April 18, 2024

Satya Deeptha Pharmaceuticals Limited: Ratings downgraded to [ICRA]BBB- (Stable)/ [ICRA]A3

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Cash credit	36.00	36.00	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
Long-term – Fund-based - Term loans	43.37	43.37	[ICRA]BBB- (Stable); downgraded from [ICRA]BBB (Stable)
Short-term – Non-fund based	10.00	10.00	[ICRA]A3; downgraded from [ICRA]A3+
Long-term/ Short-term – Unallocated limits	5.63	5.63	[ICRA]BBB- (Stable)/[ICRA]A3; downgraded from [ICRA]BBB (Stable)/[ICRA]A3+
Total	**95.00**	**95.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings downgrade factor in the moderation in Satya Deeptha Pharmaceuticals Limited's (SDPL) credit profile reflected in increased debt levels owing to debt-funded capex incurred towards setting up a paracetamol plant. The rating further factors in high working capital borrowings owing to significant increase in debtor days and inventory holding, which impacted its capital structure and coverage metrics and led to a stretched liquidity position. The company planned to commence operations at the paracetamol plant in Q3 FY2024; but was delayed as the company decided to set up a fully automated plant over earlier plans to set up a semi-automated plant. Moreover, non-availability of a critical component has delayed the commissioning of the plant further to Q1/Q2 FY2025. The company's revenue growth was flat in FY2024 in the absence of revenues from the paracetamol segment along with subdued demand and high competition in the antiretroviral segment. However, after a sharp contraction to 7.2% in FY2023, the company's operating margin improved to 12.5% in FY2024. Nevertheless, the company's margins would be vulnerable to competition and pricing pressures in the industry. The company's working capital intensity increased sharply to ~47% in FY2024 from ~40% in FY2023, resulting in a stretched liquidity position, owing to higher skew of revenues towards Q4 and sizeable stock up of inventory in anticipation of higher orders. While inventory levels are expected to moderate in the next few months, the company's working capital intensity is expected to remain high at over 30%.

The ratings, however, favourably factor in SDPL's established track record in the pharmaceutical industry and its established relationships with its customer base, which supports order inflow. The ratings also consider the company's healthy unexecuted order book of Rs. 131.4 crore as on April 01, 2024 (against Rs. 67.3 crore as on September 23, 2023), which along with planned commencement of paracetamol Active pharmaceutical ingredients (API) in FY2025 is expected to support growth in FY2025.

The ratings remain constrained by the company's modest scale of operations and high product concentration risk with the top three products accounting for 66% of the total revenues in FY2024. Moreover, the company derives a predominant share (i.e., over 90% of revenues) of its revenues from the antiretroviral segment. The company's customer concentration also remains high as its top three customers accounted for 66% of its revenues in FY2024. The company's major customer, Mylan Laboratories Limited (Mylan), which accounted for 30-70% of its revenues in the past three years, has sold its API segment to Tianish Laboratories Private Limited (TLPL) in FY2024. While the receivables cycle is expected to improve with change in the top customer, SDPL would not have access to the bill discounting facility, which was availed against receivables from Mylan. Hence, timely enhancement in fund-based working capital limits remains a monitorable. ICRA notes that the company's product and segment concentration is expected to reduce with the commissioning of the paracetamol plant.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will be able to improve its scale of operations given the expected commissioning of the paracetamol plant and improved order book position, which would support improvement in earnings and debt metrics.

Key rating drivers and their description

Credit strengths

Established relationships with reputed customers – The promoters have more than three decades of experience in the manufacturing of APIs and intermediates. Over the years, they have built established relationships with SDPL's key customers, such as Cipla Limited, Emcure Pharmaceuticals Limited and Hetero Healthcare Limited, ensuring repeat orders from them. While revenues and order inflow from MLL declined since FY2023, the company has added new customers leading to reduced revenue concentration on Mylan.

Moderate order book position – SDPL had an outstanding order book of ~Rs. 131.0 crore as on April 01, 2024, against an unexecuted order book of Rs. 67.3 crore as on September 23, 2023, to be executed over the next 12 months, which provides better revenue visibility. The company has also bid for several orders in the antiretroviral segment and is expecting healthy orders in the paracetamol segment, which is expected to support revenue growth.

Credit challenges

Modest scale of operations; delay in commencement of paracetamol plant – SDPL's scale of operations continues to remain modest with revenues of ~Rs. 200.0 crore in FY2024 against revenues of Rs. 202.5 crore in FY2023. The company's revenue growth was muted on account of subdued demand and high competition in the antiretroviral segment. Moreover, delay in the commencement of the paracetamol plant has resulted in lower-than-anticipated revenues for the company in FY2024. However, SDPL is expected to record a strong revenue growth of 45-55% in FY2025 on revenues from the paracetamol segment along with an improved order book position of ~Rs. 131.0 crore as on April 01, 2024.

High revenue concentration risk in the antiretroviral segment – The company primarily produces APIs and intermediaries in the antiretroviral segment. The product concentration risk is high with its top three products accounting for 65-70% of its total revenues in FY2024. Moreover, SDPL derived 44% of its revenues from a single customer, Mylan, till FY2024. While Mylan has sold off its API segment to TLPL in FY2024, customer concentration continues to remain high as TLPL accounted for 76% of SDPL's unexecuted order book as of April 01, 2024. The revenues from the antiretroviral segment accounts for more than 90% of the revenues. ICRA notes that the company's product and segment concentration risks may reduce with the commissioning of the paracetamol plant.

High working capital intensity of operations, impacting liquidity position – The company's working capital intensity increased sharply to ~47% in FY2024 from ~40% in FY2023 on account of high inventory and debtor days. The company stocked up inventory in anticipation of higher order inflow in Q4 FY2024. It usually maintains raw materials and work-in-progress (WIP) stock given the lead time in raw material imports and long process time for manufacturing intermediates. Moreover, higher skew of revenues towards Q4 led to higher outstanding receivables in March. Increased working capital intensity has led to stretched liquidity position as indicated in limited buffer in working capital limits. Moreover, the company has been using extended supplier credit to fund a part of its working capital requirements. Although inventory levels are expected to moderate in the next few months, the company's working capital intensity is expected to remain high at over 30%.

Profitability susceptible to volatility in raw material prices and forex rates – The company's profitability remains exposed to volatility in raw material prices as key raw materials are imported. However, SDPL has demonstrated its ability to pass on any increase in prices to its customers, thereby limiting the exposure to some extent. Further, its profitability is vulnerable to fluctuations in foreign currency exchange rates.

Liquidity position: Stretched

The company's liquidity is stretched, as reflected by limited buffer of Rs. 2-3.0 crore in the working capital limits. While the company had free cash and bank balances of Rs. 2.7 crore as on March 31, 2024, it has high repayment obligations of Rs. 12-14.0 crore for the next 12 months and is expected to incur capex of Rs. 4.0-6.0 crore in FY2025. ICRA notes that with change in its top customer, it would not have access to the customer-specific bill discounting facility it availed in the past. Timely enhancement/ tie-up of working capital limits to fund receivables of new customers remains critical.

Rating sensitivities

Positive factors – ICRA could upgrade SDPL's rating if there is an improvement in the liquidity position along with sharp improvement in the company's scale of operations and profitability.

Negative factors – Negative pressure on SDPL's rating could arise if any delay in commencement of paracetamol plant or lower orders for the antiretroviral segment impacts revenue growth or margins materially. Absence of improvement in the working capital cycle or delay in receipt of enhancement limit in working capital limits impacting the company's liquidity position could also be a trigger for a rating change. Specific credit metrics that could lead to a rating downgrade include DSCR of less than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Pharmaceuticals](#)
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in March 1987, SDPL manufactures APIs and their intermediates. Its existing manufacturing unit lies across nine acres at Humnabad in Bidar district of Karnataka. The unit has six production blocks of 105 reactors totalling a production capacity of 700 KL per annum, with all infrastructure facilities and supporting equipment. Moreover, SDPL had successfully commissioned a 5-MW solar project for captive consumption in FY2020, at Chitguppa, Karnataka. The company is also setting-up a paracetamol plant, which is expected to commence operations from FY2025.

Key financial indicators (audited)

	FY2023	FY2024*
Operating income	202.5	200.3
PAT	0.6	6.3
OPBDIT/OI	7.2%	12.5%
PAT/OI	0.3%	3.2%
Total outside liabilities/Tangible net worth (times)	2.5	2.7
Total debt/OPBDIT (times)	7.1	4.7
Interest coverage (times)	2.1	2.6

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					April 18, 2024	Jan 18, 2024	Oct 06, 2023	Aug 29, 2022	Jul 27, 2021
1	**Cash credit**	Long term	36.00	-	**[ICRA]BBB- (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	**Term loans**	Long term	43.37	38.08	**[ICRA]BBB- (Stable)**	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	**Non-Fund Based**	Short Term	10.00	-	**[ICRA]A3**	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
4	**Unallocated limits**	Long term/Short term	5.63	-	**[ICRA]BBB- (Stable)/ [ICRA]A3**	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based - Cash credit	Simple
Long Term – Fund Based - Term loans	Simple
Short Term – Non-Fund Based	Very Simple
Long term/Short term – unallocated limits	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	**Cash credit**	NA	NA	NA	36.00	[ICRA]BBB- (Stable)
NA	**Term loans**	FY2017	NA	FY2027	43.37	[ICRA]BBB- (Stable)
NA	**BG/LC**	NA	NA	NA	10.00	[ICRA]A3
NA	**Unallocated limits**	NA	NA	NA	5.63	[ICRA]BBB- (Stable)/ [ICRA]A3

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.

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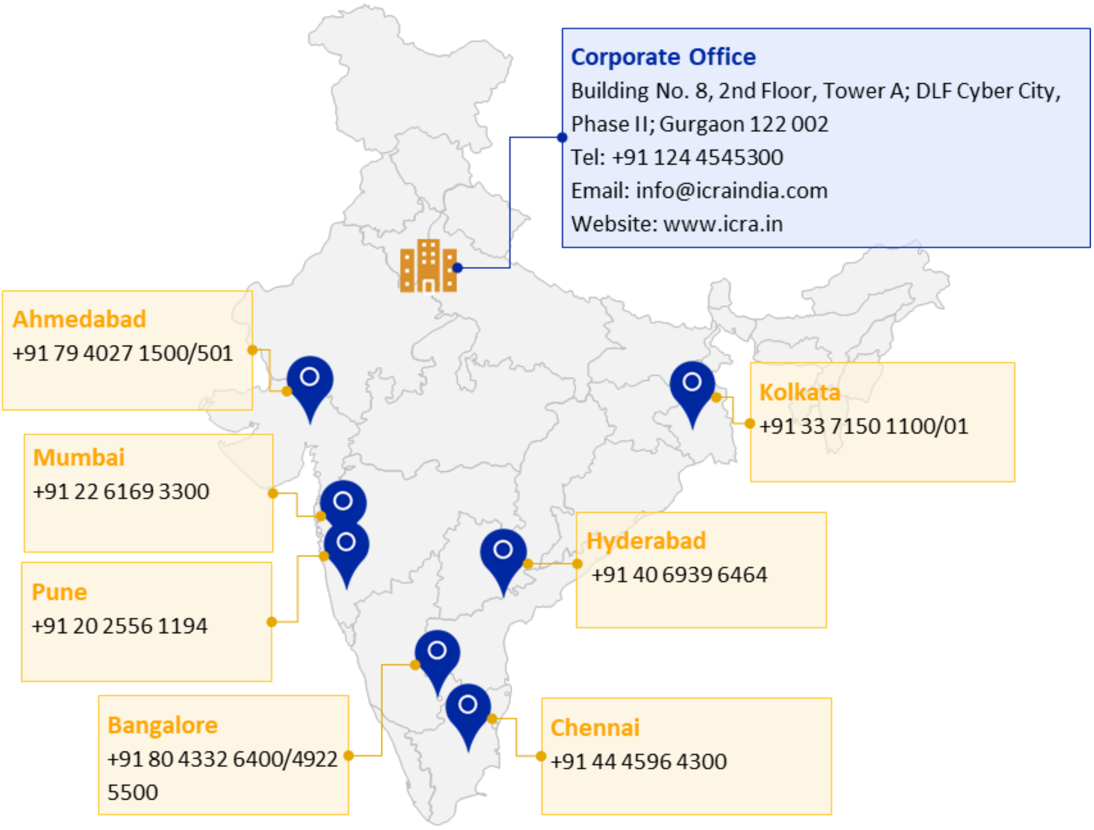

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