December 29, 2022

Sainor Laboratories Pvt. Ltd.: Ratings upgraded to [ICRA]BBB+(Stable)/[ICRA]A2

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Fund-based – Cash Credit	21.60	21.60	Upgraded to [ICRA]BBB+ (Stable) from [ICRA]BBB (Stable)
Long Term Fund-based – Term Loan	35.00	35.00	Upgraded to [ICRA]BBB+ (Stable) from [ICRA]BBB (Stable)
Short Term – Non-fund Based	10.00	29.90	Upgraded to [ICRA]A2 from [ICRA]A3+
Long Term/Short Term - Unallocated	21.40	1.50	Upgraded to [ICRA]BBB+ (Stable)/ [ICRA]A2 from [ICRA]BBB (Stable)/[ICRA]A3+
Total	**88.00**	**88.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in Sainor Laboratories Pvt. Ltd (SLPL)'s expected strong revenue growth supported by healthy demand, improved realisations and likely ramp-up in operations from its newly commenced unit in Vishakhapatnam which was set up to manufacture lithium-based products for pharmaceutical APIs. The company is expected to record a strong growth of ~130%-140% in FY2023 which follows healthy revenue growth of 61% in FY2022 owing to favourable demand and higher realisation for its chemicals. SLPL's operating margins expanded to 22.5% in FY2022 from 17.4% in FY2021 on account of operating leverage; while higher raw material costs are expected to moderate margins to an extent in FY2023, its earnings are expected to improve sharply with improved scale and pricing flexibility owing to the niche product profile. The company's financial profile is characterised by comfortable capital structure and debt protection metrics as reflected by interest cover of 20.2x in FY2022 (16.0x in FY2021), which further improved to 38.2x in H1 FY2023 and Total Debt/OPBITDA of 0.8x in FY2022 (0.9 times in FY2021). The ratings also factor in its established relationships with a reputed clientele comprising Divis Laboratories Limited, Dr. Reddy's Laboratories Limited, Syngene International Limited, etc, facilitating repeat orders and the niche product profile which requires significant technical know-how resulting in high entry barriers.

The ratings remain constrained by the product concentration risks, with the top three products N Butyl Lithium (NBL), Lithium HMDS and Omeprazole contributing to about 61% of the revenues in FY2022. The ratings are also constrained by the moderately working capital-intensive nature of operations owing to higher debtor days, although the same has improved significantly in the current fiscal. The ratings also factor in the susceptibility of margins to fluctuations in the raw material prices lithium, reagents and other alkyl-based products which are derivatives of crude.

The Stable outlook on [ICRA]BBB+ rating reflects ICRA's opinion that SLPL's established track record, reputed customer profile and healthy demand prospects for its products will aid improvement in its earnings and financial profile.

Key rating drivers and their description

Credit strengths

Healthy revenue growth supported by demand and additional capacities– SLPL derives revenue from the sale of lithium-based chemicals and anti-ulcerative pellets. The revenues increased to Rs. 385.5 crore in FY2022 from Rs. 239.8 crore in FY2021 owing to healthy demand and growth in realisations for its lithium-based chemicals. The revenue growth has sustained in the current fiscal with the company generating a revenue of Rs. 482.8 crore in H1 FY2023. The revenue growth is expected to remain healthy in H2 FY2023 and FY2024 on account of expected ramp-up in sales from its Unit 3 and stable demand dynamics, although moderation in Lithium prices could impact realisations.

Comfortable capital structure and debt protection metrics – The company's operating margins expanded to 22.5% in FY2023 from 17.4% in FY2021 on account of higher realisations and operating leverage. The margins, however are expected to moderate marginally in the current fiscal on the back of higher raw material costs. Consistent profits over the years resulted in a strong capital structure and coverage indicators, despite the debt-funded capex incurred during the past two years, as reflected by gearing at 0.5 times as on March 31, 2022. The coverage indicators remained comfortable as reflected by interest coverage of 20.2x and Total Debt/OPBITDA of 0.8x for FY2022. The company's capital structure and coverage indicators are expected to remain healthy going forward as well.

Established relationships with reputed customers – The company has established relationships with reputed customers as reflected from repeat orders over the years. SLPL's clientele includes players such as Divis Laboratories Ltd, Syngene International Limited, Dr. Reddy's Laboratories Limited, etc.

Niche product profile aids the company in pricing and margins— SLPL is one of the few companies capable of manufacturing Lithium based chemicals. It has a registered portfolio of about 350 products across therapeutic segment. Lithium is a hazardous chemical, and the manufacturing of its products involves significant technical know-how, creating higher entry barriers.

Credit challenges

High product concentration – The product concentration is high with the top three products accounting for 61% of its gross revenues in FY2022. Moreover, the pellets division derives its entire revenue from sales of the anti-ulcerative products such as Omeprazole, Itraconazole, Lansoprazole, etc. However, addition of new products, niche product profile with lower competition offers comfort to an extent in the medium term.

Moderate working capital intensity – The working capital intensity remained moderate in the range of ~25-30% during the last three years owing to high debtors. SLPL extends 90 days of credit to its domestic customers, whereas export sales are against letter of credit. It maintains an average inventory of about 35-45 days. For key products which can only be imported and needs to be purchased in bulk quantities, the company holds high inventory.

Susceptibility of margins to raw material price movements and operations exposed to regulatory restrictions— The company's margins are susceptible to fluctuations in the raw material prices. Lithium is the key raw material for its organo-metallic compounds which constitute major portion of its revenues. The company is entirely dependent on imports for Lithium and is also exposed to geopolitical risk as the company is dependent on China for the same. The company is also exposed to regulatory risks as it deals with hazardous reagents and lithium.

Liquidity position: Adequate

The company's liquidity is **adequate** given the expected retained cash flows of Rs. 40-45 crore in FY2023. It has undrawn working capital limits of ~Rs. 8.0 crore, as against repayment obligations of Rs. 6.9 crore and regular maintenance capex of Rs. 10-15 crore. The company's cash balance stood at Rs. 8.4 crore as on September 30, 2022. Overall, the company's cash balances, internal accruals and undrawn limits are likely to remain adequate to meet its near-term commitments.

Rating sensitivities

Positive factors – ICRA could upgrade SLPL's rating if there is steady growth in scale while maintaining healthy margins and debt protection metrics. Moreover, improved product profile or client diversity, strengthening the business profile would also support a rating upgrade.

Negative factors – The ratings could be downgraded if subdued demand or any sharp decline in realisations results in material decline in accruals and impacts its liquidity position. Specific credit metric that could result in downgrade of the ratings include Total Debt/OPBDITA metric of higher than 2.3 times on a 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	The ratings are based on the company's standalone financial profile

About the company

SLPL was incorporated in 2003. In August 2017, Sainor Pharma Private Limited (SPPL) was amalgamated with Sainor Laboratories Private Limited. SLPL manufactures fine chemicals such as alkyl lithium, alkyl aluminium and other lithium-based products, while SPPL manufactured anti-ulcer drug loaded pellets (semi formulation/ pelletisation). Unit 1 and Unit 3 have capacity to manufacture lithium-based products while Unit 2 manufactures pellets.

Key financial indicators (audited)

Sainor Laboratories	FY2021	FY2022
Operating Income (Rs. crore)	239.8	385.5
PAT (Rs. crore)	27.7	55.6
OPBDITA/OI (%)	17.4%	22.5%
PAT/OI (%)	11.6%	14.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	0.9	0.8
Interest Coverage (times)	16.0	20.2

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 (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Dec 29, 2022	Sep 06, 2021	29-Sep-2020	30-Jan-2020
1	Cash Credit	Long-term	21.60	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
2	Non - Fund based	Short Term	29.90	-	[ICRA]A2	[ICRA]A3+	[ICRA]A3	[ICRA]A3
3	Term Loan	Long-term	35.0	31.9	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	-
4	Unallocated	Long-term/ Short Term	1.50	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB- (Positive)/ [ICRA]A3	[ICRA]BBB- (Stable)/ [ICRA]A3

Source: company

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based – Cash Credit	Simple
Fund Based – Term Loans	Simple
Short Term Non-Fund Based	Very Simple
Long Term/Short 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	21.60	[ICRA]BBB+ (Stable)
NA	Non fund based	NA	NA	NA	29.90	[ICRA]A2
NA	Term Loan	FY2021	NA	FY2028	35.00	[ICRA]BBB+ (Stable)
NA	Unallocated	NA	NA	NA	1.50	[ICRA]BBB+(Stable)/[ICRA]A2

Source: *Company*

Annexure-2: 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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