

April 26, 2024

Suraj Laboratories Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Term loan	50.00	50.00	[ICRA]BB- (Stable) reaffirmed
Long-term - Fund-based – Cash credit	20.00	20.00	[ICRA]BB- (Stable) reaffirmed
Total	70.00	70.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Suraj Laboratories Private Limited (SLPL) factors in the commissioning of its manufacturing facility without any significant time delay or cost escalation. The facility was commissioned in September 2023 and consent for operations for the project was received in November 2023. While the company has already started manufacturing intermediates, SLPL is also in the process of obtaining the manufacturing license, which will enable it to manufacture and sell active pharmaceutical ingredients (APIs). Furthermore, the company is making efforts towards adding customers and receiving orders to achieve the desired scale up of its operations, which will help improve its cash flows and, hence, remain key for improvement in its credit profile.

As the project is partially funded through debt, repayment obligations and interest costs during the initial period are likely to keep the capitalisation and coverage indicators at moderate levels, since SLPL's operations are expected to scale up gradually. The company is also expected to be vulnerable to industry characteristics like volatility in raw material prices, regulatory changes and high competitive intensity.

However, the rating draws comfort from operational and financial synergies enjoyed by SLPL as part of the Prasaditya Group, which is well-diversified across various industries and geographies. ICRA has also noted the sizeable funding infused into the company by the promoters, for the development cost of the project. Further, ICRA expects the promoters to continue to provide timely funding support to SLPL, in case of requirement, for timely fulfilment of its future obligations, including repayment of its term loan.

The Stable outlook reflects ICRA's opinion that SLPL will witness a steady scale up of its operations, leading to improvement in its accrual generation and overall credit profile.

Key rating drivers and their description

Credit strengths

Operational and financial synergies enjoyed by SLPL as part of the Prasaditya Group – SLPL is a part of the Prasaditya Group, which is a well-diversified business group with operations in multiple countries, including India; and presence across sectors like cement, steel, engineering, finance, chemicals, and textiles. The total project cost of around Rs. 120 crore has been funded by a term loan of Rs. 50 crore and the remaining through promoter's funds. Moreover, ICRA expects SLPL's promoters to continue to provide timely funding support to SLPL, if required.

Credit challenges

Lack of experience in the pharmaceutical industry as the first company in the Group to venture into the sector – While the Group is present across multiple sectors in the domestic and international markets, it has marked its first entry into the pharmaceutical industry through SLPL. However, SLPL has experienced professionals from the pharmaceutical sector in key management roles to support its operations. That said, the company's ability to satisfactorily scale up its operations remains to be demonstrated and shall remain a key monitorable for its credit profile.

Nascent stage of operations with significant revenue generation yet to commence – While the facility has been recently commissioned, the operations are still at a nascent stage with just a few commercial supplies been completed till date, in addition to some pre-shipment samples and ongoing discussions with several prospective customers. Timely scaling up of operations shall be key for improvement in the credit profile of the company.

Credit metrics to remain suppressed during the initial phase on account of debt undertaken for completing the project – SLPL has availed a term loan of Rs. 50 crore for funding the project, while the balance cost has been funded through promoter's funds. The interest costs and repayment obligations during the initial years are expected to suppress the capitalisation and coverage indicators, as SLPL's accrual generation is expected to scale up gradually.

Vulnerability of profitability to fluctuations in raw material prices and regulatory changes – Similar to its peers in the pharmaceutical industry, SLPL's operations shall be exposed to vulnerability of profitability from fluctuations in raw material prices owing to substantial dependence of the industry, including SLPL, on China for sourcing raw materials. SLPL also remains exposed to regulatory risks including risks of scrutiny by regulatory agencies and vulnerability towards changes in the industry's regulatory environment.

Low entry barriers leading to a highly competitive and fragmented industry – The Indian API industry is characterised by low entry barriers leading to a fragmented industry and highly price competitive environment, which can impact the ability of SLPL to scale up its operations while continuing to maintain its targeted profitability.

Liquidity position: Stretched

SLPL's liquidity position is stretched, given that it currently does not have any significant cash flow generating operations. Moreover, cash flows are expected to remain moderated over the near term while the company makes efforts to scale up its operations. The company had undertaken a term debt of Rs. 50 crore to fund the project and, consequently, has a repayment obligation of Rs. 1.2 crore and Rs. 2.4 crore in FY2025 and FY2026, respectively. While the company has working capital limits of Rs 20 crore, given the limited scale of its operations, the drawing power shall remain moderate over the near term. ICRA expects the company's promoters to provide funding support, as and when required.

Rating sensitivities

Positive factors – ICRA may upgrade SLPL's rating if the entity is able to satisfactorily scale up its operations leading to improvement in its cash accruals and liquidity position.

Negative factors – Pressure on SLPL's rating could arise if there is a considerable delay in the scaling up of the operations and/or lack of timely and adequate financial support from the promoters impacting the business/ financial risk profile of the entity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

SLPL is a private limited company, incorporated on May 3, 2021, for the manufacturing and sales of bulk drugs and intermediaries. It is part of the Prasadiya Group, which is present globally across various sectors like cement, automobiles, engineering, infrastructure, finance, IT/ITeS, paper and power, chemicals, and textiles. SLPL has an API manufacturing unit in Yadgir, Karnataka, which was commissioned in H2 FY2024.

Key financial indicators (audited)

SLPL*	FY2022	FY2023
Operating income	-	-
PAT	-0.2	-0.3
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	-	0.7
Total debt/OPBDIT (times)	-	-92.9
Interest coverage (times)	-	-

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

*The manufacturing facility of SLPL was commissioned in H2 FY2024 and the company is in the process of scaling up its operations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		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
				Apr 26, 2024	-	Jan 06, 2023	-
1 Fund-based Term Loan	Long term	50.00	50.00	[ICRA]BB-(Stable)	-	[ICRA]BB-(Stable)	-
2 Fund-based Cash credit	Long term	20.00	-	[ICRA]BB-(Stable)	-	[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

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	December 5, 2022	10.3%	December 2032	50.00	[ICRA]BB- (Stable)
NA	Cash credit	NA	NA	NA	20.00	[ICRA]BB- (Stable)

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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