

July 31, 2024

Shodhana Laboratories Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Unallocated	10.45	10.45	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Total	10.45	10.45	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider ICRA's expectation that Shodhana Laboratories Private Limited (SLPL) will record a healthy growth in revenues and earnings on the back of robust demand for its products, while maintaining a strong credit profile. While the company's revenues declined by 22.8% in FY2024 on account of high inventory held by some of its key customers, destocking of inventory at the customers' end has helped revenues recover in Q1 FY2025 (YoY growth of 70-80%). SLPL is expected to record a revenue growth of 4-8% in FY2025 on the back of stable demand from domestic and export customers. Ramp-up of operations at the new unit in Visakhapatnam is expected to support growth over the medium term. SLPL has invested ~Rs. 21.5 crore in its 99.8% subsidiary, Shodhana Life Sciences Private Limited (SLSPL), as on March 31, 2024. SLSPL is setting up a formulations unit and is expected commence operations in FY2025. SLSPL is likely to incur losses during the initial years of operations, which are expected to be funded by SLPL's support. ICRA has revised the analytical approach from standalone financials to consolidated financials, given the strong business and financial linkages between SLPL and SLSPL. SLPL's consolidated financial profile is expected to remain strong, characterised by healthy earnings, low debt levels and comfortable debt metrics. The ratings favourably factor in the established presence of SLPL, spanning over two decades in the active pharmaceutical ingredient (API) industry, and its established customer base of reputed pharmaceutical majors.

The ratings are, however, constrained by the high product concentration risk as SLPL's top five products accounted for more than 65% of its revenues in the last three years. Further, its existing portfolio comprises mature molecules and SLPL may witness volatility in sales owing to high dependence on customer production schedules. The ratings are also constrained by intense competition in the highly fragmented API industry from both domestic and Chinese players, affecting the pricing flexibility of the company. The ratings are further exposed to regulatory risks inherent in the pharmaceutical industry.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company's financial profile will remain comfortable with a strong capital structure and gradual ramp-up of operations at its new plant in Visakhapatnam.

Key rating drivers and their description

Credit strengths

Established presence of the company in the pharmaceutical industry – The company has an established presence in the pharmaceutical industry, spanning over two decades. The promoters have more than three decades of experience in the industry, which supported the company in building a strong customer base.

Reputed customer base – The company has a reputed customer base, including Aurobindo Pharma Limited, Mylan Laboratories Limited, Dr. Reddy's Laboratories Limited, among others. Further, established relationships with its customers and being their preferred and approved source have supported SLPL's revenues over the years. The customer concentration risk remained moderate over the last three years, with its top 10 customers generating 45-55% of its revenues.

Comfortable financial risk profile – SLPL’s consolidated financial profile remains comfortable, as indicated by negative net debt position, and strong capital structure and coverage metrics with an interest coverage ratio of 80.2 times, and Total Debt/OPBITDA of 0.6 times in FY2024. SLPL invested ~Rs. 21.5 crore in its 99.8% subsidiary, SLSPL, as on March 31, 2024. SLSPL is setting up a formulations unit, which is expected to commence operations in FY2025. Despite the anticipated losses from the formulations unit, the company’s consolidated earnings are expected to improve and the operating margins are likely to stay in the range of 9-11%. Moreover, the company’s debt levels are expected to remain low, leading to comfortable coverage metrics.

Credit challenges

Moderate scale of operations – The company’s scale of operations is moderate with revenues of Rs. 248.7 crore in FY2024. The company’s revenues declined by 22.8% in FY2024 on account of lower offtake from some of its key clients owing to high inventory holding at the customers’ end. While the company’s revenues are expected to recover by 4-8% in FY2025, its scale is expected to remain moderate. Ramp-up of operations in the new unit in Visakhapatnam is expected to support growth over the medium term. The company has received approvals from PMDA (Japan GMP), KOFEPRI (Korean GMP) and WHO GMP. The unit in Hyderabad is USFDA-approved for intermediaries and is also approved by Brazil.

Exposed to high product concentration risk – The company’s product profile primarily consists of APIs and intermediates in the antidepressant and antihypertensive segments, which together accounted for ~33% of its revenues in FY2024 and 46% in FY2023. As the existing portfolio comprises mature molecules and there is intense competition in the industry, the company would need to constantly develop new molecules to reduce its revenue concentration risk. SLPL may witness volatility in sales owing to its high dependence on customer production schedules.

Intense competition with fragmented market structure; exposed to regulatory risk – The business remains exposed to competition from both domestic and Chinese players, limiting its pricing flexibility and constraining its margins over the years. Pricing pressure is further heightened by SLPL’s limited presence in the export markets and the highly fragmented domestic market structure, affecting its margins. SLPL caters to regulated and semi-regulated markets, and holds various approvals and certifications, which are reviewed on a periodic basis by the respective regulatory agencies. Any suspension of these certifications can impact its exports to regulated and semi-regulated markets.

Liquidity position: Adequate

The liquidity position of the company is adequate with unencumbered cash balances of Rs. 30-40 crore as on March 31, 2024, against repayment obligations of Rs. 1-2 crore and capex of Rs. 20-30 crore over the next 12 months. Further, the company is expected to generate retained cash flows of about Rs. 20-30 crore per annum, which will support the capex and working capital requirements, going forward.

Rating sensitivities

Positive factors - Ratings of SLPL may be upgraded if there is significant improvement in scale of operations and cash accruals along with diversification of the product and customer profile.

Negative factors - The ratings may be downgraded if there is substantial decline in revenues or significant reduction in profitability resulting in weakened coverage indicators or pressure on liquidity position. Any sizeable, debt-funded capex impacting its liquidity position could also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of SLPL and SLSP, given the operational and financial linkages between the two entities.

About the company

Shodhana Laboratories Private Limited (SLPL) was incorporated as a limited company in September 2000 by Dr. Giridhar Thota, who has a doctorate in chemistry and has an experience of over 20 years in the pharmaceutical industry. SLPL primarily manufactures intermediates and APIs for formulation majors in the domestic and export markets. It has changed its constitution to a private limited company in FY2022.

SLPL is a moderate scale manufacturer of pharmaceutical intermediates and APIs. Its manufacturing facility is located at Jeedimetla in Hyderabad with a capacity of about 225-250 kl and an additional unit at Vishakhapatnam with a capacity of 56 kl at present, which is expected to increase to about 150-200 kl by FY2027. The company accrues most of its revenues from the sale of APIs (accounted for 50% of the revenues in FY2024 against 56% in FY2023), while the rest is contributed by sale of intermediates (44% of revenues in FY2024) and other products. It has also filed Drug Master File (DMF) for several products and obtained approvals from regulatory authorities for its manufacturing facility, which is likely to support its revenue stream, going forward. At present, the company has approvals from Pharmaceuticals and Medical Devices Agency (PMDA), Japan, Korea Food & Drug Administration (KFDA), World Health Organisation Good Manufacturing Practices (WHO GMP), COFEPRIS (Mexico) and Therapeutic Goods Administration (TGA), Australia for its Hyderabad plant.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	322.0	248.7
PAT	19.2	15.1
OPBDIT/OI	9.4%	10.7%
PAT/OI	6.0%	6.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.5
Total debt/OPBDIT (times)	0.3	0.6
Interest coverage (times)	98.3	80.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: Company, ICRA Research; All ratios as per ICRA's calculations

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)	Date & rating in FY2025	FY2024	FY2023	FY2022
			July 31, 2024	Apr 10, 2023	-	Jan 31, 2022
1 Unallocated	Long term / Short term	10.45	[ICRA]A(Stable)/ [ICRA]A2+	[ICRA]A(Stable)/ [ICRA]A2+	-	[ICRA]A-(Positive)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
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 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	Unallocated	NA	NA	NA	10.45	[ICRA]A(Stable)/[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shodhana Life Sciences Private Limited	99.8%	Full Consolidation

Source: Company

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