July 07, 2022(Revised)

Safe Parenterals Private Limited: Rating downgraded to [ICRA]D from [ICRA]B+(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based- Cash Credit	3.00	3.00	[ICRA]D downgraded from [ICRA]B+ (Stable)
Long-term – Fund-based- Term Loan	17.00	17.00	[ICRA]D downgraded from [ICRA]B+ (Stable)
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade of Safe Parenterals Private Limited (SPPL) factors in the instances of delays in debt servicing since November 2021 on account of poor liquidity position which was impacted by higher working capital requirements because of high debtors position and growing scale of operations. While the company has been sharing no default statement indicating timely debt servicing, bank statements received by ICRA in July 2022 indicate delays in interest and principal payments and continuous over-utilisation of cash credit limits for over 30 days, which has been confirmed by the lenders as well. The company's financial profile continues to remain stretched with negative net worth and weak coverage indicators. While the company's revenues improved significantly by ~366% in FY2022, albeit on a low base, improvement in operating margins was lower than ICRA's expectations. Low profitability resulted in net losses and impacted the company's cash flows. The previous rating, however, had factored in the significant experience of the promoters in the pharmaceutical industry for over 2 decades which lead to healthy growth in order inflow.

Key rating drivers and their description

Credit strengths

Significant experience of promoters in the pharmaceutical industry for over 2 decades – The promoters have more than 2 decades of experience in the pharmaceutical industry which led to established relationships with its key customers and ensured repeat orders from clients.

Credit challenges

Delays in debt servicing of both principal and interest obligations – There are ongoing delays in debt servicing; delays have been observed in interest and principal payments of term loans. Moreover, working capital limits have been continuously overdrawn for more than 30 days in recent past due to poor liquidity position.

Small scale of operations– The company's scale of operations continues to remain small with revenues of Rs. 31.3 crore in FY2022, despite the strong growth of 366% witnessed during the year. Moreover, improvement in operating margin has been lower than ICRA's expectations, which resulted in net losses.

Stretched financial risk profile with negative net worth and weak coverage indicators – Net losses incurred by the company over the past few years resulted in negative networth and stretched financial risk profile. Its coverage indicators continue to remain weak with TOL/TNW at -4.64 times, Total Debt/OPBDIT at 12.6 times, NCA/TD at 1.9% and DSCR at 0.7 times in FY2022.

While ICRA notes that the promoters supported the operations through infusion on unsecured loans, the same has been inadequate to improve its liquidity position or ensure timely debt servicing.

Liquidity position: Poor

SPPL's liquidity is poor as evident from low cash balances, zero buffer in working capital limits and expected negative retained cash flows while its repayment obligations remain high at Rs. 2.06 crore for FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade SPPL's rating if the company is timely in its debt servicing on a sustained basis and its liquidity position improves with improved earnings and cash flows.

Negative factors – Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals Policy on Default Recognition
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the rated entity.

About the company

Safe Parenterals Private Limited (SPPL) was incorporated on December 14, 1992. The Company is engaged in manufacturing wide range of injectables using aseptic filling/terminal sterilization. The existing unit is situated in 4 acres of land, having three separate production blocks with all infrastructure facilities and supporting equipments. Its manufacturing facility is located at Gollapadu Village, Guntur district, Andhra Pradesh. The company was incorporated and operated by Dr. Siva Rama Krishna and his family till May 2020. However, the company was acquired by Pranaya Pharmaceuticals group in FY2021. Ex-promoters still hold 22% shareholding in the company but are not involved in the day-to-day operations. The company's operations are now being managed by Mr. S Sridhar Reddy.

Key financial indicators

	FY2021	FY2022*
Operating Income (Rs. crore)	6.7	31.3
PAT (Rs. crore)	(5.4)	(1.8)
OPBDIT/OI (%)	(2.6)	8.4
PAT/OI (%)	(80.0)	(5.7)
Total Outside Liabilities/Tangible Net Worth (times)	(3.8)	(4.6)
Total Debt/OPBDIT (times)	(158.7)	12.6
Interest Coverage (times)	(0.1)	1.31

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *provisional*

Source: Company

Status of non-cooperation with previous CRA: CARE Ratings, in its rationale published on Safe Parenterals Pvt. Ltd., dated October 29, 2021, put the ratings on Issuer not cooperating category at '[CARE]D Issuer Not Cooperating' based on best available information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) as on March 31, 2022	Date & Rating in	FY2022	FY2021	FY2020
					Jul 07, 2022	May 03, 2021		
1	Cash credit	Long-term	3.0	-	**[ICRA]D**	**[ICRA]B+ (Stable)**	**-**	**-**
2	Term loan	Long-term	17.0	14.5	**[ICRA]D**	**[ICRA]B+ (Stable)**	**-**	**-**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Cash Credit	Simple
Long-term – Fund-based – Term Loan	Simple

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

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	Cash credit	NA	NA	NA	3.00	[ICRA]D
NA	Term loan	May 18, 2021	NA	March 2029	17.00	[ICRA]D

Source: *SPPL*

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

Corrigendum

Document dated July 07, 2022 has been corrected with revisions as detailed below:

The revised version discloses that ICRA had been receiving no default statements from the company every month that were later found to be inaccurate, a point that was not clearly mentioned in the earlier version of the rationale and included a link to the rating methodology on ‘Policy for default recognition’.

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545300
shamsherd@icraindia.com

Srikumar K
+91 44 45964318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 40676515
nithya.debbadi@icraindia.com

Raviteja Etikala
+91 40 40676529
etikala.teja@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