August 14, 2019

JRS Pharma & Gujarat Microwax Pvt. Ltd.: Ratings reaffirmed

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); Reaffirmed
FBD/EBR sublimit to EPC/PCFC/FBD/EBR	(15.00)	(15.00)	[ICRA]A-(Stable); Reaffirmed
Cash Credit-sublimit to EPC/PCFC/FBD/EBR	(15.00)	(15.00)	[ICRA]A-(Stable); Reaffirmed
Non-fund Based Letter of Credit	1.00	1.00	[ICRA]A2+; Reaffirmed
Non-fund Based Bank Guarantee	0.75	0.75	[ICRA]A2+; Reaffirmed
Non-fund Based Credit Exposure Limit	1.78	1.78	[ICRA]A2+; Reaffirmed
Unallocated	10.00	10.00	[ICRA]A-(Stable)/[ICRA]A2+; Reaffirmed
Total	**28.53**	**28.53**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to note the extensive experience of the promoters and the leading position of JRS Pharma & Gujarat Microwax Pvt. Ltd. (GMW) in the excipient[1] industry as well as the benefits arising from the joint venture (JV) with JRS Pharma (JRS) in terms of technological expertise and marketing aspects. The ratings consider its established relations with a reputed clientele and increasing sales to JRS in its key diversified markets. The ratings factor in the company's healthy financial profile, characterised by a comfortable gearing of 0.08 times as on March 31, 2019 and robust debt coverage metrics owing to low borrowing levels.

The ratings, however, remain constrained by the company's working capital intensive nature of business, driven by relatively high debtor and inventory levels. The rating continues to factor in the vulnerability of GMW's profitability to raw material price variations (wood pulp), Government regulations and foreign currency fluctuation risk, as a major part of its procurement is done through imports. However, high share of exports provides a natural hedge. ICRA notes that it is undertaking brownfield expansion of the MCCP[2] unit, thus timely commencement, stabilisation of operations and achievement of desired operating parameters remain crucial considering the intense competition in the industry. Further, ICRA notes that the capex is being funded through a mix of liquid investments and internal accruals, which will lead to a decline in liquid investments in the near term. Nevertheless, with the commencement of the project and

[1]*An **excipient** is a natural or synthetic substance formulated alongside the active ingredient of a medication, included for the purpose of long-term stabilisation, 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*
[2]*Microcrystalline Cellulose Powder*

increasing capacity utilisation, the liquidity is likely to remain at an adequate level, supported by cushion in its working capital limits and absence of long-term debt repayments.

Outlook: Stable

ICRA believes GMW will continue to benefit from the extensive experience of the management and from its JV with JRS. The outlook may be revised to Positive if successful commencement and stabilisation of the brownfield capex results in a significant ramp up in its scale of operations and operating profitability leading to healthy net cash accruals. The outlook may be revised to Negative if there is any delay in the commercialisation of the capex or lower-than-anticipated demand for its products lead to slow ramp up of operations or decline in revenue from the existing units or if any further moderation in profitability or any incremental debt-funded capex results in an increase in its gearing levels.

Key rating drivers

Credit strengths

Established presence and extensive experience of promoters in the pharmaceutical industry; benefits derived from JV with JRS – Incorporated in 1989, GMW is the flagship company of the Ahmedabad-based Jhajharia family and manufactures excipients (MCCP) and disintegrants (SSG/CCS)[3]. The company is a 50:50 JV between the Jhajharia family and JRS GmBH& Co KG (a global leader in cellulose products). Hence, GMW benefits from the established sales and distribution network of JRS, besides having access to technical expertise and an experienced management.

Established relations with reputed clientele – GMW primarily caters to pharmaceutical majors like GlaxoSmithKline Pharmaceutical Limited, Intas Pharma Limited, Piramal Health Care Limited, Mylan Laboratories Ltd., etc. Over the years, due to its premium quality products, GMW has remained the key supplier for MCCP. Further, JRS accounted for a predominant share of its sales at 55% of the total sales in FY2019, which has increased over the years.

High capacity utilisation; comfortable capital structure and debt coverage indicators – Over the years, the company has been optimally utilising the capacity of its MCCP unit. Hence, to cater the increasing demand, GMW is undertaking a brownfield expansion for its MCCP unit with an additional capacity of 6,000 MTPA at a total cost of Rs. 85.0-90.0 crore. The entire capex is being funded through a mix of internal cash accruals and liquid investments. The said capex is proposed to be completed by August 2019 and commercial operations are likely to commence in September 2019. Further, the company incurred Rs. 83.00 crore of capex till June 30, 2019 through a mix of liquid investments and cash accruals. Hence, with limited reliance on external debt, GMW has maintained a comfortable gearing level (0.08 times as on March 31, 2019) and debt coverage metrics owing to low borrowing. The TD/OPBDITA stood at 0.31 times and the interest coverage indicator stood at 74.49 times as on March 31, 2019.

Credit challenges

Moderation in profitability and high working intensity – GMW's operating income grew at ~17% to Rs. 173.56 crore in FY2019 from Rs. 148.15 crore in FY2018 supported by higher sales volumes of MCCP and improved sales realisations of MCCP and CCS. However, the operating profitability moderated to 24.66% in FY2019 compared to 32.61% in FY2017 due

[3]*Sodium Starch Glycolate and Cross Carmellose Sodium*

to usage of imported semi-finished input during the period from January 2018 to July 2019 which led to lower value addition. Hence, the operating profitability was impacted partially in FY2018 and further in FY2019. Further, the return indicator has also moderated with ROCE at 27.13% in FY2019 from 32.81% in FY 2017. GMW generally provides credit period of 90-110 days to its regular customers. It maintains stock of raw material primarily wood pulp for 2-4 months. Hence business remains working capital intensive, with NWC/OI (working capital intensity) at 41% in FY2019.

Profitability exposed to availability, pricing and Government regulations with respect to import of wood pulp – The key raw material used by GMW for manufacturing MCCP and CCS is wood pulp and that for SSG is potato starch. Wood pulp is mostly imported from Brazil, South Africa, Europe, etc. The company has established business relationship with its major suppliers. This mitigates the raw material availability risk and enables procurement at competitive rates, resulting in healthy contribution margins. Nevertheless, owing to significant imports, it remains exposed to adverse Government regulations and foreign currency movements, as a major part of procurement is done through imports. However, high share of exports provides a natural hedge.

Project implementation risk – GMW has undertaken a brownfield expansion for its MCCP unit to increase its existing capacity through a fully-automated plant with multi-evaporate technology at a total expected cost of Rs. 85.0-90.0 crore, to be funded through a mix of internal accruals and liquid investments. The company is likely to commence commercial production in September 2019. Following the capex, it is exposed to stabilisation risk and successful scale up of operations, as per the expected parameters.

Liquidity position

The average working capital utilisation remained moderate, with an average of ~54% utilisation, for fifteen months from January 2018 to July 2019. The liquidity profile remains comfortable aided by healthy cash accruals, cushion in working capital limits and absence of any long-term debt repayments.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statement of the issuer.

About the company

Incorporated in 1989, JRS Pharma &Gujarat Microwax Private Limited (GMW) is the flagship company of the Ahmedabad-based Jhajharia family and is into manufacturing of excipients (MCCP) and disintegrants (SSG/CCS) with its plant at Nandasana region of Ahmedabad. Apart from this, the Group has another company Gujarat Paraffins Pvt. Ltd., which is involved in manufacturing of industrial waxes. Further, JRS Pharma (JRS) headquartered in Germany, 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.

JRS, a closed entity and a Group company of the JRS Group, concentrates on the pharmaceutical and nutraceutical market and is a leading global supplier of excipients. At present, GMW has an installed capacity of 4,500 MTPA in the

MCCP unit and 3,000 MTPA in the SSG/CCS unit. Further, the company is setting up a new MCCP unit with an installed capacity of 6,000 MTPA in the vicinity, which is expected to commence commercial production in September 2019.

In FY2018, the company reported a net profit of Rs. 23.90 crore on an OI of Rs. 148.15 crore, as compared to a net profit of Rs. 34.57 crore on an OI of Rs. 133.88 crore in the previous year. Further, in FY2019 on a provisional basis, it reported a net profit of Rs. 31.74 crore on an OI of Rs. 173.56 crore.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	133.88	148.15
PAT (Rs. crore)	34.57	23.90
OPBDIT/OI (%)	32.61%	24.60%
RoCE (%)	32.81%	22.89%
Total Debt/TNW (times)	0.08	0.08
Total Debt/OPBDIT (times)	0.26	0.36
Interest Coverage (times)	87.52	66.83

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Aug 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2019 June 2018	Date & Rating in FY2017 Mar 2017	Date & Rating in FY2016 Nov 2015
1	EPC/PCFC/FBD/EBR	Long Term	15.00	**13.21***	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB (Stable)**
2	FBD/EBR-sublimit to EPC/PCFC/FBD/EBR	Long Term	(15.00)	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB (Stable)**
3	Cash Credit-sublimit to EPC/PCFC/FBD/EBR	Long Term	(15.00)	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]BBB (Stable)**
4	Letter of Credit	Short Term	1.00	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A3+**
5	Bank Guarantee	Short Term	0.75	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A3+**
6	Credit Exposure Limit	Short Term	1.78	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A3+**
7	Unallocated	Long Term/ Short Term	10.00	-	**[ICRA]A- (Stable)/ [ICRA]A2+**	**[ICRA]A- (Stable)/ [ICRA]A2+**	-	-

**as on March 31, 2019*

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 www.icra.in

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	November 2016	-	-	15.00	[ICRA]A-(Stable)
NA	FBD/EBR-sublimit to EPC/PCFC/FBD/EBR	November 2016	-	-	(15.00)	[ICRA]A-(Stable)
NA	Cash Credit-sublimit toEPC/PCFC/FBD/EBR	November 2016	9.45%	-	(15.00)	[ICRA]A-(Stable)
NA	Letter of Credit	November 2016	-	-	1.00	[ICRA]A2+
NA	Bank Guarantee	November 2016	-	-	0.75	[ICRA]A2+
NA	Credit Exposure Limit	November 2016	-	-	1.78	[ICRA]A2+
NA	Unallocated	-	-	-	10.00	[ICRA]A-(Stable)/ [ICRA]A2+

Source: JRS Pharma & Gujarat MicrowaxPvt. Ltd.

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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