April 02, 2025

Bafna Pharmaceuticals Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term fund-based - Term Loans	20.09	23.46	[ICRA]BB+ (Stable); reaffirmed
Long term fund based - Cash Credit	16.50	16.50	[ICRA]BB+ (Stable); reaffirmed
Short term non-fund-based facilities – Letter of Credit	(5.00)	(5.00)	[ICRA]A4+; reaffirmed
Long term – Unallocated	2.31	0.04	[ICRA]BB+ (Stable); reaffirmed
Short term non fund based facilities – Bank Guarantee	0.35	-	-
Short term non-fund-based facilities – Forward cover	0.75	-	-
Total	**40.00**	**40.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmation of ratings outstanding on the bank lines of Bafna Pharmaceuticals Limited (BPL) considers ICRA's expectation of a sustained financial performance in the near to medium term, supported by factors like favourable demand prospects for the lifestyle diseases segment, geographic diversification and established client relationships. BPL's focus continues to be on the lifestyle diseases segment, catering to diabetology, diseases pertaining to the central nervous system and pain management among others. The company supplies to regulated markets like The United Kingdom (UK) and Australia, and multiple semi-regulated/unregulated markets like Philippines, Sri Lanka, Ethiopia, Nigeria, and Tanzania among others, which mitigates region-specific risks to an extent. In terms of customer profile, BPL enjoys established relationships with reputed pharmaceutical companies including Cipla Limited and Strides Pharma Science Limited.

The company's operating income reported 30%+ YoY growth in both FY2023 and FY2024 with higher volumes from customers. While revenues declined by 5% YoY in 9M FY2025 because of certain operational challenges, the demand for the company's lifestyle diseases product portfolio remains healthy. This, along with higher penetration in existing geographies and expansion into new markets is likely to support revenues over the near to medium term. While operating margin dipped by 100 bps to 8.7% in 9M FY2025 with decline in topline, it is expected to improve going forward benefitting from operating leverage. The company has been conservative on debt in the recent years, and this has resulted comfortable debt metrics as illustrated by a gearing of 0.4 times, Total Debt/OPBDITA of 2.6 times as on December 31, 2024 and interest coverage of 4.9 times for 9M FY2025. BPL's debt metrics are expected to remain comfortable going forward. BPL's liquidity is also adequate aided by healthy cash flow from operations, free cash and bank balances of Rs. 2.7 crore and undrawn working capital lines of Rs. 3.0 crore as on December 31, 2024.

However, the company's scale of operations remains modest and it has relatively high working capital intensity, although the latter reduced to 34% as on March 31, 2024 from 40%+ as on March 31 of the last three years. Also, BPL has relatively high product and customer concentration with its top 3 products (namely Metformin, Fluoxetine and Quilonum) constituting 51.5% in 9M FY2025. Further, the company derived ~73% of its sales from top 3 customers.

As per guidelines stipulated during the IBC implementation, the company was expected to bring down the promoter shareholding to 75.0% by September 30, 2023, in line with the SEBI LODR guidelines. However, there was a delay in the same as the offer for sale by the promoters did not garner the requisite number of subscribers earlier. Consequently, the promoters continued to hold 88.3% stake in the company as on December 31, 2024. The company has currently complied with the SEBI LODR requirement and has reduced its promoter shareholding to 75.0% as on March 31, 2025.

The 'Stable 'outlook on the long-term rating reflects ICRA's expectation that the company's credit profile will sustain, supported by its established client relationships, cash accruals and adequate liquidity amid favourable outlook for the lifestyle diseases segment and absence of significant capex going forward.

Key rating drivers and their description

Credit strengths

Favourable demand prospects with the focus on lifestyle diseases – BPL's focuses on the lifestyle diseases segment, catering to diabetology, diseases pertaining to the central nervous system and pain management among others. These segments contributed to ~70% of revenues in 9M FY2025. The presence in lifestyle diseases has contributed to healthy improvement in revenues by over 30% YoY in FY2023 and FY2024, with higher volumes from customers. While revenues declined by 5% YoY in 9M FY2025 because of certain operational challenges, the demand for the company's lifestyle diseases product portfolio remains healthy. This, along with higher penetration in existing geographies and expansion into new markets is likely to support revenues over the near to medium term.

Healthy geographic diversification; established client relationships – The company derived close to 50% of its revenues from the export markets in 9M FY2025. Within this, the company supplies to regulated markets like The UK and Australia, and semi-regulated/unregulated markets like Philippines, Sri Lanka, Ethiopia, Nigeria, and Tanzania to name a few. The supplies to multiple geographies and consequent diversification mitigates region-specific risks to an extent. In terms of customer profile, the company enjoys established relationships with reputed pharmaceutical companies like Cipla Limited and Strides Pharma Science Limited to name a few. The company has had repeat orders from many of its customers, along with periodic addition of customers as well.

Comfortable debt metrics and adequate liquidity – The company has been conservative on debt in the recent years, and this has resulted comfortable debt metrics as illustrated by a gearing of 0.4 times, Total Debt/OPBDITA of 2.6 times as on December 31, 2024 and interest coverage of 4.9 times for 9M FY2025. BPL's debt metrics are expected to remain comfortable going forward. BPL's liquidity is also adequate aided by healthy cash flow from operations, free cash and bank balances of Rs. 2.7 crore and undrawn working capital lines of Rs. 3.0 crore as on December 31, 2024.

Credit challenges

Modest scale of operations – BPL remains a modest-sized player in the industry, with a top line of Rs. 155.4 crore in FY2024 and Rs. 108.1 crore in 9M FY2025, despite healthy improvement in revenues by over 30% YoY in FY2023 and FY2024. This limits economies of scale and has restricted its market position to an extent.

High working capital intensity – BPL's business is working capital intensive with high inventory holding requirement and elongated receivable cycle. While the working capital intensity has reduced to 34% as on March 31, 2024 from 40%+ as on March 31 of the last three years, it still remains high.

Customer and product concentration risks – BPL has relatively high product concentration with its top 3 products (namely Metformin, Fluoxetine and Quilonum) constituting 51.5% of revenues in 9M FY2025. Further, the company derived ~73% of its sales from top 3 customers. This exposes the company to risks arising from product-specific risks and to underperformance of the top customers or loss of customers to competition. Although the company has taken measures to diversify its product portfolio and expand its geographic presence, its ability to achieve material business diversification remains to be seen.

Regulatory risks and vulnerability to unfavourable forex movement – Akin to other industry players, the company is bound by strict regulations in regulated markets. Although any deviation in the same could result in reputational risks and other penalties for the company, historical absence of regulatory issues provides comfort to a large extent. Also, with close to 50% of its revenues from overseas markets in 9M FY2025 and part of the raw materials ultimately being imported indirectly, the company's revenues and margins are susceptible to risks arising from adverse forex movements. However, the company being a net exporter mitigates the risk to a large extent, currently.

Environmental and social risks

Environmental considerations – BPL remains exposed to tightening environmental regulations with regards to breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation.

Social considerations – BPL faces risks related to product safety and associated litigation risks, access to qualified personnel for research and development (R&D) and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry.

Liquidity position: Adequate

BPL's liquidity is adequate aided by healthy cash flow from operations, free cash and bank balances of Rs. 2.7 crore and undrawn working capital lines of Rs. 3.0 crore as on December 31, 2024. Against this, the company has principal repayment obligations of Rs. 3.5 crore in FY2026 and Rs. 7.3 crore in FY2027 on its existing and sanctioned loans. The company has capex plans of Rs. 11.5 crore in FY2025, Rs. 10.0 crore in FY2026 and Rs. 3.0 crore in FY2027 for capacity expansion and regular maintenance, to be funded through internal accruals and debt on need basis.

Rating sensitivities

Positive factors – ICRA could upgrade BPL's rating if the company is able to achieve significant increase in its scale of operations and improve its working capital cycle on a sustained basis, while diversifying its business profile and maintaining its debt metrics.

Negative factors – Negative pressure on BPL's rating could emerge with sharp deterioration in the earnings or significant rise in net debt, leading to weakening of liquidity position and deterioration in the credit profile. Specific credit metrics would include DSCR of less than 1.4 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceuticals Industry
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Bafna Pharmaceuticals Limited ("BPL"/"the company") is engaged in the contract manufacturing for regulated markets and sale of generics in the semi-regulated/unregulated markets. The company derived close to 50% of its revenues from the export markets in 9M FY2025. Within this, the company supplies to regulated markets like The UK and Australia, and semi-regulated/unregulated markets like Philippines, Sri Lanka, Ethiopia, Nigeria, and Tanzania to name a few. The company focuses on the lifestyle diseases segment, catering to diabetology, diseases pertaining to the central nervous system and pain management among others. The company currently has one manufacturing facility at Grantlyon in Chennai (Tamil Nadu); the assets in the Madhavaram manufacturing facility of the company are held for sale.

As per guidelines stipulated during the IBC implementation, the company was expected to bring down the promoter shareholding to 75.0% by September 30, 2023, in line with the SEBI LODR guidelines. However, there was a delay in the same as the offer for sale by the promoters did not garner the requisite number of subscribers earlier. Consequently, the promoters continued to hold 88.3% stake in the company as on December 31, 2024. The company has currently complied with the SEBI LODR requirement and has reduced its promoter shareholding to 75.0% as on March 31, 2025.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	118.4	155.4
PAT	11.3	7.3
OPBDIT/OI	15.8%	9.0%
PAT/OI	9.6%	4.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	1.2	1.7
Interest coverage (times)	9.2	6.1

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; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	April 02, 2025	Date	Rating	Date	Rating	Date	Rating
Fund based – Term Loans	Long term	23.46	[ICRA]BB+ (Stable)	-	-	Feb 05-2024	[ICRA]BB+ (Stable)	Nov 30, 2022	[ICRA]BB+ (Stable)
Fund based – Cash Credit	Long term	16.50	[ICRA]BB+ (Stable)	-	-	Feb 05-2024	[ICRA]BB+ (Stable)	Nov 30, 2022	[ICRA]BB+ (Stable)
Non fund based facilities – Letter of Credit	Short term	(5.00)	[ICRA]A4+	-	-	Feb 05-2024	[ICRA]A4+	Nov 30, 2022	[ICRA]A4+
Unallocated	Long term	0.04	[ICRA]BB+ (Stable)	-	-	Feb 05-2024	[ICRA]BB+ (Stable)		
Non fund based facilities – Bank Guarantee	Short term	-	-	-	-	Feb 05-2024	[ICRA]A4+		
Non fund based facilities – forward cover	Short term	-	-	-	-	Feb 05-2024	[ICRA]A4+	Nov 30, 2022	[ICRA]A4+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Term Loan	Simple
Long term fund based – Cash Credit	Simple
Short term non fund based facilities – Letter of Credit	Very Simple
Long 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	FY2022	11.0%	FY2026	0.85	[ICRA]BB+ (Stable)
NA	Term Loan-II	FY2022	11.0%	FY2027	0.90	[ICRA]BB+ (Stable)
NA	Term Loan-III	FY2023	11.0%	FY2028	2.83	[ICRA]BB+ (Stable)
NA	Term Loan-IV	FY2023	11.0%	FY2028	1.43	[ICRA]BB+ (Stable)
NA	Term Loan-V	FY2024	11.0%	FY2030	11.1	[ICRA]BB+ (Stable)
NA	Term Loan-VI	FY2025	10.5%	FY2030	6.35	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	NA	NA	16.50	[ICRA]BB+ (Stable)
NA	Letter of Credit	NA	NA	NA	(5.00)	[ICRA]A4+
NA	Unallocated	NA	NA	NA	0.04	[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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ABOUT ICRA LIMITED

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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