October 23, 2024

Siflon Pharma Private Limited: Long-term rating downgraded to [ICRA]BB-(Stable); short-term 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	34.75	26.02	[ICRA]BB-(Stable); downgraded from [ICRA]BB(Stable)
Long-term/short-term fund-based working capital facility	45.00	45.00	[ICRA]BB-(Stable); Long-term rating downgraded to [ICRA]BB-(Stable) from [ICRA]BB (Stable); Short-term rating reaffirmed at [ICRA]A4
Unallocated limits	10.25	18.98	[ICRA]BB-(Stable); Long-term rating downgraded to [ICRA]BB-(Stable) from [ICRA]BB (Stable); Short-term rating reaffirmed at [ICRA]A4
Total	**90.00**	**90.00**	

**Instrument details are provided in Annexure-I*

Rationale

The long-term rating downgrade for Siflon Pharma Private Limited (SPPL) factors in the deterioration in its financial risk profile in FY2024, marked by a fall in revenue, net loss and a stretched liquidity position. SPPL reported a decline in its revenue and operating margins due to pressure on average realisations for its key products and lower-than-anticipated ramp-up of its recently commissioned manufacturing facility in Visakhapatnam, Andhra Pradesh. This coupled with high working capital intensity of operations resulted in elevated funding requirements, which were met through increased bank borrowings as well as incremental infusion of unsecured loans by the promoters. However, ICRA notes the improvement in the company's financial performance in H1 FY2025, driven by increasing contribution from its new facility, some stabilisation in average realisation and new product launches. The ratings also factor in the company's susceptibility to competitive pressure and volatility in raw material prices. While the company is expected to improve its operating performance in FY2025, any further stretch in its working capital intensity or sustenance of the operating losses might require infusion of funds from its promoters for timely servicing its debt repayment obligations. ICRA also notes the company's exposure to regulatory risks for being a part of the pharmaceutical industry and forex risks for making significant sales in export markets.

Nonetheless, the ratings are supported by the promoter's extensive experience of more than two decades in the veterinary pharmaceutical active pharmaceutical ingredients (API) industry and the company's healthy market share for some of its key molecules. The ratings also factor in SPPL's diversified geographical presence with exports generating around 44% of its revenue in FY2024. SPPL exports its products across the globe, including to countries like China, Germany, Kenya, Morocco, Uruguay and Jordan.

The Stable outlook on the long-term rating reflects ICRA's opinion that SPPL's credit profile will be supported by the extensive experience of its promoters in the veterinary API industry and improvement in accrual generation on the back of higher revenue growth.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the veterinary API industry – The company's promoter, Mr. Rallapalli Ananthaiah, has extensive experience of more than two decades in the veterinary API industry. He started the business in 1999 under a partnership firm, Siflon Drugs, which was converted into a private limited company (SPPL) on May 27, 2022. The company has a wide portfolio of products including Oxyclozanide, Rafoxanide, Closantel Base and Closantel Sodium, which contribute 75-85% to its revenues.

Geographically diversified revenue – SPPL's revenues are well diversified geographically with exports contributing about 44% to the revenues in FY2024. SPPL exports to more than 20 countries across the globe with China, Germany, Kenya, Morocco, Uruguay, Jordan being some of the key export markets.

Credit challenges

Profitability remains susceptible to raw material price volatility and competitive pressure – SPPL's profitability remains susceptible to volatility in the prices of raw materials. Moreover, the fragmented nature of the industry and low entry barriers lead to intense competition, resulting in low pricing flexibility for its products. This was also demonstrated by reduction in its scale and operating losses in FY2024 due to pressure on realisations for its key products.

High working capital intensity of business – SPPL's working capital intensity has remained stretched with working capital intensity of 31.3% in FY2024 owing to high debtor days and inventory levels. This has also resulted in almost full utilisation of working capital limits during the year.

Moderate financial risk profile – SPPL's financial profile has remained moderate on account of the debt-funded capex over the past few years coupled with high reliance on working capital borrowings due to its high working capital intensity. Its financial risk profile deteriorated further in FY2024 on account of the operating losses during the year, resulting in a modest net worth of Rs. 22.2 crore as on March 31, 2024 and an increase in TOL/TNW to 5.7 times as on March 31, 2024 against 2.9 times as on March 31, 2023. While the performance has improved in H1 FY2025 with the company registering revenue of around Rs. 62.0 crore and a profit before tax of Rs. 0.7 crore, the financial profile nevertheless remains moderate, and sustenance of the performance will remain a key monitorable.

Exposure to regulatory and forex risks – Companies in the API industry are exposed to regulatory risks with respect to various authorities across geographies. SPPL's facilities are WHO GMP/GMP certified and are exposed to risks associated with non-compliances in addition to changing government policies. Moreover, SPPL is exposed to risks arising out of forex fluctuations as about 45% of the revenues is contributed by exports.

Liquidity position: Stretched

SPPL's liquidity profile is stretched due to its high working capital intensity and low cash accrual generation (net loss in FY2024). SPPL has working capital limits of Rs. 45.0 crore, which have remained almost fully utilised over the past 12 months. The company has repayment obligations of around Rs. 4.1 crore in FY2025 and Rs. 4.9 crore in FY2026 and is expected to incur capex of up to Rs. 1-2 crore per annum towards regular repair and maintenance. In case of a deterioration in performance over H2 FY2025 or any further stretching of working capital intensity, the company might require additional funds from its promoters to service its debt obligations over the medium term.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company witnesses a sustained improvement in its liquidity position, supported by increase in its revenues and operating profit margins resulting in rise in cash accruals and/ or an improvement in its working capital intensity.

Negative factors – The ratings could be downgraded if there is a substantial decline in revenues and margins, or if any stretch in the working capital cycle exerts further pressure on the liquidity position or debt coverage metrics, on a 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

SPPL is a veterinary API/ bulk drug manufacturing company of the Siflon Group. SPPL was established as a partnership firm, Siflon Drugs, in 1999 by its promoter, Mr. Rallapalli Ananthaiah and was converted into a private limited company in May 2022.

The key products of SPPL include oxyclozanide, rafoxanide, closantel base, closantel sodium, closantel amino compound etc. It has two manufacturing facilities in Ananthapur and Visakhapatnam, Andhra Pradesh.

Key financial indicators (audited)

SPPL - Standalone	FY2023*	FY2024
Operating income	131.2	118.9
PAT	6.6	-18.2
OPBDIT/OI	15.7%	-0.8%
PAT/OI	5.0%	-15.3%
Total outside liabilities/Tangible net worth (times)	2.9	5.7
Total debt/OPBDIT (times)	4.2	- 104.9
Interest coverage (times)	2.9	- 0.1

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

** For full year operations of the company, including two months as Siflon Drugs till May 26, 2023*

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					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Oct 23, 2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	26.02	**[ICRA]BB-(Stable)**	12-Jul-23	[ICRA]BB (Stable)	-	-	-	-
Working capital facility	Long term / short term	45.00	**[ICRA]BB-(Stable)/ [ICRA]A4**	12-Jul-23	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-
Unallocated	Long term / short term	18.98	**[ICRA]BB-(Stable)/ [ICRA]A4**	12-Jul-23	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/ Fund based term loan	Simple
Long term/short term fund based working capital facility	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 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-I**	December 2020	9.50%	March 2029	16.45	[ICRA]BB-(Stable)
NA	**Term Loan-II**	April 2023	10.15%	April 2033	9.57	[ICRA]BB-(Stable)
NA	**Working Capital Facility**	NA	10.15%	NA	45.00	[ICRA]BB-(Stable)/ [ICRA]A4
NA	**Unallocated**	NA	NA	NA	18.98	[ICRA]BB-(Stable)/ [ICRA]A4

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Deepak Jotwani
+91 124 4545 870
Deepak.jotwani@icraindia.com

Shubham Gupta
+91 88 1041 0818
shubham.gupta2@icraindia.com

Kinjal Shah
+91 22 6114 3442
Kinjal.shah@icraindia.com

Gaurav Kushwaha
+91 40 4547 4829
gaurav.kushwaha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches