November 30, 2022

Bafna Pharmaceuticals Limited: [ICRA]BB+ (Stable)/[ICRA]A4+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term fund based term loans	10.00	[ICRA]BB+ (Stable); assigned
Long term fund based working capital limits	17.50	[ICRA]BB+ (Stable); assigned
Short term non fund based facilities/LC	(5.00)	[ICRA]A4+; assigned
Short term non fund based facilities/BG	(1.00)	[ICRA]A4+; assigned
Short term non fund based facilities/Forward cover	2.50	[ICRA]A4+; assigned
Total	**30.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider Bafna Pharmaceuticals Limited's ("BPL"/"the company") focus on the lifestyle diseases segment with favourable demand prospects, its established client relationships and its healthy operating margins. The company focuses on the lifestyle diseases segment, catering to cardiovascular systems, diabetology, oncology and gastrointestinal among others. These segments contributed 67.1% to the top line in FY2022. The demand for products in these segments is likely to be healthy over the medium term. Further, BPL enjoys established relationships with reputed pharmaceutical companies, which supports its contract manufacturing and generics businesses. Its customer profile comprises major pharmaceutical players like Cipla Limited, Arrow Pharmaceuticals Pty Ltd and Strides Pharma Science Limited to name a few. The company has had repeat orders from existing customers and periodic addition of new customers as well. However, BPL's has relatively high concentration with specific products, segments and customers. Its top two products Metformin and Naproxen, contributed to over 50% of its top line in FY2022. Similarly, its top two therapeutic segments, diabetology and pain management, constituted close to 70% of its top line in FY2022. The company derived 72% of its top line from its top 5 customers in FY2022. This exposes the company to risks arising from product-specific risks and to underperformance of the top customers or loss of customers to competition. While the healthy growth prospects for the lifestyle diseases segment mitigates the risk to an extent, the ability to achieve material business diversification over the medium term remains a monitorable.

BPL is a modest-sized player in the industry, with a top line of 85.1 crore in FY2022 and 38.9 crore in H1 FY2023. This limits economies of scale and has restricted its market position to an extent. In addition, the revenues have been volatile in the last few quarters because of supply-chain issues. Further, the company's business is working capital intensive with high inventory holding requirements (due to relatively long process cycles) and elongated receivable cycle. Further, supply chain disruptions have necessitated additional inventory holding in the last few quarters. As on September 30, 2022, the company's working capital intensity (NWC/OI[1]) stood at 51.0%. However, the operating margins have been healthy at around 14-15% on a yearly basis in FY2021 and FY2022, albeit the limited pricing flexibility. While margins have declined to 10.8% in H1 FY2023 impacted by cost inflation and supply-chain issues, and inability to pass through the same completely, they remain healthy. The margins are expected to remain healthy going forward as well. Nevertheless, the company's revenues and margins remain exposed to regulatory risks and unfavourable forex movements. The company has total capex plans of ~Rs. 50.0 crore for the period FY2023-FY2025 for debottlenecking of the operations, expansion of product profile and maintenance. The capex is relatively

[1] Net working capital/Operating Income

high for the scale of operations. Further, the company's debt levels are expected to increase because of debt-funding of capex and this could have an impact on the company's coverage metrics. Despite this, the company's liquidity is expected to remain adequate over the medium term.

Key rating drivers and their description

Credit strengths

Favourable demand prospects; focus on lifestyle diseases augurs well for the company – BPL focuses on the lifestyle diseases segment, catering to cardiovascular systems, diabetology, oncology and gastrointestinal among others. These segments contributed to 67.1% of the top line in FY2022. The demand for these products in these segments is likely to be healthy over the medium term.

Established client relationships –The company enjoys established relationships with reputed pharmaceutical companies, which supports its contract manufacturing and generics business. Its customer profile comprises major pharmaceutical players like Cipla Limited, Arrow Pharmaceuticals Pty Ltd and Strides Pharma Science Limited to name a few. The company has had repeat orders from many of its customers and has had periodic addition of customers as well. Same change as above

Healthy operating margins – BPL's operating margins have been healthy at around 14-15% on a yearly basis in FY2021 and FY2022. While margins have declined to 10.8% in H1 FY2023 impacted by cost inflation and supply-chain issues, and inability to pass through the same completely, they remain healthy. The margins are expected to remain healthy going forward as well.

Credit challenges

Modest scale of operations; limited pricing flexibility – BPL remains a modest-sized player in the industry, with a top line of Rs. 85.1 crore in FY2022 and Rs. 38.9 crore in H1 FY2023. This limits economies of scale and has restricted its market position to an extent. In addition, the revenues have been volatile in the last few quarters because of supply-chain issues. The industry is highly fragmented and has intense pricing competition, especially in the contract manufacturing services (CMS) segment. These restrict pricing flexibility for the company.

Product, segment and customer concentration risks – BPL has relatively high concentration with specific products, segments and customers. Its top two products, Metformin and Naproxen, contributed to over 50% of its top line in FY2022. Similarly, its top two therapeutic segments, diabetology and pain management, constituted close to 70% of the top line in FY2022. The company derived 72% of its top line from its top 5 customers in FY2022. This exposes the company to risks arising from product-specific risks and to underperformance of the top customers or loss of customers to competition. While the healthy growth prospects for the lifestyle diseases segment mitigates the risk to an extent, the ability to achieve material business diversification over the medium term remains a monitorable.

Regulatory risks and vulnerability to unfavourable forex movement – Akin to other industry players, the company is bound by strict regulations in regulated markets. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of regulatory issues provides comfort to a large extent. Also, with about 67% of its revenues from overseas markets and majority of the raw materials ultimately being imported, the company's revenues and margins are susceptible to risks arising from adverse forex movements including depreciation of the rupee against the dollar.

Relatively high capex plans over the medium term – BPL has total capex plans ~Rs. 50.0 crore for the period FY2023-25 for debottlenecking of the operations, expanding product profile and maintenance. The capex is relatively high for the scale of operations. Further, the company's debt levels are expected to increase because of debt-funding of capex and this could have an impact on the company's coverage metrics.

High working capital intensity– BPL's business is working capital intensive with high inventory holding requirements (due to relatively long process cycles) and elongated receivable cycle. Further, supply chain disruptions have necessitated additional inventory holding in the last few quarters. As on September 30, 2022, the company's working capital intensity stood at 51.0%.

Environmental and Social Risks

Environmental considerations – BPL does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations with regards to breach of the waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce the carbon footprint and waste generation.

Social considerations – BPL faces risks related to product safety and the associated litigation risks, access to qualified personnel for research and development (R&D) and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry.

Liquidity position: Adequate

BPL's liquidity has remained adequate with average fund based utilisation of 40.0% of drawing power for the period November 2021 to September 2022. As against this, the company has debt obligations of ~Rs. 1.1 crore in H2 FY2023, Rs. 2.2 crore in FY2024 and Rs. 2.1 crore in FY2025 on its existing loans. The company has total capex plans ~Rs. 50.0 crore for the period FY2023-25 for debottlenecking of the operations, expanding product profile and maintenance, part of which is likely to be debt-funded.

Rating sensitivities

Positive factors – ICRA could upgrade the BPL's rating if the company is able to increase its scale of operations, and its business profile is more diversified, supporting its earnings stability, while maintaining its debt metrics.

Negative factors – Negative pressure on the BPL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt, leading to weakening of liquidity position and deterioration in the credit profile. Impact of adverse regulatory developments or acquisitions, if any, would be evaluated on a case-by-case basis. Specific credit metrics would include DSCR<1.4 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Bafna Pharmaceuticals Limited ("BPL"/"the company") is engaged in contract manufacturing operations and sale of generics. The company generated about 60% of its revenues from contract manufacturing operations (CMO) to regulated markets (UK and Australia) in FY2022, while the remaining portion is from sale of generics to emerging markets. About 67% of BPL's revenues in FY2022 were from exports. The company focuses on the lifestyle diseases segment, catering to cardiovascular systems, diabetology, oncology and gastrointestinal among others. The company has two manufacturing facilities at Grantlyon and Madhavaram in Chennai (Tamil Nadu). The company is listed in NSE and BSE. The promoters held 90.01% stake in the company as on September 30, 2022 - with M/S SRJR Lifesciences LLP (SRJR) holding 89.57% and individual promoters holding 0.44% stake.

Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	71.2	85.1
PAT	5.8	5.2
OPBDIT/OI	14.5%	14.0%
PAT/OI	8.2%	6.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	1.5	0.9
Interest coverage (times)	13.9	15.0

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

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 of Sep 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					November 30, 2022			
1	Long term fund based term loans	Long term	10.00	8.40	[ICRA]BB+ (Stable)	-	-	-
2	Long term fund based working capital limits	Long term	17.50	10.00	[ICRA]BB+ (Stable)	-	-	-
3	Short term non fund based facilities/LC	Short term	(5.00)	2.29	[ICRA]A4+	-	-	-
4	Short term non fund based facilities/BG	Short term	(1.00)	-	[ICRA]A4+	-	-	-
5	Short term non fund based facilities/Forwards	Short term	2.50	-	[ICRA]A4+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator

Long term fund based term loans	Simple
Long term fund based working capital limits	Simple
Short term non fund based facilities/LC	Very Simple
Short term non fund based facilities/BG	Very Simple
Short term non fund based facilities/Forward cover	Very 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Sep 08, 2021	10.9%	FY2027	3.00	[ICRA]BB+ (Stable)
NA	Term Loan-II	Sep 08, 2021	10.9%	FY2027	2.00	[ICRA]BB+ (Stable)
NA	Term Loan-III	Apr 18, 2022	10.9%	FY2028	5.00	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	NA	NA	17.50	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	(5.00)	[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	(1.00)	[ICRA]A4+
NA	Forward cover	NA	NA	NA	2.50	[ICRA]A4+

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

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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.

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