

December 02, 2024

Credo 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	16.00	14.00	[ICRA]BB+ (Stable); reaffirmed
Long-term – Fund-based – Cash Credit	10.00	12.00	[ICRA]BB+ (Stable); reaffirmed
Total	26.00	26.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action considers the experience of Credo Life Sciences Private Limited's (CLSPL) promoters in the pharmaceutical industry, its diverse product portfolio with 35 registered pellets, and favourable demand prospects for the semi-formulation segment. The company recorded a healthy revenue growth of ~22% in FY2024 on the back of new product launches and healthy demand. However, in H1 FY2025, the company's revenues declined by ~22% on an annualised basis on account of lower order inflow in Q1 FY2025, especially for its top product, Itraconazole pellets. While the order inflow improved subsequently, leading to higher monthly revenues in the past few months, the company's revenue growth is expected to be muted in FY2025. The company received approval of the European Union Good Manufacturing Practices (EUGMP) in July 2023 and is in the advanced processing stage for Saudi Arabia GMP licence and Russia GMP licences, which augurs well for its export prospects over the medium term.

The rating is, however, constrained by the high product concentration risk as CLSPL derives a significant share (~58%) of its revenues from of its top product, Itraconazole pellets. CLSPL is also exposed to high customer concentration risk with its top five customers accounting for ~72% of its revenues in FY2024 and 55% in 5M FY2025. Moreover, the company has debt-funded capex plans in the near term, which are expected to limit the improvement in its debt metrics. The rating also considers exposure of the operating margins to price volatility of active pharmaceutical ingredients (APIs) with the company's focus on domestic and semi-regulated markets.

The Stable outlook on CLSPL's rating reflects ICRA's opinion that the company's revenue and earnings growth would be supported by demand for its products and expected increase in export orders.

Key rating drivers and their description

Credit strengths

Significant experience of the promoters in the pharmaceutical industry – CLSPL's promoters have significant experience in the pharmaceutical industry, which resulted in healthy relationships with customers and suppliers. CLSPL was incorporated in 2014 by Mr. A. Sivarama Prasad.

Favourable demand prospects for pellet manufacturing – The company has 35 registered pellets spread across therapeutic segments such as anti-hypertensive, anti-inflammatory, anti-fungal and anti-depressant. There are various ailments across different therapeutic categories, which require certain drug release characteristics resulting in favourable demand for pelletisation.

Credit challenges

Exposed to high customer and product concentration risks – The company derived a significant portion (58-60%) of its revenues from sales of Itraconazole pellets in FY2024. However, ICRA notes that the company's revenue concentration on Itraconazole pellets reduced over the past few years from over 85% in FY2020, supported by the launch of new products. While CLSPL has launched several new products, concentration on its top product is expected to remain high in the near term, given the long lead time in ramping up sales for new products. Further, its customer concentration risk is also high with the top five customers accounting for ~55% of its revenues in 5M FY2024 and ~72% of revenues in FY2024.

Margins exposed to fluctuation in raw material prices – The company's operating margins are exposed to price volatility of raw materials as it derives a large part of its revenues from domestic and semi-regulated markets. The company's operating margin improved to 14.5% in FY2024 from 10.7% in FY2023 owing to better sales mix. However, going forward, the proportion of export sales or high-margin products will determine the company's profitability.

Sizeable capex plans – The company intends to spend Rs. 4-5 crore towards upgradation of its machinery in FY2025, which will be funded through term loan of Rs. 2.4 crore and the balance through internal accruals. It also intends to establish a solar power plant (capacity of 780 kva) at a total cost of Rs. 3 crore for captive consumption, which will be funded through a term loan of ~Rs. 2.15 crore and the rest through internal accruals. This apart, the company has incurred ~Rs. 3.0 crore towards setting up of a new office in FY2025. Healthy improvement in earnings remains critical amid the debt-funded capex plans.

Liquidity position: Adequate

The liquidity position is adequate, supported by expected retained cash flow of Rs. 8.0-12.0 crore in FY2025 and cash balance of ~Rs. 3.2 crore as on March 31, 2024 against repayment obligations of Rs. 4-5 crore in FY2025. The company is expected to incur Rs. 8-12 crore capex in FY2025, which would be funded through a mix of debt (already tied up) and internal accruals. The company has negligible buffer in its working capital limits, however, recent enhancement of Rs. 2 crore is expected to support its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade CLSPL's rating if there is a sustained improvement in revenues and earnings, resulting in improved liquidity position and debt coverage metrics. Specific credit metric that may lead to an upgrade in ratings include DSCR of more than 1.4 times on a sustained basis.

Negative factors – Pressure on CLSPL's rating could arise if there is a material decline in revenues, or profit margins, adversely impacting the debt coverage metrics. Any delay in payments from customers or higher inventory levels or a material increase in debt levels, impacting the liquidity position or debt metrics, may also result in a rating downgrade. Specific credit metrics that may lead to a rating downgrade include interest coverage ratio below 2.8 times 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

Credo Life Sciences Private Limited was incorporated in 2014 by Mr. A Sivarama Prasad. The promoters have about 20 years of experience in the pharmaceutical industry. CLSPL, which manufactures pharmaceutical pellets, began commercial production from September 2017. CLSPL's manufacturing facility is at Nandigama Village in Mahabubnagar district of Telangana, with a production capacity of 650 MTPA.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	82.1	100.4
PAT	3.5	6.5
OPBDIT/OI	10.7%	14.5%
PAT/OI	4.2%	6.5%
Total outside liabilities/Tangible net worth (times)	4.1	3.1
Total debt/OPBDIT (times)	5.7	3.0
Interest coverage (times)	6.6	5.7

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					
Instrument	Type	Amount rated (Rs. crore)	Dec 02, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term Loans	Long Term	14.00	[ICRA]BB+ (Stable)	14-Sep-23	[ICRA]BB+ (Stable)	02-Jan-23	[ICRA]BB+ (Stable)	17-Feb-22	[ICRA]BB (Positive)
Cash Credit	Long Term	12.00	[ICRA]BB+ (Stable)	14-Sep-23	[ICRA]BB+ (Stable)	02-Jan-23	[ICRA]BB+ (Stable)	17-Feb-22	[ICRA]BB (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based- Term Loans	Simple
Long-term – Fund based– Cash Credit	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	Fund based – Term Loan	FY2016	NA	FY2032	14.00	[ICRA]BB+ (Stable)
NA	Fund based – Cash Credit	NA	NA	NA	12.00	[ICRA]BB+ (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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