February 05, 2020

Satya Deeptha Pharmaceuticals Limited: [ICRA]BBB(Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	24.00	[ICRA]BBB (Stable); Assigned
Long Term - Fund Based TL	29.50	[ICRA]BBB (Stable); Assigned
Short Term - Non Fund Based	8.00	[ICRA]A3+; Assigned
Long Term / Short Term - Unallocated	3.50	[ICRA]BBB (Stable)/ [ICRA]A3+; Assigned
Total	**65.00**	

** -Instrument details are provided in Annexure 1*

Rationale

The assigned ratings favourably consider the significant increase in Satya Deeptha Pharmaceuticals Limited's (SDPL) revenues to Rs. 202.78 crore in FY2019 and Rs. 137.86 crore in 9M FY2020 from Rs. 112.98 crore in FY2018, driven by healthy growth in AFC[1] and other intermediates, along with expected improvement in revenues over the medium term and addition of new products. The ratings consider the likely improvement in operating margins on the back of increasing share of value-added products and benefits arising from the captive solar power plant. Further, the ratings consider SDPL's moderate financial risk profile with a gearing of 0.90 times as on September 30, 2019 and interest coverage of 3.81 times, Debt/OPBDIT of 2.35 times in H1 FY2020 and its established relationships with customers and suppliers.

The ratings are, however, constrained by high product and customer concentration risks with a single product accounting for 47% of total revenues in H1 FY2020 and the top customer contributing to more than 70% of revenues over the last three years, respectively. Moreover, the company derives a predominant share of its revenues from the anti-retroviral segment. The ratings are constrained by high working capital intensity at 25% in H1 FY2020 owing to high inventory days and vulnerability of its profitability due to volatility in raw material prices and foreign exchange rates. ICRA notes that the company is planning to add a new production block at Rs. 9.85 crore in the near term, which is proposed to be funded by term debt and internal accruals.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established relationship with customers – The promoters have more than three decades of experience in manufacturing of APIs and their intermediates. Over the period, it has developed established relationship with its customers, ensuring repeat business. The company has been associated with Mylan Laboratories Ltd (MLL) for more than a decade and the majority of the products supplied to MLL include anti-retroviral products.

Healthy growth in revenues – The revenues increased to Rs. 202.78 crore in FY2019 and Rs 137.86 crore in 9M FY2020 from Rs. 112.98 crore in FY2018, driven by healthy growth in AFC sales and other new products such as Darunvir and CBZ. Further, the revenue is expected to improve going forward with addition of new products. The operating margins

[1]*AFC – AFC is an intermediate of abacavir sulphate. Abacavir is a medication used to prevent and treat HIV/AIDS.*

improved to 12.4% in FY2019 and 13.6% in 6M FY2020 from 11.7% in FY2018 with increasing share of value-added products and benefits arising from the captive solar power plant, respectively. The operating margins are likely to improve in medium term with expected increase in the share of value-added products and benefits arising from captive solar power plant.

Moderate financial risk profile – SDPL's financial risk profile is moderate with a gearing of 0.90 times as on September 30, 2019 owing to lower bill discounting utilisation and healthy net worth levels. The interest coverage is moderate at 3.81 times and Debt/OPBDIT at 2.35 times in H1 FY2020. The total debt of Rs. 59.26 crore as on September 30, 2019 comprised Rs. 26.07 crore of term loans from bank, Rs. 21.62 crore of working capital borrowings and Rs. 11.57 crore of bill discounting.

Credit challenges

High product and customer concentration – The company primarily produces APIs and intermediaries in the antiretroviral segment. The product concentration is high with the top product, AFC, accounting for 49% and 47% of the total revenues in FY2019 and 6M FY2020, respectively. However, with expected addition of new products, the product concentration risk is likely to reduce in the medium term. Moreover, its top customer, MLL, contributed to more than 70% of the total revenues during the past three years. Although the customer concentration is expected to reduce in the near term with addition of new customers, it is likely to remain high in medium term with MLL accounting for significant share of revenues.

High working capital intensity of operations – The working capital intensity is high, as reflected by the NWC/OI of 25% in H1 FY2020, owing to high inventory days. The inventory comprises raw material and WIP inventory maintained by the company, given the lead time in raw material imports and long process time for intermediates manufacturing.

Profitability susceptible to volatility in raw material prices and foreign currency exchange rates – The company's profitability remains exposed to volatility in raw material prices as key raw materials are imported. However, SDPL has demonstrated its ability to pass on any increase in prices to its customers, thereby limiting the exposure to some extent. Further, its profitability is vulnerable to fluctuations in foreign currency exchange rates.

Liquidity position: Adequate

The company's liquidity profile is **adequate** with sufficient cushion available in bill discounting utilisation with average utilisation at 47% in the past 12 months that ended in December 2019. The average working capital limit utilisation has, however, remained high at ~86% of the sanctioned limits for the past 15 months that ended in December 2019. Further, the cash flows from the business are likely to be sufficient to meet the long-term debt repayment obligations over the medium term.

Rating sensitivities

Positive triggers – ICRA could upgrade SDPL's rating if there is a significant improvement in the company's scale of operations and profitability, along with improvement in product and client diversity. Besides strengthening of business profile, improvement in working capital intensity of the business, especially marked by reduction in inventory days would support a rating upgrade. Specific credit metrics that could lead to an upgrade of SDPL's rating include interest coverage greater than 4.0 times on a sustained basis.

Negative triggers – Negative pressure on SDPL's rating could arise if the growth in revenues or profitability margins is lower-than-expected. Deterioration in working capital cycle impacting the company's liquidity position could also be a trigger for rating change. Specific credit metrics that could lead to a downgrade of SDPL's rating include interest coverage of less than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology for Entities in the Pharmaceutical Industry](#)
Parent/Group Support	None
Consolidation / Standalone	The ratings are based on standalone financial statements of the company.

About the company

Incorporated in March 1987, SDPL is involved in manufacturing of APIs and their intermediates. The existing unit is situated in nine acres of land, having six separate production blocks (containing 105 reactors totalling to 700 KL capacity) with all infrastructure facilities and supporting equipment. Its manufacturing facility is located in Humnabad, Bidar district, Karnataka. The company received USFDA audit approval in January 2018.

SDPL had successfully commissioned the 5-MW solar project for captive consumption on May 21, 2019 at a total cost of Rs. 30.04 crore. The project is located in Chitguppa, Karnataka and was funded by a term debt of Rs. 21.50 crore and the remaining from its internal accruals.

Key financial indicators

	FY2018	FY2019	H1FY2020*
Operating Income (Rs. crore)	112.28	202.78	92.57
PAT (Rs. crore)	3.88	9.60	5.00
OPBDIT/ OI (%)	11.7%	12.4%	13.6%
RoCE (%)	12.0%	20.7%	17.0%
Total Debt/ TNW (times)	0.79	1.26	0.90
Total Debt/ OPBDIT (times)	3.09	3.05	2.35
Interest Coverage (times)	3.17	3.92	3.81
DSCR	1.76	2.36	1.85

**Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Date &Rating	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					5-Feb-2020			
1	Cash Credit	Long Term	24.00	NA	[ICRA]BBB (Stable)	-	-	-
	Term loan	Long Term	29.50	25.75*	[ICRA]BBB (Stable)	-	-	-
3	Letter of credit	Short Term	8.00	NA	[ICRA]A3+	-	-	-
4	Unallocated	Long Term/ Short Term	3.50	NA	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

*Amount in Rs. crore, *As on March 31, 2019*

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	Long Term: Fund Based Cash Credit	NA	NA	NA	24.00	[ICRA]BBB (Stable)
NA	Long Term: Term Loan facilities 1	September 2016	-	October 2022	8.00	[ICRA]BBB (Stable)
NA	Long Term: Term Loan facilities 2	August 2018	-	September 2025	21.50	[ICRA]BBB (Stable)
NA	Short Term - Non Fund Based Letter of Credit	NA	NA	NA	8.00	[ICRA]A3+
NA	Long /Short Term: Unallocated	NA	NA	NA	3.50	[ICRA]BBB (Stable) /[ICRA]A3+

Source: Company, sanction letter

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