

September 22, 2023

## JRS Pharma & Gujarat Microwax Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based EPC/PCFC/FBD/EBR	15.00*	-	-
Fund-based Cash Credit – Sublimit to EPC/PCFC/FBD/EBR	(15.00)	-	-
Non-fund Based Letter of Credit	1.00	-	-
Non-fund Based Bank Guarantee	0.75	-	-
Non-fund Based Credit Exposure Limit	1.78	-	-
Unallocated Limits	10.00	10.10	[ICRA]A (Stable)/[ICRA]A1; Reaffirmed and assigned for enhanced amount
Long-term/Short-term – Fund-based/ Non-fund Based Facilities	-	29.90	[ICRA]A(Stable)/[ICRA]A1; reaffirmed and assigned for enhanced amount
<b>Total</b>	<b>28.53</b>	<b>40.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The reaffirmation of ratings continues to factor in the vast experience of the promoters of JRS Pharma & Gujarat Microwax Private Limited (JPGM) in the excipient/ disintegrants industry, and the technological and marketing benefits of being the joint venture partner of JRS Pharma (JRS). The ratings also favourably consider the improvement in top line in FY2023, driven by better product realisations, leading to improvement in margins. The financial profile continues to be robust, characterised by strong capital structure and coverage indicators along with its strong liquidity position supported by sizeable cash and liquid investments.

The ratings, however, remain constrained by the relatively moderate scale of operations, susceptibility of its profitability to volatility in raw material prices and limited ability to pass on the rise to its end-customers. Additionally, the profitability remains exposed to foreign currency fluctuations in the absence of a formal hedging policy, although the risk is mitigated to some extent by natural hedging. The ratings also factor in JPGM's working capital-intensive operations on account of its high inventory holding period and relatively long collection cycle. The ratings also consider JPGM's high customer concentration; however, its reputed clientele partially mitigates the underlying risk. ICRA also notes that the company is undergoing capex for an incremental manufacturing unit of disintegrants (cross carmellose sodium, or CCS, and sodium starch glycolate, or SSG) at a cost of ~Rs. 110 crore. Timely execution of the capex without any material cost overrun and generation of commensurate returns from the same in the near to medium term remains critical from a credit perspective.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that JPGM will continue to benefit from its business position in the excipient industry and its stable client base.

### Key rating drivers and their description

#### Credit strengths

**Vast experience of promoters of over three decades in the excipient/ disintegrants industry; benefits from JV with JRS – Gujarat Microwax Pvt. Ltd. (GMW) was promoted in 1989 by the Ahmedabad-based Jhahhariya family, who have three decades**

of experience in manufacturing industrial waxes, excipients, disintegrants, trading in bulk drugs and tissue culture through various group entities. Later in 2006, JRS, a prominent player in cellulose products, acquired 50% stake in GMW. Ever since, JPGM has been a 50:50 JV between the Jhajharia family and JRS. JPGM benefits from the established sales and distribution network of JRS, besides enjoying access to its technical expertise and experienced management.

**Established track record of operations and reputed clientele in the pharmaceutical space** – JPGM has an established track record of manufacturing microcrystalline cellulose powder (MCCP) since 1992, as well as CCS/SSG since 2009. Further, in FY2023, exports drove ~51% of the company's total revenues, which primarily involved catering to JRS and its Group companies. Also, JPGM's clientele includes pharmaceutical majors such as Mylan Laboratories Ltd. in the domestic market. Over the years, due to its premium quality products, JPGM has remained a key supplier for MCCP and disintegrants.

**Healthy capacity utilisation levels** –The company has two MCCP manufacturing units, where unit one has a capacity of 4,500 metric tonnes per annum (MTPA) and unit two has 6,000 MTPA. The utilisation levels remained healthy at 85% for unit one in FY2023, while unit two has been running at its full capacity. The company also has a CCS/SSG manufacturing unit with a capacity of 3,000 MTPA, which was utilised at 82% in FY2023.

**Robust financial risk profile characterised by healthy margins and accruals along with strong capital structure and debt coverage indicators** – With limited reliance on external debt along with healthy profitability, JPGM's capital structure and coverage indicators continued to remain robust in FY2023, with interest coverage at ~310 times. The profitability margins have improved in FY2023 (provisional) with operating margins at ~30% and PAT margins at ~21% over ~23% and 15%, respectively, in FY2022. Also, the return on capital employed ratio remained healthy at ~31% in FY2023.

## Credit challenges

**Relatively moderate scale of operations coupled with working capital-intensive nature of operations** – JPGM's scale of operations remained moderate, although witnessing a CAGR of ~18% during FY2018-FY2023 due to growing demand for its products. The operating income at the absolute level, however, remained moderate at ~Rs. 387 crore. The company's operations also remained working capital intensive with NWC/OI at 43% as on March 31, 2023, owing to high inventory holding for its raw material, i.e., wood pulp (for 2-4 months) and a relatively elongated receivable cycle of ~89 days in FY2023.

**High customer concentration with limited product diversification** – The customer concentration remained high in FY2023, marked by its top five customers contributing for ~72% of the total revenue from MCCP and ~71% from CCS/SSG. The company primarily has two key products, MCCP and CCS/SSG. MCCP constitutes ~57% of the total operating revenue, with CCS/SSG contributing the remaining portion.

**Profitability remains vulnerable to availability, pricing, forex fluctuations and Government regulations with respect to import of wood pulp** – JPGM's profitability remains vulnerable to adverse movements in the price of its key raw material, which is mainly imported wood pulp. However, its established business relationships with its major suppliers enable it to procure raw materials at competitive rates, which in turn assist to protect the contribution margins. The profitability margins are also exposed to foreign exchange fluctuation risks in the absence of any formal hedging policy. The company, however, enjoys a natural hedge as it imports ~81% of its raw material procurement while exporting around ~50% of its total sales. The company is also exposed to adverse Government regulations due to its presence in the regulated pharmaceutical industry.

**Execution risks associated with ongoing project of setting up additional CCS/SSG manufacturing unit** – The company is in the middle of an ongoing capex for an additional manufacturing unit for CCS/SSG, which is expected to commence operations from December 2023. The project cost is estimated to be Rs. 110 crore, funded through internal accruals. Timely execution of the said capex within the envisaged cost as well as stabilisation of the new plant with commensurate returns remain critical from a credit perspective.

## Liquidity position: Strong

JPGM has a strong liquidity profile, backed by robust cash accruals, cushion in working capital limits and sizeable, unencumbered cash balance and liquid investments of ~Rs. 42 crore as on March 31, 2023. The capex for expansion in the CSS/SSG unit is completely funded through internal accruals and the company has no plans of adding any debt in the near or medium term.

## Rating sensitivities

**Positive factors** - ICRA could upgrade the ratings if the company demonstrates a significant scale up of operations backed by growth in sales volumes along with maintenance of healthy profitability levels on a sustained basis, along with improvement in its working capital cycle.

**Negative factors** - Negative pressure on the ratings could arise if there is substantial decline in JPGM's scale and profitability, resulting in material deterioration of coverage indicators; or any material cost or time overrun in commercial operations of its ongoing capex. Any increase in its working capital cycle, adversely impacting the liquidity profile and key credit metrics, could also trigger a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Entities in the Pharmaceutical Industry</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

## About the company

JPGM was originally incorporated by the Ahmedabad-based Jhahharia family as GMW in 1989. In 2006, the JRS Pharma Group, a global market leader in cellulose products, headquartered in Rosenberg, Germany, acquired 50% stake in GMW. Due to the company's association with JRS, GMW was renamed as JPGM in June 2018. JPGM manufactures excipients (MCCP) and disintegrants (SSG/CCS). At present, it has an installed production capacity of 10,500 MTPA (increased from 4,500 MTPA in FY2020) for MCCPs and 3,000 MTPA for SSG/CCS at its Nandasan plant in Gujarat.

## Key financial indicators (audited/ provisional)

	FY2022	FY2023*
Operating Income (Rs. crore)	320.99	386.52
PAT (Rs. crore)	48.56	82.70
OPBDIT/OI (%)	23.11%	29.76%
PAT/OI (%)	15.13%	21.40%
Total Outside Liabilities/Tangible Net Worth (times)	0.15	0.14
Total Debt/OPBDIT (times)	0.16	0.00
Interest Coverage (times)	76.69	309.91

\*Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of Rating History for the past 3 years			
		Amount rated (Rs. crore)	Amount Outstanding as on Jun 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 22, 2023	June 23, 2022	April 02, 2021	July 30, 2020
1 EPC/PCFC/FBD/EBR	Long Term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2 Cash Credit-sublimit to EPC/PCFC/FBD/EBR	Long Term	-	-	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3 Letter of Credit	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+
4 Bank Guarantee	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+
5 Credit Exposure Limit	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A2+
6 Unallocated	Long Term/Short Term	10.10	-	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A (Stable)/[ICRA]A1	[ICRA]A- (Stable)/[ICRA]A2+
7 Fund based/non-fund-based facilities	Long term/Short term	29.90	-	[ICRA]A (Stable)/[ICRA]A1	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based/non-fund-based facilities	Simple
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	Unallocated Limits	NA	NA	NA	10.10	[ICRA]A (Stable)/[ICRA]A1
NA	Long term/Short term - fund based/non-fund-based facilities	NA	NA	NA	29.90	[ICRA]A (Stable)/[ICRA]A1

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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