Press Release

Fredun Pharmaceuticals Limited

March 4, 2024

Ratings

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	74.60	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	22.00	IVR A3 (IVR A three)	Assigned	Simple
Total	**96.60 (Rs. Ninety six crore and sixty lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Fredun Pharmaceuticals Limited (FPL) derives strength from extensive experience of the promoters, consistent increase in topline and profit, conservative capital structure and adequate coverage indicators, diversified product profile and geographical reach. However, these rating strengths are constrained by elongated working capital cycle, and vulnerability to change in government/regulatory policies and volatility in raw material prices.

Key Rating Sensitivities:

Upward factors

- Sustained & significant improvement in revenue & profit margins
- Sustenance of the capital structure while maintaining the debt protection parameters
- Efficient working capital management with improvement in liquidity.

Downward factors

- Any decline in scale of operations and/or profitability leading to sustained deterioration of liquidity and/or debt protection metrics.

- Deterioration in working capital management impacting the liquidity.
- Moderation in capital structure, leverage ratio and coverage indicators.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience of the promoters**

The key promoters of FBL -- Dr Daulat Medhora and Mr. Nariman Medhora – have an experience of over three decades in the pharmaceuticals formulations business and have been instrumental in research & development work and manufacturing of new products. Furthermore, Mr. Fredun Medhora (managing director) has been in the in business for over a decade. The promoters-initiated strategies to expand product categories and enhance geographical reach and are expected to continue to infuse timely need-based funding support which supports the overall business profile.

- **Consistent increase in topline and profit**

TOI increased to Rs. 276.06 crore in FY23 from Rs. 225.64 crore in FY22 and Rs. 133.95 crore in FY21. Thus, TOI increased by 22.30% y-o-y in FY23 due to new product launches as well as healthy demand from the key customers. Led by an increase in topline, EBITDA also increased to Rs. 29.16 crore in FY23 from Rs. 14.98 crore, up 94.73% y-o-y. PAT also increased by 70.58% y-o-y to Rs. 10.81 crore. Further in 9MFY24 (provisional), TOI increased to Rs. 231.04 crore from Rs. 196.70 crore up 17.46% y-o-y. Consequently, EBITDA and PAT also increased by 54.31% and 39.87% y-o-y to Rs. 27.73 crore and Rs. 10.56 crore. Infomerics believes that company's topline line and profit will continue to grow in the projected years, due to increase in scale of operations, which the company is undertaking by raining ~Rs. 100 crore of funds.

- **Conservative capital structure and adequate coverage indicators**

The company's capital structure consists of total debt of Rs. 86.53 crore as on March 31, 2023 compared with total debt of Rs. 60.66 crore as on March 31, 2022. Total net worth as of March 31, 2023, was Rs. 96.07 crore compared with Rs. 68.00 crore as on March 31, 2022, due to accretion of profit to reserves and issue of equity shares of Rs. 9.66 crore. The capital structure is quite conservative with overall gearing, TOL/ TNW , and debt equity ratio of 0.90 times, 1.67 times and 0.21 times as on March 31, 2023, compared with overall gearing, TOL/ TNW , and debt equity ratio of 0.89 times, 1.75 times and 0.22 times as of March 31, 2022. Further, coverage indicators were adequate with interest coverage ratio and DSCR ratio of 3.14 and 1.43 times, respectively in FY23 compared with interest coverage ratio and DSCR ratio of 3.21 and 1.67 times in FY22.

- **Diversified product profile and geographical reach**

FPL has offerings in 23 therapeutic classes (including anti-diabetics, anti-retroviral and anti-hypertensive), with around 1100 products registered in the domestic and overseas markets. It also exports to over 46 countries in South Asia, Africa, Commonwealth of Independent States, and Latin America. The wide product basket and geographical presence provide diversity in the revenue profile. The addition of new product registrations and foray into new product categories and markets help in the consistent scaling up of operations.

Key Rating Weaknesses

- **Elongated working capital cycle**

  Overall operations remain working capital intensive with significant increase in gross current assets have increased to around 285 days as on March 31, 2023, primarily driven by debtors of around 83 days and inventory of around 146 days. Debtors are expected to stay elongated as the company extends a credit period 100-120 days to its customers. Inventory levels have significantly increased in fiscal primarily on account of newer product launches for which the company maintains sufficient inventory. This has also resulted in high dependence in working capital limits. While the inventory cycle is expected to ease over the medium term, with increase in acceptances of the newly launched products in the market.

- **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)

Criteria for assigning Rating outlook

Default Recognition Policy

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Liquidity – Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient accruals and to meet the term debt repayment in the period FY24-FY26. The average fund based utilisation for the past twelve months ended January 2024 remained moderate at ~88% indicating a moderate liquidity cushion. Further, absence of any debt funded capex provides further comfort to the liquidity position. The company also plans to raise funds of Rs. 100 crore which will further aid the company's liquidity position.

About the company

Based out of Mumbai, FPL was incorporated in 1987 by Mr Nariman Medhora and his wife, Dr Daulat Medhora. The company manufactures pharmaceutical formulations such as tablets, syrups, capsules, and ointments. Product basket includes multiple therapeutic classes such as anti-diabetics, anti-retroviral, anti-hypertensive etc. The manufacturing unit is in Palghar, Maharashtra. With over 35 years of experience in various pharmaceutical formulations, the company caters to customers across Africa, Southeast Asia, Commonwealth of Independent States (CIS) countries and Latin America. The company classifies its products into four groups: Generics (Exports & Fredun Gx), Pet Healthcare (Freossi), Nutraceuticals (Fredun Nutrition) and Cosmeceuticals (Bird and Beauty or BnB).

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023	9MFY23	9MFY24
	Audited	Audited	Unaudited	Unaudited
Total Operating Income	225.64	276.06	196.70	231.04
EBITDA	14.98	29.16	17.97	27.73
PAT	6.34	10.81	7.55	10.56
Total Debt	60.66	86.53	-	-
Tangible Net worth	68.00	96.07	-	-
EBITDA Margin (%)	6.64	10.56	9.14	12.00
PAT Margin (%)	2.80	3.91	3.84	4.57
Overall Gearing Ratio (x)	0.89	0.90	-	-

**As per Infomerics' Standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loans	Long Term	11.06	IVR BBB-/ Stable	-	-	-
2.	Cash Credit	Long Term	63.54	IVR BBB-/ Stable	-	-	-
3.	Bank Guarantee	Short Term	2.00	IVR A3	-	-	-
4.	EPC	Short Term	12.00	IVR A3	-	-	-
5.	PCFC	Short Term	3.00	IVR A3	-	-	-
6.	PC	Short Term	5.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan 1	-	-	April 2029	4.56	IVR BBB-/ Stable
Term Loan 2	-	-	January 2026	0.67	IVR BBB-/ Stable
Term Loan 3	-	-	January 2027	5.83	IVR BBB-/ Stable
Cash Credit 1	-	-	-	0.54	IVR BBB-/ Stable
Cash Credit 2	-	-	-	35.00	IVR A3
Cash Credit 3	-	-	-	28.00	IVR A3
EPC	-	-	-	12.00	IVR A3
BG	-	-	-	2.00	IVR A3
PCFC	-	-	-	3.00	IVR A3
PC	-	-	-	5.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not applicable

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-fredun-mar24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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