June 23, 2022

# 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 |
| Fund-based 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]A1; Reaffirmed |
| Non-fund Based Bank Guarantee | 0.75 | 0.75 | [ICRA]A1; Reaffirmed |
| Non-fund Based Credit Exposure Limit | 1.78 | 1.78 | [ICRA]A1; Reaffirmed |
| Unallocated | 10.00 | 10.00 | [ICRA]A (Stable)/[ICRA]A1; Reaffirmed |
| **Total** | **28.53** | **28.53** | |

*Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of ratings continues to factor in the vast experience of the promoters of JRS Pharma & Gujarat Microwax Private Limited (JPGM) in the excipient/ disintegrants industry and the technological and marketing benefits derived from being the joint venture partner of JRS Pharma (JRS). ICRA notes its extensive track record of operations, growing scale of operations over the years on the back of increase in sales volumes, its healthy capital structure and coverage indicators as well as strong liquidity position, supported by sizeable cash and liquid investments.

The ratings, however, remain constrained by the susceptibility of its profitability to volatile raw material prices and limited ability to pass on the rise to its end-customers, which is also reflected by decline in profitability margins in FY2022 due to rise in input and freight costs. Also, the profitability is exposed to foreign currency fluctuations in the absence of a formal hedging policy, although the risk is mitigated to some extent by natural hedging. The ratings are also constrained by the company's working capital-intensive operations on account of high inventory holding period and the relatively longer collection cycle. ICRA also notes that the company is in the middle of an on-going capex of setting up an incremental manufacturing unit of disintegrants (CCS/SSG) at a cost of around Rs. 90 crore. The same is likely to be debt-funded to the extent Rs. 40 crore, which is likely to put some pressure on the capital structure in the near term. Timely execution of the capex without any material cost overrun and generation of commensurate returns from the same in the near to medium term remains critical from a credit perspective.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that JPGM will continue to benefit from its business position in the excipient industry and its stable client base.

## Key rating drivers and their description

### Credit strengths

**Vast experience of promoters of over three decades in the excipient/ disintegrants industry and benefits derived from JV with JRS Pharma –** Gujarat Microwax Pvt. Ltd. (GMW) was promoted in 1989 by the Ahmedabad-based Jhajhariya family, who have three decades of experience in manufacturing industrial waxes, excipients, disintegrants, trading in bulk drugs and tissue culture through various group entities. Later in 2006, JRS Pharma, a prominent player in cellulose products, acquired 50% stake in GMW. Ever since, JPGM has been a 50:50 JV between the Jhajharia family and JRS Pharma. JPGM derives benefit from the established sales and distribution network of JRS, besides enjoying access to its technical expertise and experienced management.

**Established track record of operations and clientele profile with reputed pharmaceutical players –** JPGM has an established track record of manufacturing microcrystalline cellulose powder (MCCP) since 1992 and manufacturing cross carmellose sodium and sodium starch glycolate (CCS/SSG) since 2009. Further, in FY2022, the company has derived 46% of its total revenue from exports, which primarily caters to JRS Pharma and its group companies. Also, the clientele of the company includes pharmaceutical majors such as Mylan Laboratories Ltd. in the domestic market. Over the years, due to its premium quality products, JPGM has remained a key supplier for MCCP and disintegrants.

**Growing scale of operations with healthy capacity utilisation levels –** The scale of operations of the company increased at a CAGR of around 19% during FY2017-FY2022 on the back of growth in sales volume of its products. The operating income (OI) reported a YoY growth of 42% in FY2021 primarily due to increase in MCCP's sales volume by 61% with the stabilisation of its second unit during the year. Further, as per provisional results, the OI increased by 22% to around Rs. 320 crore in FY2022 on a YoY basis due to growing demand for its products, leading to better sales volumes in the year. The company has two MCCP manufacturing units—one with a capacity of 4,500 metric tonnes per annum (MTPA) and another with 6,000 MTPA—whose utilisation levels in FY2022 remained healthy at 85% and 104%, respectively. The company has a single unit for manufacturing CCS/SSG with a capacity of 3,000 MTPA, which was utilised at 85% in FY2022.

**Healthy financial risk profile characterised by healthy return ratios, capital structure and debt coverage indicators –** With limited reliance on external debt along with healthy profitability, JPGM's capital structure and coverage indicators continue to remain robust in FY2022. Though the profitability margins declined in FY2022 over FY2021 due to higher freight costs and increase in prices of coal/ other chemicals, it remained in line with the last fiscals as marked by operating margin of ~23% and net profit margin of ~16%. Also, the return on capital employed ratio remained healthy at ~21% in FY2022 (provisional). Given healthy profitability levels, the coverage indicators also remained robust with TD/EBIDTA at 0.16 time and interest coverage at ~131 times as of FY2022.

## Credit challenges

**Execution risks associated with ongoing project related to setting up additional manufacturing unit of CCS/SSG –** The company is in the middle of an ongoing capex to set up an additional manufacturing unit for CCS/SSG, which is expected to commence from April 2023. The project cost is estimated to be Rs. 90 crore, of which Rs. 40 crore is to be funded from debt and rest from internal accruals. Given part debt funding, the capital structure is likely to moderate in the near term. Timely execution of the said capex within envisaged costs as well as stabilisation of new plant with the achievement of the commensurate returns remain critical from a credit perspective.

**Working capital intensive operations –** The company's operations remained working capital intensive with NWC/OI at 51% as on March 31, 2022, owing to high inventory holding for its raw material, i.e., wood pulp (for 2-4 months) and relatively longer receivable cycle of ~106 days in FY2022.

**Profitability remains vulnerable to availability, pricing, forex fluctuations and government regulations with respect to import of wood pulp –** JPGM's profitability remains vulnerable to adverse movements in the price of its key raw material, which is mainly imported wood pulp. However, the established business relationship with its major suppliers enables it to procure raw materials at competitive rates, which in turn assist to protect the contribution margins. The profitability margins are also exposed to foreign exchange fluctuation risks in the absence of any formal hedging policy. The company, however, enjoys a natural hedge as it imports ~80% its raw material procurement while exporting around 60% of its total sales. The company is also exposed to adverse government regulations due to its presence in the regulated pharmaceutical industry.

## Liquidity position: Strong

JPGM has a **strong** liquidity profile, backed by robust cash accruals, cushion in working capital limits, sizeable unencumbered cash balance and liquid investments of ~Rs. 57 crore as on March 31, 2022. The ongoing capex of the company will partially be funded through term loan and the repayments are expected to be adequately covered by the cash accruals.

## Rating sensitivities

**Positive factors -** ICRA could upgrade the ratings if the company demonstrates a significant scale up of operations backed by growth in sales volumes along with improvement in its operating profitability on a sustained basis and improve its working capital cycle.

**Negative factors -** Negative pressure on the company's ratings could arise if there is a substantial decline in the scale and profitability, resulting in material deterioration of coverage indicators; or any material delay in commercial operations of its ongoing capex/ increase in working capital cycle adversely impacting the liquidity profile and key credit metrics.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Entities in the Pharmaceutical Industry |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the company. |

## About the company

JPGM was originally incorporated by the Ahmedabad-based Jhajharia family as GMW in 1989. In 2006, the JRS Pharma Group (JRS), a global market leader in cellulose products headquartered in Germany, acquired 50% stake in GMW. Due to the company's association with JRS, GMW was renamed as JPGM in June 2018. JPGM manufactures excipients (MCCP) and disintegrants (SSG/CCS). At present, it has an installed production capacity of 10,500 MTPA (increased from 4,500 MTPA in FY2020) for MCCPs and 3,000 MTPA for SSG/CCS at its Nandasan plant in Gujarat.

### Key financial indicators (Audited/ Provisional)

| | FY2021 | FY2022* |
|---|---|---|
| **Operating Income (Rs. crore)** | 262.85 | 320.93 |
| **PAT (Rs. crore)** | 58.47 | 50.25 |
| **OPBDIT/OI (%)** | 32.60% | 23.00% |
| **PAT/OI (%)** | 22.25% | 15.66% |
| **Total Outside Liabilities/Tangible Net Worth (times)** | 0.18 | 0.14 |
| **Total Debt/OPBDIT (times)** | 0.14 | 0.16 |
| **Interest Coverage (times)** | 174.43 | 131.11 |

**Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount Outstanding as on March 31, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | June 23, 2022 | April 02, 2021 | July 30, 2020 | August 14, 2019 |
| **1** | EPC/PCFC/FBD/ EBR | Long Term | 15.00* | - | **[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) | - | **[ICRA]A (Stable)** | **[ICRA]A (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** |
| **3** | Letter of Credit | Short Term | 1.00 | - | **[ICRA]A1** | **[ICRA]A1** | **[ICRA]A2+** | **[ICRA]A2+** |
| **4** | Bank Guarantee | Short Term | 0.75 | - | **[ICRA]A1** | **[ICRA]A1** | **[ICRA]A2+** | **[ICRA]A2+** |
| **5** | Credit Exposure Limit | Short Term | 1.78 | | **[ICRA]A1** | **[ICRA]A1** | **[ICRA]A2+** | **[ICRA]A2+** |
| **6** | Unallocated | Long Term/Short Term | 10.00 | | **[ICRA]A (Stable)/[ICRA]A1** | **[ICRA]A (Stable)/[ICRA]A1** | **[ICRA]A- (Stable)/[ICRA]A2+** | **[ICRA]A- (Stable)/[ICRA]A2+** |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| EPC/PCFC/FBD/EBR | Simple |
| (Cash Credit sublimit to EPC/PCFC/FBD/EBR) | Simple |
| Letter of Credit | Very Simple |
| Bank Guarantee | Very Simple |
| Credit Exposure Limit | Very Simple |
| Unallocated | Not Applicable |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure-I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | 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*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure-II: List of entities considered for consolidated analysis – Not applicable

## ANALYST CONTACTS

**Shamsher Dewan**
+91 124 4545300
shamsherd@icraindia.com

**Srikumar Krishnamurthy**
+91 44 45964318
ksrikumar@icraindia.com

**Suprio Banerjee**
+91 22 6114 3443
supriob@icraindia.com

**Ruchi Shah**
91 79 4027 1500
ruchi.shah@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

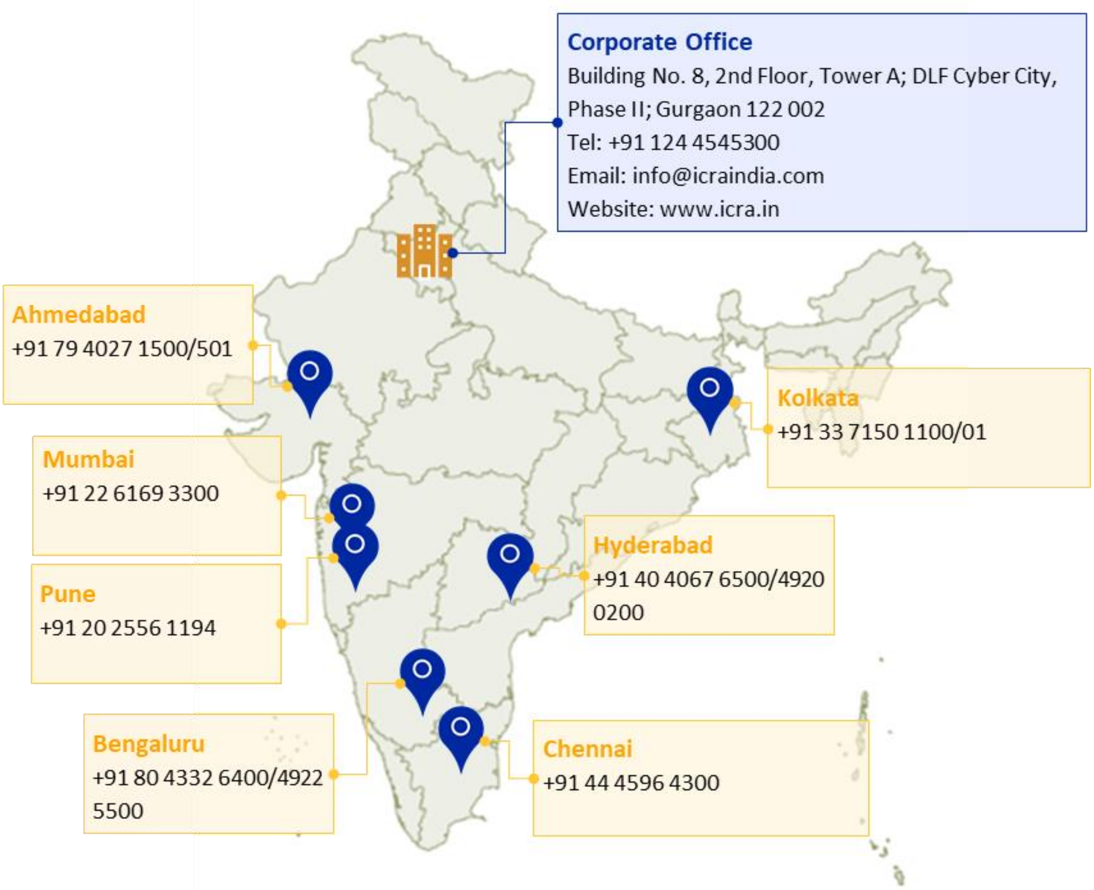
For more information, visit www.icra.in

## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches



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