

April 02, 2021

## JRS Pharma & Gujarat Microwax Pvt. Ltd.: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based EPC/PCFC/FBD/EBR	15.00	15.00*	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based FBD/EBR sublimit to EPC/PCFC/FBD/EBR	(15.00)	-	-
Fund-based Cash Credit-sublimit to EPC/PCFC/FBD/EBR	(15.00)	(15.00)	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Non-fund Based Letter of Credit	1.00	1.00	[ICRA]A1; upgraded from [ICRA]A2+
Non-fund Based Bank Guarantee	0.75	0.75	[ICRA]A1; upgraded from [ICRA]A2+
Non-fund Based Credit Exposure Limit	1.78	1.78	[ICRA]A1; upgraded from [ICRA]A2+
Unallocated	10.00	10.00	[ICRA]A (Stable)/[ICRA]A1; upgraded from [ICRA]A- (Stable)/ [ICRA]A2+
<b>Total</b>	<b>28.53</b>	<b>28.53</b>	

\*One-way inter-changeability from FBWC limit to bank guarantee limits to the extent of Rs. 2.00 crore

\*Instrument details are provided in Annexure-1

## Rationale

The upgrade in ratings takes into account the healthy growth in JRS Pharma & Gujarat Microwax Private Limited's (JPGM/ the company) scale over the over the past five fiscals, supported by capacity expansion and its stabilisation, and the consequent strengthening of its financial risk profile. The ratings continue to favourably factor in the healthy coverage indicators, the comfortable capital structure and the strong liquidity position (liquid investments worth Rs. 59.16 crore as on December 31, 2020). Further, the ratings continue to favourably factor in the company's extensive track record, the experience of its promoters in the excipient<sup>1</sup> industry, the reputed clientele, and the technological and marketing benefits derived from being the joint venture partner of JRS Pharma (JRS).

The ratings, however, remain constrained by the company's working capital-intensive business due to the high inventory holding period and the relatively long collection cycle. The ratings continue to factor in the vulnerability of the company's profitability to raw material price variations, Government regulations and the foreign currency fluctuation risk as a major part of the procurement is imported; however, the risk is partially hedged by exports. ICRA notes that company is planning to undertake brownfield expansion in its disintegrants (SSG/CCS) unit, which would be funded entirely through a mix of liquid investments and internal accruals. Hence, timely commissioning of the project within the budgeted cost and the achievement of the desired operating parameters remain crucial.

<sup>1</sup> An **excipient** is a natural or synthetic substance formulated alongside the active ingredient of a medication, included for the purpose of long-term stabilization, bulking up solid formulations that contain potent active ingredients, or to confer a therapeutic enhancement on the active ingredient in the final dosage form, such as facilitating drug absorption, reducing viscosity, or enhancing solubility

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that JRS Pharma & Gujarat Microwax Private Limited (GMW) will continue to maintain its business position in the excipient industry.

## Key rating drivers and their description

### Credit strengths

**Extensive experience of promoters and established presence of company in excipient industry; benefits derived from JV with JRS Pharma** – Incorporated in 1989, GMW manufactures excipients (MCCP) and disintegrants (SSG/CCS)<sup>2</sup>. Its promoters have over three-decade experience in this industry. The company is a 50:50 JV between the Ahmedabad-based Jhaharia family and JRS Group<sup>3</sup> (a global leader in cellulose products). Hence, GMW benefits from the established sales and distribution network of JRS besides having access to the latter's technical expertise and experienced management.

**Reputed clientele** – GMW primarily caters to pharmaceutical majors such as GlaxoSmithKline Pharmaceutical Limited, Intas Pharma Limited, Piramal Health Care Limited, and Mylan Laboratories Ltd. Over the years due to its premium quality products, GMW remains key supplier for MCCP and disintegrants. Further, majority of its sales are to JRS Pharma and its group companies—43% and 55% of the total sales in FY2020 and 9MFY2021, respectively.

**Healthy financial risk profile** – GMW's operating income witnessed a CAGR of 9.60% to Rs. 184.99 crore in FY2020 from Rs. 117.12 crore in FY2016. The OI grew at ~7% to Rs. 184.99 crore in FY2020 from Rs. 173.67 crore in FY2019, supported by higher sales volumes of SSG/CCS. Further, the company has already registered sales of Rs. 185.26 crore till 9MFY2021 and expects an operating income of around Rs. 250 crore in FY2021, with stabilisation of its brownfield capex of MCCP. The operating margin in the last two fiscals has remained stable, in the range of 24-26% till FY2020, and the same improved to 32.94% in 9MFY2021 because of lower input cost. With limited reliance on external debt along with healthy profitability, GMW's capital structure and coverage indicators remain robust. The company's liquidity position remains strong, with cash and cash equivalents of Rs. 59.16 crore as on December 31, 2020.

### Credit challenges

**Working capital-intensive business** – The company's financial risk profile is marked by high working capital intensity, with NWC/OI at 42% as on December 31, 2020, owing to high inventory holding of its raw material i.e. wood pulp (for 2-4 months) and relatively long receivable cycle.

**Project implementation risk** – GMW is planning to undertake a brownfield expansion project, which is expected to be completed by Q3FY2022, to increase the capacity of its disintegrants (SSG/CCS) unit, at a total cost of around Rs. 50.0 crore. The entire capex will be funded through liquid investments and internal cash accruals. The said capex will expose the company to project execution and stabilisation risks. The successful scale up of operations, as per the expected parameters, will remain important.

**Profitability remains vulnerable to price fluctuation, forex exchange and government regulations pertaining to wood pulp import** – GMW's profitability remains vulnerable to adverse movements in the price of key raw material, which is majorly imported i.e. wood pulp. However, the established business relationship with its major suppliers enables procurement at competitive rates, resulting in healthy contribution margins. Further, the company remains exposed to adverse government regulations and foreign currency movements because of its significant exports; however, high share of exports provides a natural hedge.

## Liquidity position: Strong

GMW has a **strong** liquidity profile, supported by the absence of major debt repayments, cushion in working capital limits, sizeable unencumbered cash balance and liquid investments cumulatively amounting to Rs. 59.16 crore as on December 2020.

<sup>2</sup> Sodium Starch Glycolate & Cross Carmellose Sodium

<sup>3</sup> Rettenmanier Asia Holding GMBH, a JRS group entity holds 50% shareholding in GMW

Further, the liquidity is expected to remain comfortable after accounting for the projected capex, which will be funded through internal accruals and liquid investments.

#### Rating sensitivities

**Positive factors** – ICRA could upgrade GMW’s ratings if the company demonstrates substantial scaling up of operations, backed by growth in volumes, while maintaining its operating profitability on a sustained basis and improving its working capital cycle.

**Negative factors** – Negative pressure on GMW’s ratings could arise if a substantial decline in the scale and profitability results in material deterioration of coverage indicators; or any sizeable debt-funded capex or increase in working capital cycle adversely impacts the liquidity profile and key credit metrics.

#### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodology for Pharmaceutical Industry</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

## About the company

Incorporated in 1989, GMW is an Ahmedabad-based company promoted by Jhahharia family, which is into manufacturing of excipients (MCCP) and disintegrants (SSG/CCS). JRS Pharma Group (JRS), headquartered in Germany and a global market leader in cellulose products, acquired 50% stake in GMW in 2006. Due to the company’s association with JRS, GMW underwent a change in name from Gujarat Microwax Pvt. Ltd. to JRS Pharma & Gujarat Microwax Pvt. Ltd. in June 2018.

At present, GMW has an installed capacity of 10,500 MTPA (increased from 4500 MTPA in FY2020) in the MCCP unit and 3000 MTPA in the SSG/CCS.

In FY2020, the company reported a net profit of Rs. 32.79 crore on an operating income (OI) of Rs. 184.99 crore compared to a net profit of Rs. 31.44 crore on an OI of 173.67 crore in FY2019. In 9MFY2021 (provisional financials), it reported a net profit of Rs. 57.59 crore on an OI of Rs. 185.26 crore.

#### Key financial indicators

LTHL Consolidated	FY2019	FY2020	9MFY2021*
Operating Income (Rs. crore)	173.67	184.99	185.26
PAT (Rs. crore)	31.44	32.79	57.59^
OPBDIT/OI (%)	24.43%	25.89%	32.94%
PAT/OI (%)	18.10%	17.73%	31.09%
Total Outside Liabilities/Tangible Net Worth (times)	0.21	0.12	0.07
Total Debt/OPBDIT (times)	0.33	0.01	0.00
Interest Coverage (times)	73.84	73.02	146.69

\* Provisional financials; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ^profit before taxation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2020 (Rs. crore)		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Apr 2, 2021	Jul 30, 2020	Aug 14, 2019	Jun 12, 2018	-
1	EPC/PCFC/FBD/EBR	Long Term	15.00*	0.00	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Cash Credit-sublimit to EPC/PCFC/FBD/EBR	Long Term	(15.00)	11.58	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Letter of Credit	Short Term	1.00	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
4	Bank Guarantee	Short Term	0.75	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
5	Credit Exposure Limit	Short Term	1.78	--	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-
6	Unallocated	Long Term/Short Term	10.00	--	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	-

\*One-way inter-changeability from FBWC limit to bank guarantee limits to the extent of Rs. 2.00 crore

### Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

#### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	EPC/PCFC/FBD/EBR	NA	NA	NA	15.00*	[ICRA]A (Stable)
NA	Cash Credit-sublimit to EPC/PCFC/FBD/EBR	NA	NA	NA	(15.00)	[ICRA]A (Stable)
NA	Letter of Credit	NA	NA	NA	1.00	[ICRA]A1
NA	Bank Guarantee	NA	NA	NA	0.75	[ICRA]A1
NA	Credit Exposure Limit	NA	NA	NA	1.78	[ICRA]A1
NA	Unallocated	NA	NA	NA	10.00	[ICRA]A (Stable)/[ICRA]A1

\*One-way inter-changeability from FBWC limit to bank guarantee limits to the extent of Rs. 2.00 crore

Source: Company

#### Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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