November 26, 2024

Raghava Life Sciences Private Limited: 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	50.00	28.84	[ICRA]BB (Stable); reaffirmed
Long Term- Fund Based- Cash Credit	25.00	18.00	[ICRA]BB (Stable); reaffirmed
Long-Term - Unallocated limits	35.00	63.16	[ICRA]BB (Stable); reaffirmed
Total	**110.00**	**110.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating factors in Raghava Life Sciences Private Limited's (RLSPL) management's track record in the pharmaceutical industry, which has helped it build a healthy customer base. The rating also considers favourable demand prospects for active pharmaceutical ingredients (APIs) and contract research and manufacturing services (CRAMS). While the company's revenue declined by 8% in FY2024 owing to lower order inflow in the API segment, its revenue improved by ~35% on a YoY basis in 7M FY2025 on the back of launch of new products and recovery in demand for CRAMS. The company has launched six new products in FY2024 and is expected to launch five more products in H2 FY2025, which along with healthy order inflow for CRAMS is likely to support revenue growth in the near term.

The rating is, however, constrained by RLSPL's moderate scale of operations, as indicated by revenues of Rs. 61 crore in FY2024, limiting its financial flexibility. Moreover, the company's operations are working capital intensive owing to high inventory holding, which increased over the past two years, stretching its working capital cycle further. The rating also considers high customer concentration with RLSPL's top five customers generating ~56% of its revenues in FY2024. The rating also factors in the exposure of RLSPL's margins to the volatility in raw material costs and fluctuations in exchange rates. While the company's operating margin improved in FY2024 owing to improved product mix, it recorded net losses owing to forex losses, loss incurred due to a fire accident, and high interest cost. Elevated interest expenses are expected to limit improvement in the company's earnings in the near term. The company's financial risk profile remains moderate, characterised by a gearing of 5.8 times and total debt/OPBIDTA of 11.3 times in FY2024.

The Stable outlook on the long-term rating reflects ICRA's expectation that RLSPL will be able to scale up its operations with healthy margins and improve its financial profile.

Key rating drivers and their description

Credit strengths

Significant experience of management in the pharmaceuticals industry – RLSPL's management has experience in the pharmaceutical industry, which has supported the company in securing orders for providing contract research services, and API manufacturing, despite its limited operational track record. It has developed more than 30 APIs and intermediaries and is planning to launch five new products by the end of FY2025, which are a mix of APIs and intermediates.

Favourable demand prospects for API manufacturing – The long-term demand prospects for the industry remain favourable, which augurs well for the company's growth. Moreover, the company has been focusing on developing new products across therapeutic segments such as cardiovascular, anti-hypertensive, anti-diabetic, and antihistamine.

Credit challenges

Modest scale of operations – The company's scale of operations remained modest, marked by revenues of Rs. 61.0 crore in FY2024, limiting its financial flexibility. In FY2024, the company's revenues were impacted by weak demand for contract research orders, which come largely from US clients. However, the company's revenues grew by 35% in 7M FY2025 on a YoY basis on the back of recovery in demand and launch of new products.

Exposed to high customer concentration risk – The customer concentration risk is high with RLSPL's top five customers accounting for almost 56% of its revenues in FY2024. However, the proposed launch of new products, which would cater to various customers across countries, is expected to reduce the risk to an extent, going forward.

Margins exposed to fluctuations in raw material prices and exchange rates – The company's operating margins are exposed to the price volatility of raw materials and APIs, given the intense competition and fixed-price nature of contracts. While the company has been able to pass on the increased costs to its end-customers in the CRAMS division, to an extent, its pricing flexibility in the API division remains limited. The company has a foreign currency term loan (USD denominated) outstanding Rs. 24.39 crore as on March 31, 2024. Depreciation of the INR against the USD resulted in an exchange loss of Rs. 2.59 crore in FY2024. The USD/INR rate, while taking the loan, stood at Rs.71-73. The company does not hedge its foreign currency exposure.

High working capital intensity and moderate financial profile – The company's working capital intensity remained high with NWC/OI of 75.3% as on March 31, 2024, given the high inventory holding. Going forward, improvement in the working capital management from the release of inventory will remain a key rating monitorable. The company extends credit of up to 120 days to its customers and receives credit of 120-180 days from its suppliers. The company's financial risk profile remained moderate, characterised by high leverage with gearing of 5.8 times as on March 31, 2024(3.8 times as on March 31, 2023) and total debt/OPBIDTA of 11.3 times (15.8 times in FY2023) as on March 31, 2024.

Liquidity position: Adequate

The liquidity position is adequate, supported by cash balances of Rs. 5.7 crore as on March 31, 2024 and expected retained cash flows of Rs. 8.0-10.0 crore in FY2025 against term loan repayment obligations of ~Rs. 6.0 crore in FY2025. The company is also in the process of enhancing its working capital limits by ~Rs. 2.0 crore.

Rating sensitivities

Positive factors – ICRA could upgrade RLSPL's rating if there is a substantial improvement in revenues and earnings, resulting in improved debt coverage metrics. Specific credit metrics that may lead to a rating upgrade include DSCR of more than 1.3 times on a sustained basis.

Negative factors – Pressure on RLSPL's rating could arise if any decline in revenues or profitability adversely impacts the debt coverage indicators. Any major debt-funded capex impacting the credit metrics, or any stretch in the working capital cycle impacting the liquidity position would also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile.

About the company

Raghava Life Sciences Private Limited (RLSPL) was incorporated in January 2018 by Mr. Lohith Reddy and Ms. Sapni Reddy. RLSPL has two business verticals —manufacturing API and providing CRAMS. The API business is focused on developing and manufacturing APIs from its Good Manufacturing Practices (GMP) compliant facilities at Bhiknoor in the Kamareddy district of Telangana.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	66.5	61.0
PAT	-0.6	-6.9
OPBDIT/OI	11.8%	21.5%
PAT/OI	-0.9%	-11.3%
Total outside liabilities/Tangible net worth (times)	4.5	6.6
Total debt/OPBDIT (times)	15.8	11.3
Interest coverage (times)	3.6	3.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2025)					Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long-Term	28.84	Nov 26, 2024	[ICRA]BB (Stable)	Aug 07, 2023	[ICRA]BB (Stable)	May 30, 2022	[ICRA]BB- (Stable)	-	-
Cash Credit	Long-Term	18.00	Nov 26, 2024	[ICRA]BB (Stable)	Aug 07, 2023	[ICRA]BB (Stable)	May 30, 2022	[ICRA]BB- (Stable)	-	-
Unallocated Limits	Long-Term	63.16	Nov 26, 2024	[ICRA]BB (Stable)	Aug 07, 2023	[ICRA]BB (Stable)	May 30, 2022	[ICRA]BB- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund based- Term Loan	Simple
Long Term- Fund Based- Cash Credit	Simple
Long-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	**Long Term - Fund based- Term Loan**	Nov 2021	-	Nov 2028	28.84	[ICRA]BB (Stable)
NA	**Long Term- Fund Based- Cash Credit**	NA	NA	NA	18.00	[ICRA]BB (Stable)
NA	**Long-Term - Unallocated limits**	NA	NA	NA	63.16	[ICRA]BB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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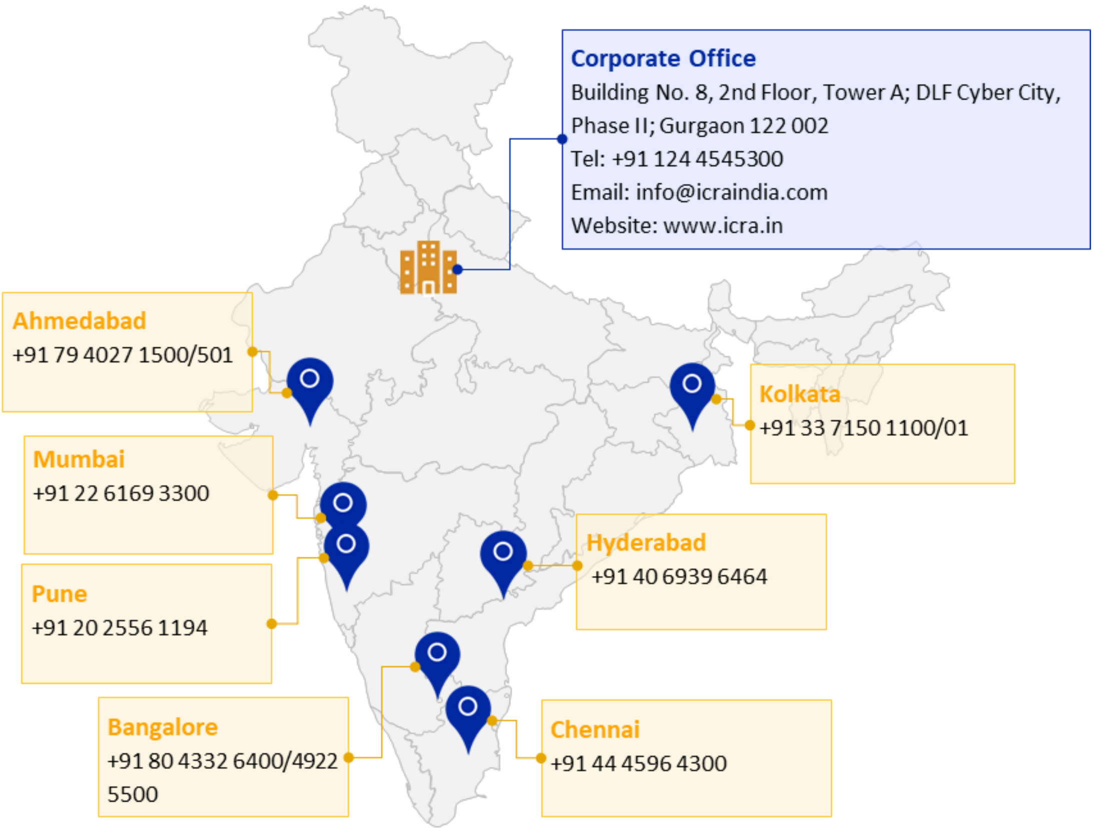

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