

Jodas Expoin Pvt. Ltd

February 25, 2019

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Term Loan	35.00	[ICRA]BBB- (Stable); assigned
Total	35.00	

Rationale

The assigned rating takes into account the promoters' extensive experience in the Russian healthcare market for over two decades; diversified product profile with revenues from Anti-infectives, Oncology and Contrast media segments; and strong growth in revenues to Rs 136.30 crore in 9M FY2019 from 89.40 crore in FY2018 on the back of addition of new products in oncology and contrast media segments. Further, increased production from own manufacturing facilities, which have received approvals from Russian GMP and EU GMP, along with higher share of revenues from Oncology and Contrast Media is expected to result in significant improvement in profitability during FY2019. The rating also considers comfortable capital structure with majority of debt comprising of interest free unsecured loans from promoters and satisfactory coverage indicators with interest coverage of 6.3 times, DSCR of 9.3 times and NCA/Total Debt of 12% in FY2018, which are expected to improve further in the medium term with healthy growth in revenues and profitability margins.

The rating is, however, constrained by high geographical concentration with entire revenues generated from exports to Russia and other CIS countries; high working capital intensity with NWC/OI of 31% in FY2018 driven by high debtor and inventory levels and high customer concentration with the top customer contributing 94% and 62% of revenues in FY2018 and 9M FY2019 respectively. Although the concentration on Russian market is expected to reduce with the company expanding to Europe with the receipt of regulatory approvals under EUGMP, the concentration on Russian markets is expected to remain high over the medium term. The rating is also constrained by high competition due to the presence of large number of generic drug manufacturers and exporters in Europe for anti-infective and oncology segment; project execution risk arising from proposed debt-funded capex of Rs. 35.00 crore which could adversely impact the company's capital structure and coverage indicators in the near term.

Outlook: Stable

The stable outlook reflects ICRA's expectation that Jodas Expoin Private Ltd (JEPL) will continue to benefit from the extensive experience of its promoters in the Russian healthcare market, diversified product portfolio and EUGMP approvals for Cephalosporin, Oncology and Contrast Media facilities. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, strengthens the financial risk profile. The outlook may be revised to 'Negative' if revenues and profitability are lower-than-expected resulting in low cash accruals, delay in the working-capital cycle, weakens its liquidity.

Key rating drivers

Credit strengths

Significant experience of the promoters in the Russian healthcare market: The founder promoters of JEPL are non-resident Indians (NRIs) based out of Russia with an extensive experience of more than two decades in the Russian pharmaceutical market. The company had set up its first manufacturing unit for Cephalosporin antibiotics in March 2016 followed by Oncology facility in September 2017 and Contrast media facility in August 2018.

Diversified product portfolio with approved manufacturing facility: JEPL has a diversified product portfolio with revenues generated from Anti-infective, Oncology and Contrast Media segments. Also, oncology and contrast media are niche and high value segments which generate good profitability margins for the company. The revenues from the company's own manufacturing facility increased to Rs. 48.92 crore in 9M FY2019 (~37% of OI) from Rs. 14.73 crore in FY2018 (~16% of OI). The facilities have received regulatory approvals for Russian GMP and EU GMP certification.

Healthy revenue growth and expected improvement in profitability during FY2019: The operating income witnessed a strong growth of ~103% in 9MFY2019 to Rs. 136.34 crore from Rs 89.35 crore in FY2018 on the back of increase in revenues from the company's own manufacturing facility and addition of new products in Oncology and contrast media segments. The operating margins have remained low owing to significant production through job work and third-party manufacturing. However, the margins are expected to improve in FY2019 with the shifting of production to the company's own facilities and increased share of products in the oncology and contrast media segments which have higher margins.

Comfortable financial risk profile: The company has a comfortable capital structure with majority of the debt comprising of interest-free unsecured loans from promoters. The total debt of Rs. 102.48 crore as on March 31, 2018 comprises working capital borrowings of Rs. 24.17 crore and unsecured loans from promoters of Rs. 78.28 crore. This is expected to improve further with proposed conversion of entire unsecured loans to equity in the next 2-3 months. The coverage indicators remained comfortable as reflected by interest coverage of 6.3 times, DSCR of 9.3 times and NCA/Total Debt of 12% in FY2018.

Credit weaknesses

High geographical and customer concentration: The Company has a high geographical concentration with entire revenues derived from exports to Russia and other Commonwealth of Independent States (CIS) countries. It operates through a distribution model, by appointing a master distributor for each geography. Also, the customer concentration is high with the top distributor contributing ~94% and 62% of revenues in FY2018 and 9M FY2019 respectively. Although the concentration on Russian market is expected to reduce with the company expanding to Europe with the receipt of regulatory approvals under EUGMP, the concentration on Russian markets is expected to remain high over the medium term.

High working capital intensity: The working capital intensity is high at 31% in FY2018 and increased to 36% in 9MFY2019 driven by high debtor days of 59 days and 151 days in FY2018 and 9M FY2019 respectively. The company generally extends a credit period of 90 to 120 days to its customers which majorly comprise distributors in the Russian market. However, this is mitigated to an extent with the end consumers being government-run hospitals and health care services in Russia reducing counter-party credit risk.

Exposed to intense competition in pharmaceutical formulations industry: The pharmaceutical industry is intensely competitive due to the presence of various established generic drug manufacturers and exporters in Europe resulting in limited pricing power and profitability. However, the company's presence in niche and high-value segments mitigates this to an extent.

Exposed to project execution risk: The company is exposed to project execution risk with proposed capex of Rs. 35.00 crore in the near term towards addition of two oncology injectable lines and a general injectable line. This could adversely impact the company's capital structure and coverage indicators to an extent in the near term.

Liquidity Position

The company's liquidity position is moderate average utilization of ~71% of the fund-based limits during the period October 2017 to December 2018. Despite sizeable capital expenditure in the medium term, the liquidity position is expected to remain moderate given the healthy profitability and accruals in the medium term.

Analytical Approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Jodas Expoin Private Limited (JEPL) was incorporated in 2006 by trained medical professionals to undertake export of pharmaceutical products, specifically to Russia, manufactured under loan license. The company started exporting in 2009, after having received marketing approvals from the Russian Regulatory Agency for three Cephalosporin (DPI) antibiotics initially. The company set up its own manufacturing facility in Medak, Telangana with products mainly in three therapeutic segments, Anti-infectives, Oncology and Contrast Media.

Key Financial Indicators

	FY 2017	FY 2018
Operating Income (Rs. crore)	92.8	89.4
PAT (Rs. crore)	1.2	3.1
OPBDIT/ OI (%)	3.8%	10.1%
RoCE (%)	11.3%	11.4%
Total Debt/ TNW (times)	3.1	3.1
Total Debt/ OPBDIT (times)	26.7	11.4
Interest coverage (times)	2.8	6.3

**Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating February 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Proposed Term Loan	Long Term	35.00	NA	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed Term Loan	NA	NA	NA	35.00	[ICRA]BBB- (Stable)

Source: Jodas Expoin Pvt. Ltd.

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Srinivasan R

+91 44 4596 4315

r.srinivasan@icraindia.com

Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Sai Kireeti S K

+91 40 4067 6530

sai.thirumala@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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