



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Suraksha Asset Reconstruction Private Limited (SARPL)

February 19, 2019

Rating

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Proposed Commercial Paper	600.00*	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 I

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 held by SFPL in Sun Pharmaceutical Industries Ltd (Sun Pharma), 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 Commercial Paper (CP) of Suraksha Asset Reconstruction Private Limited (SARPL) shall be backed by unconditional & irrevocable guarantee given by Shanghvi Finance Private Limited (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.



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Defined transaction structure and payment mechanism

Based on the executable version of documents, the CP shall be secured with proposed hard pledge of shares with a cover of 1.75X of 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.

The issuer (i.e., SARPL) 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 due date of payment of the CPs or otherwise. In case this does not happen, the Trustee to the issue, in consultation with the investor, will decide the course of action, including invocation of guarantee and sale of pledged equity shares of Sun Pharma, held as security for the CPs.

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.99,812 crore as on February 3, 2019.



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Resourceful Promoter

Mr. Sudhir Valia is a qualified Chartered Accountant and currently serves as a Whole-time Director of Sun Pharma. He also served as the Chief Financial Officer of Sun Pharma Advanced Research Company Limited during July 2014 to January 2017 and has remained a Non-executive Director since then. He was selected by CNBC as the “CFO of the Year” in 2006, 2009 & 2012, in the Pharma Sector.

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)

Rating Methodology for Financial Institutions/NBFCs Financial

Ratios & Interpretation (Financial Sector)

Structure Debt Transaction (Non-securitisation Transaction)

Liquidity

The company’s operating income for FY18 stood at Rs.44.94 crore. The corporate guarantee is backed by the pledge of shares of Sun Pharma held by SFPL.

About the Company

Suraksha Asset Reconstruction Private Limited (SARPL) is an ARC registered with the Reserve Bank of India under section 3 of SARFAESI (Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest) Act, 2002, for carrying out the business of asset securitization and/or reconstruction in terms of the provisions of this act.



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The company was incorporated in October 2015 as a private limited company and received its ARC license in September 2016. SARPL is promoted by Mr. Sudhir Valia. The company has Assets under Management (AUM) of Rs.4099 crore as on March 31, 2018.

Financials (Standalone)

(Rs. Crore)

For the year ended	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	0.68	44.94
Net Interest Income	(0.03)	(27.42)
PAT	0.09	6.65
Total Debt	48.65	680.06
Tangible Net worth	99.96	132.03
<u>Ratios (%)</u>		
a. PAT Margin	13.14	14.79
b. Overall Gearing ratio	0.49	5.15
c. CAR	NA	16.10

**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 Advanced Research Company Ltd. Mr. Shanghvi 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



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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

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Disclosure

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2018-19)					Rating History for the past 3 years		
	Type	Amount outstanding (Rs. crore)	Date(s) & Rating(s) assigned in 2018-19			Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
Proposed Commercial Paper	Short Term	600.00	IVR A1+ (SO) [IVR A One Plus (Structured Obligation)]	Provisional IVR A1+ (SO) [Provisional IVR A One Plus (Structured Obligation)] (February 5, 2019)	Provisional IVR A1+ (SO) [Provisional IVR A One Plus (Structured Obligation)] (January 1, 2019)*	--	--	--

**The rating was earlier based on corporate guarantee from Lakshdeep Investment and Finance Private Limited (LIFPL). The corporate guarantee was backed by pledge of shares held by LIFPL, Khyati Realtors Private Limited, Mr. Sudhir Valia, Mrs. Raksha Valia, Mrs. Khyati Valia and Mrs. Shraddha Panchamia in Sun Pharmaceutical Industries Limited (Sun Pharma) and/or Sun Pharma Advanced Research Company Limited (SPARC). Subsequently, there has been a change in the structure and Shanghvi Finance Private Ltd (SFPL) is the pledger and guarantor, in the revised structure.*

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.

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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.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength 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 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	-	-	-	600.00	IVR A1+ (SO) [IVR A One Plus (Structured Obligation)]