Sudarshan Pharma Industries Limited

January 20, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Rating	Rating Action	Complexity Indicator
Long term Bank Facilities	88.32 (enhanced from 72.05)	IVR BBB-/Positive (IVR Triple B minus with positive outlook)	IVR BBB-/Stable (IVR Triple B minus with stable outlook)	Rating reaffirmed; Outlook revised from stable to positive	Simple
Long term Bank Facilities – Proposed	104.00 (enhanced from 50.00)	IVR BBB-/Positive (IVR Triple B minus with positive outlook)	IVR BBB-/Stable (IVR Triple B minus with stable outlook)	Rating reaffirmed; Outlook revised from stable to positive	Simple
Long term Bank Facilities	0.00 (Reduced from 0.38)	--	IVR BBB-/Stable (IVR Triple B minus with stable outlook)	Withdrawn	Simple
Short Term Bank Facilities	48.00 (enhanced from 9.00)	IVR A3 (IVR A three)	IVR A3 (IVR A three)	Rating reaffirmed	Simple
Short Term Bank Facilities - Proposed	2.00	IVR A3 (IVR A three)	--	Assigned	Simple
Total	**Rs. 242.32 (Rs. Two Hundred Forty-Two crore and Thirty-Two Lakh only)**				

***Withdrawn, since repaid fully.*

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has reaffirmed/assigned its ratings to the Bank facilities of SPIL derives strengths from steady revenue though improved profitability, well diversified geographical presence and reputed client base, and experienced management. However, these rating strengths are partially constrained by moderate capital structure, working capital intensive nature of operations, moderate debt protection metrics, project implementation risk, vulnerability to change in government/regulatory policies and volatility in raw material prices.

Infomerics has revised the Outlook to ‘Positive’ from ‘Stable’ with expected improvement in EBITDA margins with expected higher contribution from manufacturing segment which will results into expected improvement in capital structure.

Infomerics Ratings has simultaneously withdrawn the rating assigned to the term loan worth Rs. 0.38 crore based on No Due Certificate dated Jan 03, 2025, as it is fully paid off. The rating is withdrawn is in line with Infomerics' policy on withdrawal of ratings.

Key Rating Sensitivities:

Upward Factors

- Higher contribution from manufacturing segment leading to improvement in profitability along with improvement in working capital cycle leading to overall improvement in liquidity.

Downward Factors

- Any decline in scale of operations and/or profitability leading to sustained deterioration of liquidity and/or debt protection parameters.
- Any cost or time overrun in ongoing capex and/or any substantial decline in cash flows leading to decline in DSCR.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Steady revenue though improved profitability

SPIL's consolidated revenue growth remained stable at Rs. 463.54 crore in FY24 (periods refer from 1st April 2023 to 31st March 2024) (FY23: Rs. 461.33 crore) due to lower realisation despite increase in volume. During 1HFY25, SPIL has reported revenue of Rs.225.35 crore with stable realisation. SPIL's EBITDA margins improved to 4.92% in FY24 (FY23:3.18%) and further improved to 7.03% during 1HFY25 with higher contribution of high margins products in the overall revenue and increased in proportion of manufacturing segment in the overall revenue as compared to trading segment. As per management, going forward manufacturing revenue is expected to increase resulting in higher profitability. Ability of the company to increase in the share of manufacturing segment resulting in higher profitability will be a key monitorable.

Well diversified geographical presence and reputed client base:

SPIL customer base includes leading customers like SRF Limited, Reliance Industries Limited, L&T Limited and Asian Paints Limited and others. In the pharmaceutical segment, the company has reputable clients like Sandoz Ltd, Teva Pharma Limited, Sun Pharma Limited, Lupin Limited and Jubilant Life Sciences Limited and other reputed companies. In the Chemical Segment, SPIL is the sole distributor in Western Maharashtra & Goa for a Water disinfectant of a well-known international brand "Oxystrong Platinum" by Solvay Peroxyhai (Thailand).

SPIL has presence in 5 states which includes states like Maharashtra, Gujarat, and Uttar Pradesh. Moreover, SPIL has pan India presence for its chemical intermediaries and APIs. SPIL has also exporting to countries like UK, Australia, Uzbekistan, Syria, Oman, Taiwan and MENA regions. SPIL's long-term relations with its customers and suppliers will help to generate a steady growth in revenues.

Experienced management

SPIL has diversified business in the pharmaceutical industry and specialty chemicals in the chemical industry. SPIL has strong market presence in domestic as well as international market. SPIL's promoters Mr. Hemal V. Mehta & Mr. Sachin V. Mehta have a combined experience of over 25 years in the Specialty Chemical, Bulk drug and overall Pharmaceutical Industry.

Key Rating Weaknesses

Moderate Capital Structure:

During FY25, SPIL promoters has subscribed to warrants worth of Rs.15.28 crore (0.9mn warrants at Rs.169.83 per warrant), this warrant subscription is expected to improve net worth position thereby expected to improve capital structure of the company. SPIL will get 25% of these warrant issue during FY25 and balance during FY26. SPIL's capital structure in terms of overall gearing and TOL/TNW marginally deteriorated but remained comfortable and stood at 0.98x and 1.61x respectively as on March 31, 2024 (March 31, 2023: 0.34x and 1.31x); overall gearing and TOL/TNW increased further to 1.07x and 1.7x respectively due to higher working capital borrowings. Infomerics expects SPIL's capital structure is likely to remain elevated during FY24 as well as FY25 due to on-going debt led capex plans before improving from FY26 onwards with benefits of capex and higher profitability.

Working capital Intensive nature of operations:

SPIL's operations are working capital intensive reflected by higher net working capital cycle of 85 days at the end of FY24 (FY23: 43 days). Net working capital cycle has increased due to increase in receivable days and inventory days which have increased to 80 and 66 respectively at the end of FY24 (FY23: 61 and 50 respectively). Receivable days as well as inventory days have increased as SPIL has shifted its focus to manufacturing of API which requires higher working capital requirements. Average working capital utilisation for twelve months ended in October 2024 stood at 84%, ability of the company to tie-up for the funds for working capital requirement will be a key monitorable.

Moderate Debt protection metrics:

SPIL's debt protection metrics remains moderate with interest coverage at 2.55x in FY24 (FY23: 2.72x) due to higher interest expenses resulting from higher utilization of working capital limits. Total debt to NCA deteriorated at 8.39 years at the end FY24 (FY23: 4.27 years). However, Infomerics draws comfort as majority of the debt consists of working capital requirements. Total debt of SPIL stood at Rs.104.84 crore at the end of FY24 out of which working capital accounted for Rs. 90.54 crore. DSCR remained comfortable due to absence of major debt repayments.

Project Implementation Risk:

SPIL is in the process of setting up a greenfield pharmaceutical unit in two phases with total cost Rs.78.8 crore (phase 1: Rs.49.4 crore and phase 2- Rs.29.4 crore) funded through promoter's contribution (38%) and balance through debt. Phase 1 is expected to be completed by December 2025 and phase 2 is expected to be completed by March 2026. Based on this timeline, commercial operations are expected to commence on April 1st, 2026. Greenfield project is to manufacture Vitamin B3 and Active Pharmaceutical Ingredients. SPIL has already purchased the land for this project and receives approvals from MPCB (Maharashtra Pollution Control Board) and PESO (Petroleum & Explosives Safety Organization) authorities. Out of the total project cost SPIL has already spent Rs. 3.25 crore till November 2024.

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. Having geographical presence in several countries, SPIL needs to be constantly updated with the changing guidelines. Timely product and facility approval/renewal, in various regulated/ semi-regulated markets, remains critical for the growth of exports going forward. Further, the volatility in the raw material prices and time lag of passing the movement in the prices to its customers may impact the profitability of the group adversely.

Analytical Approach: Consolidated

For arriving at the rating, Infomerics has used consolidated approach to analyse SPIL and its subsidiaries as they are in the same line of businesses (Manufacturing and trading of speciality chemicals and APIs), under a common management. SPIL operates by way of separate subsidiaries for its various projects. SPIL is the parent company and others are wholly owned subsidiaries.

List of companies considered for consolidation analysis is given at Annexure 4.

Applicable Criteria:

Rating Methodology for Trading Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition and post default curing period
Complexity Level of Rated Instruments/Facilities
Rating Criteria for Consolidation of Companies
Policy on Withdrawal of Ratings

Liquidity – Adequate

SPIL's liquidity remained adequate with gross cash accruals of Rs. 20.58 crore, Rs. 25.26 crore, and Rs. 32.76 crore against the repayment of Rs. 3.79 crore, Rs. 2.78 crore and Rs. 2.78 crore for FY25 to FY27. In addition to this, the working capital utilisation stood at 84.17% for last 12 months ended in October 2024. The current ratio remains comfortable at 1.50x as on March 31, 2024.

About the Company

Incorporated in 2008, is a pharmaceutical and chemical firm. The company is a fully integrated pharmaceutical and chemical company that specialises in a wide range of products, from rock chemicals to intermediates and API to finished formulations. The promoters of the company, Mr. Sachin V. Mehta and Mr. Hemal V. Mehta have over 25 years of combined expertise in the bulk medicine, special chemical, and pharmaceutical industries.

Financials (Consolidated):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024	H1FY25
	Audited	Audited	Unaudited
Total Operating Income	461.33	463.54	227.79
EBITDA	14.69	22.81	17.8
PAT	7.04	11.46	5.92
Total Debt	34.10	104.84	124.20
Tangible Net Worth	100.08	106.73	117.63
EBITDA Margin (%)	3.18	4.92	7.03
PAT Margin (%)	1.52	2.46	2.63
Overall Gearing Ratio (x)	0.34	0.98	1.05
Interest Coverage (x)	2.72	2.55	2.37

* *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 Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type	Amount (Rs. Crore)	Rating	Date(s) & Rating(s) assigned (2023-24)	Date(s) & Rating(s) assigned (2022-23)	Date(s) & Rating(s) assigned
					Date: Dec 01, 2023	Date: Nov 24, 2023	
1.	Term Loan	Long Term	9.82	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	--
2.	Term Loan – Proposed	Long Term	49.00	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	--
3.	Cash Credit	Long Term	78.50	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	--
4.	Cash Credit - Proposed	Long Term	55.00	IVR BBB-/Positive	IVR BBB-/Stable	IVR BBB-/Stable	--
5.	Letter of Credit	Short Term	48.00	IVR A3	IVR A3	IVR A3	--
6.	Letter of Credit - Proposed	Short Term	2.00	IVR A3	IVR A3	IVR A3	--
7.	Term Loan**	Long Term	0.00	--	IVR BBB-/Stable	IVR BBB-/Stable	--

*****Term Loan worth Rs. 0.38 crore has been withdrawn based on No Due Certificate dated Jan 03, 2024, as it is fully paid off by the SPIL.***

Analytical Contacts:

Name: Amey Joshi

Tel: (022) – 6239 6023

Email: amey.joshi@infomerics.com

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.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	--	--	--	Jan 2026 – Oct 2030	9.82	IVR BBB-/Positive
Term Loan - Proposed	--	--	--	--	49.00	IVR BBB-/Positive
Cash Credit	--	--	--	Revolving	78.50	IVR BBB-/Positive
Cash Credit - Proposed	--	--	--	--	55.00	IVR BBB-/Positive
Letter of Credit	--	--	--	--	48.00	IVR A3
Letter of Credit - Proposed	--	--	--	--	2.00	IVR A3

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-sudarshanpharma-jan25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated analysis:

Name of the Company	Extent of Consolidation
Sudarshan Pharma Industries Limited	Full
Sudarshan Pharma Life Science Private Limited	Full
Life Science Chemical Private Limited	Full
Ratna Life Science Private Limited	Full

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.