

June 28, 2024

Sri Krishna Pharmaceuticals Ltd.: 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 loan	41.50	56.51	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced amount
Long-term – Fund-based working capital facilities	203.00	208.00	[ICRA]BBB+ (Stable); reaffirmed/assigned for enhanced amount
Short-term – non-fund based working capital facilities	15.00	-	-
Long-term/short-term - Non-fund based working capital facilities [#]	(94.00)	(109.00)	[ICRA]BBB+ (Stable)/[ICRA]A2; reaffirmed/assigned for enhanced amount
Long-term/short-term-Unallocated Limits	-	9.99	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Total	259.50	274.50	

*Instrument details are provided in Annexure-I

Rationale

The ratings favourably factor in Sri Krishna Pharmaceuticals Ltd.'s (SKPL) established track record of operations as a supplier of Paracetamol Active Pharmaceutical Ingredient (API) and Directly Compressible (DC) granules. The company has an established presence in the domestic market and various export markets like the US, the EU, Latin America and West Asia, among others. The ratings also factor in SKPL's strong customer base in both the domestic and global markets. The company has long relationships with its key Chinese suppliers, though it remains dependent on them. However, SKPL is working towards reducing its dependence on China by onboarding new suppliers from other regions.

During FY2024, SKPL witnessed revenue decline and margin pressures on account of reduced realisations of its key product, paracetamol. The overall revenue during FY2024 stood at Rs. 697.8 crore (includes Rs. 16.5 crore grant received from the Government under the production linked incentive scheme; PLI) resulting in a decline of 17.7% compared to Rs. 848.1 crore during FY2023. During FY2024, SKPL's operating profit margin (OPM) stood at 6.8% largely in line with FY2023 level. However, adjusting the same for the PLI scheme proceeds, the same stood at 4.4%. The decline in OPMs was primarily on account of significant reduction in realisations of paracetamol in addition to consumption of inventory, which was accumulated at relatively higher prices.

The ratings are constrained by SKPL's exposure to input prices which have been volatile. ICRA notes that recent stabilisation in input prices is expected to lead to margin improvement for the company in FY2025. SKPL's working capital intensity continues to be high at 35.9% during FY2024 in line with past trends. The ratings also continue to factor in the current limited product diversification with high dependence on a few molecules (paracetamol and folic acid), which face intense competition in the market.

SKPL had total long-term debt outstanding of Rs. 56.5 crore (excludes Rs. 9.4 crore of lease liabilities) as on March 31, 2024. During FY2024, SKPL availed a fresh term loan of Rs. 30 crore and lent the sum to Clonz Biotech, a promoter Group company, which is setting up a biosimilars manufacturing facility. The higher debt level also resulted in moderation of TD/Adjusted OPBDITA of the company to 6.5x as on March 31, 2024, compared to 5.2x as on March 31, 2023. While debt metrics are

expected to improve on the back of improvement in OPMs going forward, any further support to Group companies impacting the debt metrics or liquidity position will be a key monitorable.

The Stable outlook on the rating reflects ICRA's opinion that SKPL will continue to benefit from its established market position in key product segments and stable demand outlook.

Key rating drivers and their description

Credit strengths

Established presence in key product segments – SKPL has a demonstrated track record of four decades in the domestic paracetamol business and a strong market position. It is one of the largest producers of paracetamol in India, with an installed capacity of 12,000 MTPA. It is also one of the largest producers of food and pharma-grade folic acid in Asia. Further, SKPL's key facilities are approved by the regulatory authorities of key developed markets including the US, Europe and Australia, among others, lending comfort to the company's processes and systems. The company has recently completed setting up a neutraeuticals unit to diversify its product base.

Healthy geographical and customer diversification – SKPL derived ~70% of its revenues from the export market during FY2024 (up from 67% in FY2023). The company's sales are diversified across customers, with the top 10 customers accounting for ~40% of sales (down from ~43% during FY2023) and top 3 customers accounting for ~20% in FY2024. Over the years, it has developed relationships with leading domestic pharma majors, resulting in recurring orders from its customers. SKPL's presence across customers and geographies reduces the risks arising from region/customer-specific demand concerns.

Credit challenges

Exposure to raw material price fluctuations – The company procures PAP, the primary raw material for paracetamol API, from three established players in China, which reflects import dependence. However, ICRA notes that SKPL has made efforts to diversify its supplier base and has also started procuring PAP from Cambodia. PAP prices started increasing sharply from Q4 FY2021 and remained elevated till early FY2023 due to supply constraints in China. While paracetamol witnessed healthy demand during the Covid-19 pandemic, the demand normalised subsequently, adversely impacting the volume growth and overall realisations of paracetamol in FY2024. This impacted the company's adjusted operating margins adversely in FY2024. The company also remains exposed to foreign currency fluctuations to an extent.

Limited product diversification – SKPL's revenues remain dependent on its top two products, paracetamol and folic acid, which accounted for over 70% of its sales over the last five years. SKPL is working on reducing its concentration risk on paracetamol by focusing on folic acid, ibuprofen, furosemide and domperidone, going forward, along with foray into nutraceuticals. However, progress on the same remains to be seen.

Debt metrics remain elevated – SKPL's total debt stood at Rs. 198.9 crore (including term loans of Rs. 56.6 crore, lease liabilities of Rs. 9.4 crore and short-term debt of Rs. 133.0 crore). This, coupled with contraction in adjusted operating margins, resulted in the moderation of the company's debt coverage metrics wherein TD/Adjusted OPBDITA was at 6.5x as on March 31, 2024 compared to 5.2x as on March 31, 2023. Going forward, ICRA expects the debt metrics of SKPL to improve, supported by the absence of debt-funded capex plans in addition to expected improvement in OPBDITA following stabilisation in raw material costs. However, any further support to Group companies impacting the debt metrics or liquidity position will be a key monitorable.

High working capital intensity – SKPL's working capital intensity has remained high in the past fiscals in the range of 35-37%, as the major raw material (PAP) is procured from Chinese suppliers through advance payments and higher inventory levels being maintained by the company. The NWC/OI stood at 35.9% during FY2024 and ICRA expects the same to remain high, going forward as well.

Liquidity position: Adequate

SKPL's liquidity is adequate. The company's utilisation of its working capital limits stood at an average of ~87% over 12 months ending March 2024. The company has repayment obligations of Rs 16.49 crore during FY2025 and Rs. 14.34 crore in FY2026. SKPL had free cash balances of Rs. 6.20 crore as on March 31, 2024, and available undrawn fund-based working capital limits of Rs. 42.23 crore as of March 2024. ICRA expects the company to fund its capex plans entirely through its internal accruals going forward.

Rating sensitivities

Positive factors –. The ratings can be upgraded on the company's ability to improve its profitability thereby leading to improvement in credit metrics, on a sustained basis. A specific credit metric for an upgrade will be if TD/OPBITDA is less than 2.3 times, on a sustained basis.

Negative factors –. Pressure on the ratings could arise, if there is a material weakening in the company's credit profile; lower-than-expected margins, higher-than-expected debt-funded capex or any incremental support to Group companies weakening the credit metrics or liquidity position of the company can trigger a downgrade. Specific trigger would be interest cover being lower than 3.5 times on sustained basis.

Analytical approach

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

About the company

Sri Krishna Pharmaceuticals Ltd., promoted in 1974 by Dr. V. V. Subba Reddy and family, manufactures bulk drugs and Directly Compressible (DC) granules. At present, the company has five manufacturing units, including four based in and around Hyderabad (Uppal, Nacharam, Bollaram and Shamshabad) and one in Solapur, Maharashtra. SKPL's key products include Paracetamol API as well as formulations, folic acid and domperidone.

Key financial indicators (audited)

SKPL Standalone	FY2022	FY2023	FY2024 (Provisional)
Operating income	875.7	848.1	697.8
PAT	35.2	16.8	8.8
OPBDITA/OI	6.7%	4.6%	6.8%
PAT/OI	4.0%	2.0%	1.3%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	1.0
Total debt/OPBDITA (times)	3.4	5.2	4.2
Interest coverage (times)	9.7	4.2	3.7

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amounts 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	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
				June 28, 2024	-	Mar 20, 2023	Oct 31, 2022	Jul 14, 2021
1 Term loans	Long-term	56.51	56.51	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
2 Fund-based working capital facilities	Long-term	208.00	-	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)
3 Non-fund-based working capital facilities	Short-term	-	-	-	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+
4 Non-fund-based working capital facilities	Long-term/ Short-term	(109.00)	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-
5 Unallocated Limits	Long-term/ Short-term	9.99	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term – Fund-based working capital	Simple
Long-term/Short-term – Non-fund based working capital	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	Term Loan	FY2022	NA	FY2027	56.51	[ICRA]BBB+(Stable)
NA	Fund-based working capital limits	NA	NA	NA	208.00	[ICRA]BBB+(Stable)
NA	Non-fund-based working capital limits	NA	NA	NA	(109.00)	[ICRA]BBB+(Stable) / [ICRA]A2
NA	Unallocated limits	NA	NA	NA	9.99	[ICRA]BBB+(Stable) / [ICRA]A2

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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