name of Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short Term Instrument – Proposed Commercial Paper	-	-	-	750.00	IVR A1+ (SO) (IVR A One Plus (Structured Obligation))