Press Release

Jodas Expoim Private Limited

March 9, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	59.00 (including proposed amount of Rs.56.00 crore)	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Assigned	Simple
Short Term Bank Facilities	46.00	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Total	**105.00 (Rupees One Hundred Five crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Jodas Expoim Private Limited (JEPL) derive strength from the extensive experience of the promoters and established track record of the company in pharmaceutical business, comfortable capital structure and debt protection metrics. The ratings are, however, constrained by moderate scale of operations, debt funded capex being implemented by the company, geographical and customer concentration risks, working capital intensive nature of operations, susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuations, intense competition and vulnerability to change in regulatory policies.

Key Rating Sensitivities:

Upward Factors

- Growth in total operating income of more than 25% on a sustained basis.
- Improvement in EBITDA margin above 30% on a sustained basis.
- Improvement in capital structure with overall gearing of less than 0.10x.

Downward Factors

- Decrease in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.
- Deterioration in operating cycle above 100 days impacting the liquidity.

- Any cost or time overrun in the implementation of the ongoing capex, thereby delaying cash flows from it.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall gearing ratio above 0.25x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters and established track record of the company in pharmaceutical business

The firm is promoted by Dr.Jyoti Loomba (Managing Director), Mr. Shashi Shanker Parsad Singh (Managing Director) and Mr. Satyendra Kumar Singh (Managing Director), all having significant experience given their two decade long presence in the pharmaceutical business in various capacities. Further, the firm started its operations in 2009 implying more than a decade long operational track record. The firm manufactures pharma products under four major therapeutic segments namely – anti infectives, oncology, contrast media, and cephalosporin.

Comfortable capital structure and debt protection metrics

The capital structure of the firm remained satisfactory as on the past three account closing dates. The adjusted overall gearing ratio witnessed decline from 0.02x as on March 31, 2020 to 0.00x as on March 31, 2021 to 0.10x as on March 31, 2022 driven by increase in bank borrowings. Total indebtedness of the firm as reflected by adjusted TOL/ TNW ratio remained moderate at 1.44x as on March 31, 2022 as compared to 1.10x as on March 31, 2020 and 1.36x as on March 31, 2021.

The debt protection metrics of the firm remained adequate over the past three fiscals. The interest coverage ratio continued to remain adequate at 278.29x in FY22 as compared to 64.18x in FY20. The interest coverage ratio has deteriorated from 400.68x in FY21 due to decline in the EBITDA levels in FY22. The total debt/ GCA ratio was adequate at 0.34x in FY22 as compared to 0.00x in FY21 and 0.87x in FY20.

Key Rating Weaknesses

Moderate scale of operations

The company's total operating income (TOI) doubled in FY21 and stood at Rs.466.92 crore in as compared to Rs.228.82 crore in FY20 due to increase in volume of sales. However, it declined substantially by around 21.57% in FY22, from Rs.466.92 crore in FY21 to Rs.366.16 crore in FY22 due to decrease in volume of sales of anti-infectives on the back of lower covid-19 infections as well as ongoing conflict between Russia-Ukraine which disrupted the company's operations. In 9MFY23, JEPL's revenue increased by 25.18%, from Rs.425.00 crore in 9MFY22 to Rs.532.05 crore in 9MFY23 due to increase in volume of sales.

There was a substantial increase in the absolute EBITDA and PAT levels in FY21 as compared to FY20 due to higher demand for margin-accretive anti-infectives, primarily from the Russian market, on the back of high Covid-19 infections. However, there was a decline in the absolute EBITDA and PAT levels in FY22 as compared to FY21, due to lower realisation for injections and almost stable realisation for other products. The EBITDA was at Rs.111.51 crore in FY22 as compared to Rs.138.56 crore in FY21, the decrease in EBITDA was due to increase in raw material cost of the company in FY22. Accordingly, the PAT declined from Rs.100.98 crore in FY21 to Rs.90.66 crore in FY22. In line with this, the GCA has declined from Rs.112.82 crore in FY21 to Rs.104.75 crore in FY22. In 9MFY23, the EBITDA was at Rs.135.01 as compared to Rs.90.28 crore in 9MFY22. PAT was at Rs.92.47 crore in 9MFY23 as compared to Rs.60.24 crore in 9MFY22. There is an improvement in the EBIDTA and PAT levels as there was increase in volume of sales during the current year.

Debt funded capex being implemented by the company

The company has ongoing projects to expand its existing manufacturing facility. The company will be setting up new unit on an adjacent plot for setting up a general injectable facility and biotechnology facility which will be dedicated for producing general tablets and capsules. Of the total capex of Rs 105.00 crore, Rs.50.00 crore will be funded by term loans. The remaining Rs.55.00 crore will be funded by internal accruals. The COD of the project is September 2024. As on January 31, 2023 the company has invested about Rs.10.00 crore for construction of plant funded by term loan of Rs.2.00 crore and internal accrual of Rs.8.00 crore.

Geographical and customer concentration risks

Around 98% of revenue in FY22 was derived from Russia, against 81% in FY21, which significantly exposes the company's performance to geopolitical changes in the region. The risk is expected to remain high in the near term owing to the ongoing Russia-Ukraine conflict. Moreover, the company also has high customer concentration with single customer (OOO Jodas Expoim, a group company operating in Russia) accounting for ~92% of revenue in FY22.

Working capital intensive nature of operations

Gross current assets were at 724 days as on March 31, 2022, on account of large export receivables. The company has a wide product portfolio. Hence, it is required to maintain substantial inventory to ensure adequate supply. Further, the debtor days remain high on account of transit period of 30-45 days as well as credit period in the range of 6-7 months offered to the customers.

JEPL's business has large working capital requirements, as reflected in the collection period of 475 days as on March 31, 2022, followed by average inventory holding period of 76 days as on March 31, 2022 thereby affecting the operating cycle of the company, which stands at 74 days as on March 31, 2022.

As JEPL has an elongated receivables cycle, the impact of economic and financial sanctions on Russia by several countries, including removal of select Russian banks from the SWIFT network on the company’s cash flow is a key concern in the near-term.

Susceptibility of profitability to volatility in raw material prices and foreign exchange fluctuations

The company is exposed to currency fluctuation risk to the extent that there is a mismatch between the currencies in which export sales and import purchase in foreign currency are denominated and the functional currency of the company. The currencies in which these transactions are primarily denominated are USD. The company is following natural hedging and going forward it will hedge through Pre-Settlement Risk limit to hedge its currency risk.

Moreover, intense competition in the generic medicines business limits the pricing flexibility of players. Raw materials account for 40-50% of the cost of sales, and operating margin remains susceptible to any sharp change in input prices.

Intense competition and vulnerability to change in regulatory policies

The pharmaceutical industry is highly regulated, and hence, any adverse change in government/regulatory policies can impact the business risk profile of the company.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Default Recognition]

[Criteria of assigning Rating outlook]

[Rating Methodology for Manufacturing Companies]
[Financial Ratios & Interpretation (Non-Financial Sector)]

Liquidity: Adequate

JEPL's liquidity position remained adequate marked by current ratio of 1.43x as on March 31, 2022. Though there was a decrease in GCA from Rs.112.82 crore in FY21 to Rs.104.75 crore in FY22. There are no repayments due in FY23-25. The company's cash accruals are sufficient to meet its obligations in FY23-FY25. The average utilisation of its working capital facilities is 75.86% in the 12 months ended December 2022, giving it sufficient headroom. The company has ongoing capex of Rs.105.00 crore which is expected to be completed by September 2024. The capex will be funded by debt of Rs.50.00 crore and internal accruals of Rs.55.00 crore.

About the company

JEPL was incorporated in the year 2006 and is engaged in manufacturing and sale of pharmaceutical formulations under four major therapeutic segments namely anti infectives, oncology, contrast media and cephalosporin. The manufacturing facility is located at Medak, Telangana. The facility is approved by Russia-GMP and EU-GMP. JEPL's operations began from 2009. JEPL manufactures tablets, capsules and injectables mainly for export to Russia where it sells to customer OOO Jodas Expoim (related party in Russia with common directors) which accounts for more than 90% of the revenues generated by the company. In turn OOO Jodas Expoim sells to the institutional buyers which includes hospitals, healthcare institutions and government bodies. The company is promoted by Dr.Jyoti Loomba, Mr.Shashi Shanker Parsad Singh and Mr.Satyendra Kumar Singh.

Financials (Standalone):

(Rs. crore)

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	466.92	366.16
EBITDA	138.56	111.51
PAT	100.98	90.66
Total Debt	-	36.04
Adjusted Tangible Networth	273.26	364.75

For the year ended / As On*	31-03-2021 (Audited)	31-03-2022 (Audited)
Ratios		
EBITDA Margin (%)	29.67	30.45
PAT Margin (%)	21.34	23.10
Adjusted Overall Gearing Ratio (x)	-	0.10

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Proposed Term Loan	Long Term	53.00	IVR BB+/ Stable	-	-	-
2.	Cash Credit	Long Term	3.00	IVR BB+/ Stable	-	-	-
3	Proposed Cash Credit	Long Term	3.00	IVR BB+/ Stable	-	-	-
4	Pre Shipment Credit	Short Term	36.00	IVR A3	-	-	-
5	Pre Settlement Risk	Short Term	10.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

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

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Proposed Term Loan	-	-	-	53.00	IVR BB+/ Stable
Cash Credit	-	-	-	3.00	IVR BB+/ Stable
Proposed Cash Credit	-	-	-	3.00	IVR BB+/ Stable
Pre Shipment Credit	-	-	-	36.00	IVR A3
Pre Settlement Risk	-	-	-	10.00	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-JodasExpoim-mar23.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.