March 31, 2024

Granules Life Sciences Private Limited: [ICRA] AA-(CE)(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – term loan	400.00	[ICRA] AA-(CE)(Stable); assigned
Total	**400.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A-

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

For the [ICRA]AA-(CE)(Stable) rating

The rating for the term loan facility of Granules Life Sciences Private Limited (GLS) is based on the credit profile of the company as well as its parent, Granules India Limited (GIL; rated [ICRA] AA- (Stable)). Further, ICRA's assessment of the strength of the linkages between GIL and GLS, including the corporate guarantee furnished by GIL to GLS for the rated facilities, is a key driver of the rating. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, GIL. The rating reflects ICRA's expectations that GIL shall continue to maintain its credit profile over the near to medium term, aided by its leadership position across its key molecules, backward integration of operations and economies of scale translating into healthy internal accrual generation.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the guarantor has been translated into the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined pre-default invocation and payment mechanism. Given these attributes, the guarantee provided by GIL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AA-(CE)** against the rating of [ICRA]A- without explicit credit enhancement. In case the rating of the guarantor is to undergo any change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

» Financial covenants – Financial covenants include DSCR, FACR, ICR and LTD/EBIDTA[1] having benchmarks of 1.50 times, 2.80 times, 1.25 times and 4.00 times, respectively. These shall be tested on an annual basis commencing from FY2026. Any breach in the covenants tested, with variance of more than 10% shall attract increase in pricing by 50 bps.

For the [ICRA]A- rating

[1] *Debt service coverage ratio, fixed asset coverage ratio, interest coverage ratio and long-term debt/earnings before interest taxes depreciation and amortisation*

The unsupported rating assigned to GLS draws comfort from the standalone business and financial risk profile of GLS along with its financial support as a wholly-owned subsidiary of GIL. GLS shall also benefit from GIL's extensive experience in manufacturing and sales of pharmaceutical products including active pharmaceutical ingredients (APIs), pharmaceutical formulations intermediates (PFIs) and finished dosages (FDs). GLS is expected to have operational and financial synergies with GIL as it will source a major proportion of its raw material from GIL in the form of APIs. Additionally, GLS proposes to initially manufacture FDs of metformin and paracetamol and is expected to benefit from the global leadership position of GIL in these molecules. However, GLS has also setup an R&D facility which shall also work on its future product pipeline. ICRA also takes note of the sizeable part of proposed funding contribution already infused by the parent entity in the form of equity and expects it to provide timely funding support to GLS, if required, for timely commissioning of the project and/or scale up of operations.

The rating, however, is constrained by GLS's exposure to project related risks such as timely execution and cost overruns, given that it is setting up a greenfield facility for manufacturing FDs. Further, as the project is being partially funded through debt, repayment obligations and interest costs during the initial years are likely to moderate the capitalisation and coverage indicators, as GLS's operations are expected to scale up gradually. However, the ballooning nature of the repayment obligations mitigate the credit risk to some extent. The company is also expected to be vulnerable to industry characteristics like volatility in raw material prices and high competitive intensity. Considering the company is expected to primarily cater to regulated markets through exports, GLS is also exposed to regulatory risks including risks arising from scrutiny by agencies like the United States Food & Drugs Administration (US FDA). However, ICRA notes that GLS's parent entity has had a successful track record of inspections by regulatory agencies.

Key rating drivers and their description

Credit strengths

Explicit support in the form of corporate guarantee from GIL – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended to GLS by the guarantor, GIL. While the guarantee has a well-defined payment mechanism in place to ensure the timely payment of the interest and principal obligations of the term loan, adherence to the timelines of the payment structure by the borrower and the lender shall be a key monitorable for the rating.

Expected benefits on account of global leadership of GIL in metformin and paracetamol – GIL is an established player in the pharmaceutical industry, with a leadership position in some first line of defense, mature generic molecules like paracetamol, metformin and ibuprofen. For these molecules, GIL has an established market position in the US with established relationships with several reputable players in the market. Establishing GLS is a step by GIL towards increasing the forward integration of the business and GLS shall benefit from the existing leadership position of GIL in the business.

Moratorium on the term loan shall support cash flow during initial years – GLS is setting up its R&D and manufacturing facility in Genome Valley, Hyderabad, to be funded through a mix of debt and equity. The term loan availed by GLS for the same has a door-to-door tenor of nine years and five months with a moratorium period of two years and two months. Accordingly, there is no repayment obligation for GLS till FY2026. Further, the repayment schedule is ballooning in nature with scheduled obligation of just Rs. 20 crore per year in FY2027 and FY2028. As the manufacturing facility is expected to be fully completed by March 2025, this payment structure shall support the cash flows of the business, as operations stabilise in the initial years.

Credit Challenges

Exposure to project related risks, including risks of stabilisation of plants as per expected operating parameters, after commissioning of the project – GLS is exposed to project related risks such as time and cost overruns, since its manufacturing facility is currently under construction. Moreover, after commissioning of the manufacturing facility, scale up of operations remains dependent upon timely receipt of requisite approvals and registrations. However, GLS shall benefit from an already established customer base while the raw material for key products like paracetamol and metformin can be sourced from GIL.

Sizeable dependence on debt financing likely to suppress coverage metrics during the initial phase, after commissioning of the project – The total project cost of ~Rs. 742.1 crore (including provision for contingencies and margin money of Rs. 116.6 crore) is proposed to be funded by a term loan of ~Rs. 400.0 crore and balance through promoter's equity (with a debt-to-equity ratio of 1.17 times). As the operations of GLS are expected to scale up gradually, capitalisation and coverage indicators are expected to remain suppressed during the initial period after commissioning of the project. However, the payment structure (including moratorium and ballooning repayment schedule) is expected to support its credit profile to an extent.

Vulnerability of operations and profitability to fluctuations in raw material prices and regulatory risks – Akin to other players in the industry, GLS would be exposed to vulnerability of profitability due to fluctuations in raw material prices. However, GIL's backward integrated operations and capex plan in Kakinada (Andhra Pradesh) for manufacturing key starting materials (KSMs) of its key products like paracetamol and metformin, is expected to support GLS's profitability against volatility in raw material prices over the medium to long term. Moreover, as a part of the pharmaceutical sector, GLS remains exposed to risks of scrutiny by regulatory agencies along with vulnerability towards changes in the industry's regulatory environment. However, comfort can be drawn from GIL's successful track record with regulatory agencies, including the US FDA.

Liquidity position:

For the [ICRA]A- rating – Adequate

GLS's liquidity position is adequate, considering its strong parentage, while it currently does not have any cash flow generating operations and is undertaking sizeable debt-funded capex for setting up its manufacturing facility. While GIL has infused a large part of its fund contribution towards the capex, in case of any material cost overruns, ICRA expects GIL to provide incremental funding support for completing the project.

For the [ICRA]AA- (CE) rating – Adequate

GIL's liquidity position is adequate, supported by healthy cash accruals and unencumbered cash balances and liquid investments of ~Rs. 295 crore (as on September 30, 2023). Moreover, the liquidity is supported by undrawn working capital limits. GIL has planned capex of ~Rs. 700 crore in FY2024 and term loan repayments of around Rs. 90-100 crore each in FY2024 and FY2025. The obligations are expected to be fulfilled by a mix of internal accruals and debt.

Rating sensitivities

Positive factors – ICRA may upgrade GLSs rating in case of strengthening of the credit profile of its parent.

Negative factors – Pressure on GLS's rating could arise in case of a deterioration in its parent, GIL's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Pharmaceutical Sector
Parent/Group support	The rating is based on the unconditional, irrevocable and continuing guarantee from GIL that covers all the repayment obligations of the rated term loan.
Consolidation/Standalone	Standalone

About the company

GLS is a fully-owned subsidiary of GIL. It is currently setting up a manufacturing facility in Genome Valley, Hyderabad, for manufacturing pharmaceutical formulations FDs of GIL's existing products, such as metformin extended release (ER), metformin immediate release (IR) and APAP RR gel (paracetamol). The manufacturing facility is proposed to have a production capacity of 10 billion tablets per annum, including a pilot plant and associated warehouse facility. This will be a significant increase over the current FD manufacturing capacity of GIL (~24 billion tablets per annum).

Key financial indicators (audited)

GLS – Standalone	FY2022*	FY2023*
Operating income	-	-
PAT	0.1	-0.1
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	0.0	0.0
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	-20.4	-957.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore; all ratios as per ICRA calculations
**The company did not have any manufacturing operations in these fiscals*

GIL – Consolidated	FY2022	FY2023
Operating income	3,764.9	4,511.9
PAT	412.8	516.6
OPBDIT/OI	19.5%	20.4%
PAT/OI	11.0%	11.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.7
Total debt/OPBDIT (times)	1.5	1.2
Interest coverage (times)	31.6	16.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore; all ratios as per ICRA calculations

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 (Rs. crore) as on Jan 31, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 31, 2024			
1	Term loan	Long term	400.00	-*	[ICRA] AA-(CE) (Stable)	-	-	-

**Term loan was not disbursed till January 31, 2024*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long- term fund-based – term loan	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**	January 2024	NA	March 2033	400.00	[ICRA] AA- (CE) (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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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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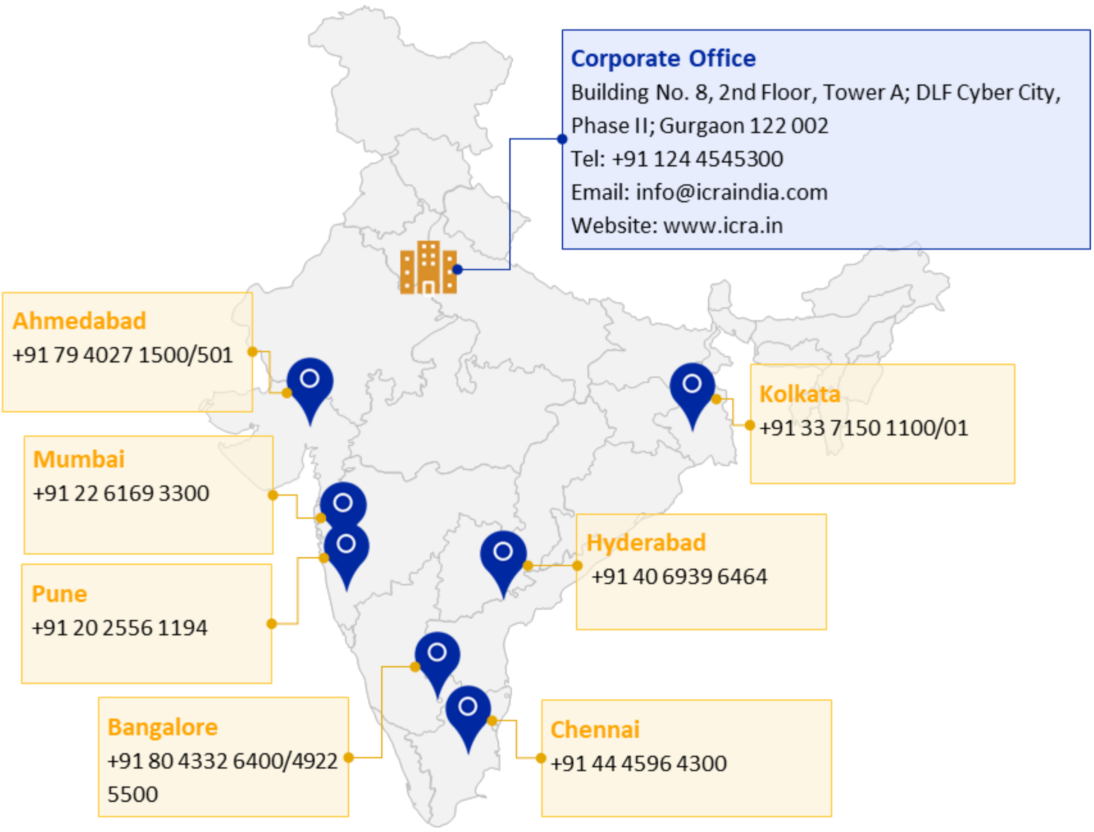

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