February 05, 2024

Bafna Pharmaceuticals Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based - Term Loans	10.00	20.09	[ICRA]BB+ (Stable); reaffirmed/ assigned for enhanced amount
Long term fund based - Cash Credit	17.50	16.50	[ICRA]BB+ (Stable); reaffirmed
Short term non-fund-based facilities – Letter of Credit	(5.00)	(5.00)	[ICRA]A4+; reaffirmed
Short term non-fund-based facilities – Bank Guarantee Interchangeable	(1.00)	-	-
Short term non fund based facilities – Bank Guarantee	-	0.35	[ICRA]A4+; reaffirmed
Short term non-fund-based facilities – Forward cover	2.50	0.75	[ICRA]A4+; reaffirmed
Long term – Unallocated	-	2.31	[ICRA]BB+ (Stable); reaffirmed
Total	**30.00**	**40.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings outstanding on the bank lines of Bafna Pharmaceuticals Limited (BPL) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by factors like favourable demand prospects for the lifestyle diseases segment, geographic diversification and established client relationships. BPL's focus continues to be on the lifestyle diseases segment, catering to diabetology, pain management and respiratory diseases among others. The company supplies to regulated markets like The United Kingdom (UK) and Australia, and multiple semi-regulated/unregulated markets like Philippines, Sri Lanka, Ethiopia, Ukraine, Nigeria, and Tanzania among others, which mitigates region-specific risks to an extent. In terms of customer profile, BPL enjoys established relationships with reputed pharmaceutical companies including Cipla Limited and Strides Pharma Science Limited.

The company's operating income in FY2023 grew by over 35% on YoY basis to Rs. 118.4 crore and it reported Rs. 84.5 crore in H1 FY2024, aided by increased volume across its customer base owing to higher demand and increased presence in semi-regulated/unregulated markets through market authorisation. Also, BPL's operating margins have been healthy at 14-16% since FY2021 and stood at 15.8% and 14.4% respectively for FY2023 and H1 FY2024, aided by healthy value addition. With stable growth in earnings, BPL has comfortable debt metrics with gearing of 0.2 time and net debt/OPBDITA of 0.8 time as on September 30, 2023. The favourable demand for the company's products along with higher penetration in existing geographies and expansion into new markets are likely to support revenues over the near to medium term. The margins are also expected to remain healthy going forward aided by higher value addition and cost optimisation initiatives, while debt metrics are likely to remain comfortable, with anticipated improvement in accruals in the absence of significant capex plans.

However, the company's scale of operations remains modest which coupled with inherently working capital intensive nature of operations leads to high working capital intensity. While the working capital intensity has reduced to 29.7% in H1 FY2024 from 40%+ as on March 31 of the last three years, primarily aided by improvement in collections, it still remains high. Also, BPL has relatively high product and customer concentration with its top 5 products constituting ~ 50% in H1 FY2024 and 70% of its sales being derived from its top 5 customers.

Key rating drivers and their description

Credit strengths

Favourable demand prospects with the focus on lifestyle diseases; healthy growth in operating income in FY2023 and H1 FY2024 – BPL's focuses on the lifestyle diseases segment, catering to diabetology, pain management and respiratory diseases among others. These segments contributed to 49% of revenues in H1 FY2024. The company's operating income in FY2023 grew by over 35% on YoY basis to Rs. 118.4 crore and it reported Rs. 84.5 crore in H1 FY2024, aided by increased volume across its customer base owing to higher demand and increased presence in semi-regulated/unregulated markets through market authorisation. The demand for the company's lifestyle diseases product portfolio is likely to remain healthy going forward, and this, along with higher penetration in existing geographies and expansion into new markets are likely to support revenues over the near to medium term.

Healthy geographic diversification; established client relationships – The company derived ~80% of its revenues from the export markets in H1 FY2024. Within this, the company supplies to regulated markets like The UK and Australia, and semi-regulated/unregulated markets like Philippines, Sri Lanka, Ethiopia, Ukraine, Nigeria, and Tanzania to name a few. The supplies to multiple geographies and consequent diversification mitigate region-specific risks to an extent. In terms of customer profile, the company enjoys established relationships with reputed pharmaceutical companies like Cipla Limited and Strides Pharma Science Limited to name a few. The company has had repeat orders from many of its customers, along with periodic addition of customers as well.

Healthy operating margins and comfortable debt metrics – BPL's operating margins have been healthy at 14-16% since FY2021 and stood at 15.8% and 14.4% respectively for FY2023 and H1 FY2024, aided by healthy value addition. The margins are expected to remain healthy going forward aided by higher value addition and cost optimisation initiatives. Also, the company has been conservative on debt in the recent years and has comfortable debt metrics as illustrated by a gearing of 0.2 time and net debt/OPBDITA of 0.8 time as on September 30, 2023. ICRA expects BPL's debt metrics to remain comfortable going forward, with anticipated improvement in accruals in the absence of significant capex plans over the medium term.

Credit challenges

Modest scale of operations – BPL remains a modest-sized player in the industry, with a top line of Rs. 118.4 crore in FY2023 and Rs. 84.5 crore in H1 FY2024, despite YoY healthy growth of 36% and 117% respectively in FY2023 and H1 FY2024. This limits economies of scale and has restricted its market position to an extent.

High working capital intensity – BPL's business is working capital intensive with high inventory holding requirement and elongated receivable cycle. While the working capital intensity has reduced to 29.7% in H1 FY2024 from 40%+ as on March 31 of the last three years, primarily aided by improvement in collections, it still remains high.

Customer and product concentration risks – BPL has relatively high product concentration with its top 5 products (namely Metformin, Clopidogrel, Mycophenolate, Fluoxetine, and Atorvastatin) constituting around 50% in H1 FY2024. Further, the company derived 70% of its sales from top 5 customers. This exposes the company to risks arising from product-specific risks and to underperformance of the top customers or loss of customers to competition. Although the company has taken measures to diversify its product portfolio and expand its geographic presence, its ability to achieve material business diversification remains to be seen.

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 80% 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.

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 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 its carbon footprint and waste generation.

Social considerations – BPL faces risks related to product safety and 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 is adequate aided by healthy cash flow from operations, free cash and bank balances of Rs. 6.7 crore and undrawn working capital lines of Rs. 9.6 crore as on September 30, 2023. BPL's average fund-based utilisation stood at 54.9% of the sanctioned limits for the last 12 months ending in September 2023. Against this, the company has a principal repayment of Rs. 1.5 crore in H2 FY2024, and Rs. 4.5 crore each in FY2025 and FY2026 on its existing loans. The company has capex plans of Rs. 6.0 crore in H2 FY2024, and Rs. 15.0 crore each in FY2025 and FY2026 for capacity expansion and regular maintenance, part of which is likely to be debt funded.

Rating sensitivities

Positive factors – ICRA could upgrade BPL's rating if the company is able to achieve significant increase in its scale of operations and improve its working capital cycle on a sustained basis, while diversifying its business profile and maintaining its debt metrics.

Negative factors – Negative pressure on 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. Specific credit metrics would include DSCR of less than 1.4 times on a sustained basis.

Analytical approach

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

About the company

Bafna Pharmaceuticals Limited ("BPL"/"the company") is engaged in the contract manufacturing for regulated markets and sale of generics in the semi-regulated/unregulated markets. The company derived ~80% of its revenues from the export markets in H1 FY2024. Within this, the company supplies to regulated markets like The UK and Australia, and semi-regulated/unregulated markets like Philippines, Sri Lanka, Ethiopia, Ukraine, Nigeria, and Tanzania to name a few. The company focuses on the lifestyle diseases segment, catering to Cardiovascular Systems, Diabetology, Gastrointestinal, Oncology and Pain Management among others. The company has two manufacturing facilities at Grantlyon and Madhavaram in Chennai (Tamil Nadu). The promoters held 88.43% stake in the company as on December 31, 2023, with M/S SRJR Lifesciences LLP (SRJR) holding 87.99% and individual promoters holding the remaining stake. As per guidelines stipulated during the IBC implementation, the company was expected to bring down the promoter shareholding to 75% by September 30, 2023, in line with the SEBI LODR guidelines. However, the company is yet to comply with the same.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	86.8	118.4
PAT	5.2	11.3
OPBDIT/OI	15.6%	15.8%
PAT/OI	6.0%	9.6%
Total outside liabilities/Tangible net worth (times)	0.5	0.8
Total debt/OPBDIT (times)	0.8	1.2
Interest coverage (times)	17.1	9.2

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 05, 2024	Nov 30, 2022	-	-
1	**Fund based – Term Loans**	Long term	20.09	8.09	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	-	-
2	**Fund based – Cash Credit**	Long term	16.50	6.92	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	-	-
3	**Non fund based facilities – Letter of Credit**	Short term	(5.00)	-	**[ICRA]A4+**	**[ICRA]A4+**	-	-
4	**Non fund based facilities – Bank Guarantee interchangeable**	Short term	-	-	-	**[ICRA]A4+**		
5	**Non fund based facilities – Bank Guarantee**	Short term	0.35	-	**[ICRA]A4+**	-	-	-
6	**Non fund based facilities – forward cover**	Short term	0.75	-	**[ICRA]A4+**	**[ICRA]A4+**	-	-
7	**Unallocated**	Long term	2.31	-	**[ICRA]BB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long term fund based – Cash Credit	Simple
Short term non fund based facilities – Letter of Credit	Very Simple
Short term non fund based facilities – Bank Guarantee	Very Simple
Short term non fund based facilities – Forward cover	Very Simple
Long term – 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: 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	FY2022	11.0%	FY2026	1.42	[ICRA]BB+ (Stable)
NA	Term Loan-II	FY2022	11.0%	FY2027	1.23	[ICRA]BB+ (Stable)
NA	Term Loan-III	FY2023	11.0%	FY2028	3.67	[ICRA]BB+ (Stable)
NA	Term Loan-IV	FY2023	11.0%	FY2028	1.77	[ICRA]BB+ (Stable)
NA	Term Loan-V*	NA	NA	NA	12.00	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	NA	NA	16.50	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	(5.00)	[ICRA]A4+
NA	Bank Guarantee	NA	NA	NA	0.35	[ICRA]A4+
NA	Forward cover	NA	NA	NA	0.75	[ICRA]A4+
NA	Unallocated	NA	NA	NA	2.31	[ICRA]BB+ (Stable)

*Source: Company; *Sanctioned*

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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