July 26, 2021

Supriya Lifescience Ltd.: Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based- Term Loans	8.30	-	-
Short-term fund-based- Post Shipment Credit(PSC)	71.00	80.00	[ICRA]A2+; Upgraded from [ICRA]A2
Long-term fund-based- Cash Credit	(25.00)#	(25.00)#	[ICRA]A-(Stable); Upgraded from [ICRA]BBB+(Stable)
Short-term fund-based-Packing	(56.50)#	(56.50)#	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term non-fund based- Letter of Credit (LC)	52.00	43.00	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term non-fund based- LC (Inland)	(20.00)**	(20.00)**	[ICRA]A2+; Upgraded from [ICRA]A2
Short-term fund based-Buyers Credit	(25.00)**	(25.00)**	[ICRA]A2+; Upgraded from [ICRA]A2
Short- term Non-fund based- Bank Guarantee(BG)	5.00	(1.05)**	[ICRA]A2+; Upgraded from [ICRA]A2
Unallocated limits	18.70	-	-
Total	**155.00**	**123.00**	

#Sub limit within PSC
***Sub limit within LC*

Rationale

The rating upgrade for Supriya Lifescience Ltd. (SLL) considers the improvement in its financial profile during FY2020-FY2021. The improvement was aided by revenue growth across key geographies, increased profitability resulting in higher accruals, and reduction in debt levels. The revenues grew 13.5% to Rs. 320.2 crore in FY2020 and 22% in FY2021 to Rs. 389.5 crore, backed by increase in sales volume and realisation of key products.

The operating profit margin (OPM) increased to 33.5% in FY2020 and further to 43.4% in FY2021 from 24.9% in FY2019, which primarily driven by improved sales realisation owing to change in SLL's product mix, along with higher contribution from regulated markets. The share of regulated markets has increased to 40% of revenues in FY2021 from 34% in FY2019.

The improved accruals resulted in lower debt levels and strengthening of debt protection metrics with the Total Debt/OPBDITA improving to 0.4 time in FY2021 from 1.3 times in FY2019. The ratings also draw comfort from the extensive experience of the promoters of SLL in active pharmaceutical ingredient (API) manufacturing, along with its backward integrated business model for its key products, contributing to around 83% of the total sales in FY2021. Furthermore, the ratings consider the diversified geographic presence of SLL, with export of pharmaceutical products to 78 countries in FY2021.

The ratings, however, are constrained by SLL's moderate scale of operations and its presence in mature therapies, which exposes its profitability to intense competition from its peers. Furthermore, SLL's operations have remained working capital intensive in nature because of elongated receivables and high inventory levels.

The Stable outlook on the long-term rating of [ICRA]A- reflects ICRA opinion that SLL will maintain its current credit profile, aided by strong cash accruals and growth across major geographies.

Key rating drivers and their description

Credit strengths

Continuous sales growth along with improved profitability– SLL's operating income (OI) witnessed a healthy compounded annual growth rate (CAGR) of 17.5% in FY2019-FY2021, led by increased sales volume across key geographies. Going forward, ICRA expects the revenue growth to remain healthy, driven by new product launches across geographies, and increase in manufacturing capacity. The FY2020 profitability was improved with the operating profit margin (OPM) at 33.5% from 24.9% in FY2019, due to higher sales realisations, the OPM improved further to 43.4% in FY2021. The higher realisations obtained by the company because of the change in SLL's product mix along with higher contribution from regulated markets. The sales to the regulated markets have gone up to 40% (of total sales) in FY2021 from 33% in FY2020. The sales realisation was contributed by the three major products, Ketamine Hydrochloride, Salbutamol Sulphate and Chlorpheniramine Maleate (CPM), the manufacturing of which is backward integrated. These three products contributed to around 54% of the total sales in FY2021 (42% and 48% in FY2019 and FY2020 respectively).

Healthy capital structure and coverage indicators- Over the years, the growth in SLL's accruals have led to reduced level of debt, which has improved its capitalisation and coverage indicators. As on March 31, 2021, the debt levels declined to Rs. 69.7 crore from Rs. 82.2 crore as on March 31, 2020 (Rs. 89.8 crore as on March 31, 2019) due to reduced working capital utilisation and repayment of loans. The reduction in debt coupled with an increase in accruals led to an improved capital structure as indicated by a gearing of 0.3 time as on March 31, 2021 over 0.6 times as on March 31, 2020. Also, the coverage indicators have improved over the years as reflected by the interest coverage ratio of 44.4 times, Total debt/ OPBDITA of 0.4 time, and NCA/Total Debt of 181% in FY2021 (which has improved from 7.2 times, 1.3 times and 52% respectively in FY2019).

Experienced promoters with more than three decades of experience in the pharmaceutical business; backward integrated business model- SLL was established in 1987 and has been manufacturing APIs since its inception. The company is headed by Dr. Satish Wagh and his technical expertise in the sector has enabled SLL to diversify its product portfolio and gain a strong foothold in the domestic and international markets. As per SLL, it occupies a healthy share in the global market for its key products and is one of the leading companies producing Ketamine Hydrochloride, Salbutamol Sulphate and CPM. As a major portion of the manufacturing is backward integrated, it has resulted in reduced dependence on external sources for the raw materials along with a steady supply, without the impact of market fluctuations. Consequently, SLL has gained cost competitiveness in the backward integrated products.

Geographically diversified revenues with presence across 78 countries- The company's revenues are export dominated with exports accounting for 76% of the total sales in FY2021 (71% in FY2020). The sales are geographically diversified and cater to the regulated, semi regulated and nonregulated markets of Asia, Americas, Europe, Middle East and African nations; in FY2021 SLL was able to sell its products to 78 countries. The sales to the top three export destinations constituted 32% of the total sales in FY2021 (24% in FY2020), which mitigates the concentration risk to an extent.

Credit challenges

Moderate scale of operations in an intensely competitive segment within pharmaceutical APIs- Even though the company's sales have witnessed a healthy growth over the years, it has remained moderate, as reflected by a turnover of Rs. 389.5 crore in FY2021. Furthermore, the domestic bulk drug industry is characterised by stiff competition from numerous organised and unorganised players and the company's ability to sustain its revenue growth will remain critical from a credit perspective. Moreover, SLL's product profile consists of relatively mature molecules, which are exposed to intense competition.

Presence limited to molecules in mature therapies – SLL's product profile comprises molecules in mature therapies including anti-histamine, analgesic/anesthetic therapies and others, which exposes it to intense price-based competition. Among the segments, anti-histamine, analgesic/anesthetic therapies accounted for 57% of total sales in FY2021 (54% in FY2020). However, SLL is expected to diversify its product portfolio gradually over FY2023-FY2024 owing to planned launches.

Working capital intensive nature of operations owing to higher inventory levels and elongated receivables – SLL has a working capital intensive nature of operations as reflected by a NWC/OI of 25% in FY2021, which increased from 15% in FY2020 due to higher stock maintained as on March 31, 2021, because of the company's decision to stock raw materials and finished

goods in view of the uncertainty related to the Covid-19 pandemic. SLL provides a credit period of 55-60 days to its customers. Its inventory days in the past three years remained within the range of 60-65 days. Imports are backed by LCs or they are against advance payments, while the local suppliers extend a credit period of around 60 days.

Liquidity position: Adequate

The company's liquidity profile has remained **adequate**. SLL has planned capex of Rs. 50.0 crore, Rs. 35.0 crore and Rs. 17.0 crore in FY2022, FY2023 and FY2024 respectively to expand the capacity at its manufacturing unit at Ratnagiri (Maharashtra). It had a term loan of Rs. 2.3 crore outstanding as on March 31, 2021, which is expected to be fully repaid in FY2022. Given the minimal repayment obligation, the funding of the capex through internal accruals will keep the liquidity profile at acceptable levels at present. SLL's operations have remained working capital intensive, following elongated receivables and high inventory levels as reflected from working capital utilisation (as a percentage of drawing power) of 75% during the 18-month period ended May 2021. However, the liquidity profile is also supported by healthy cash flow from operations of nearly Rs. 72.6 crore as on March 31, 2021 and healthy cash and liquid investments of Rs. 92.3 crore as on March 31, 2021, largely invested in fixed deposits. Overall, ICRA expects SLL to be able to meet its near-term commitments through internal sources of cash.

Rating sensitivities

Positive factors – ICRA will upgrade SLL's rating if the company demonstrates an improvement in its scale of operations, maintaining healthy profit margins and efficient management of its working capital requirements along with successful completion of the Initial Public Offering (IPO) leading to reduced debt levels.

Negative factors – Negative pressure on the ratings could arise if there is a sharp decline in the company's revenues or a moderation in operating profit margins below 20%. The ratings could be downgraded if there is any significant increase in working capital intensity beyond the current levels that adversely impacts its liquidity profile on a sustained basis, or if there is a considerable rise in debt levels for capex funding.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

Established in 1987 as a partnership concern under the name Supriya Chemical, it was later reconstituted as a closely held public limited company in 2008 and renamed as Supriya Lifescience Ltd. It manufactures and exports APIs. Its manufacturing unit is in Ratnagiri district of Maharashtra with a current annual production capacity of around 1,300 MT, while its registered office is in Mumbai. The company has its own R&D unit located at the manufacturing site, recognised by the Department of Scientific and Industrial Research (DSIR) which is a part of the Ministry of Science and Technology. The company holds World Health Organisation (WHO) Good manufacturing practice (GMP), EU GMP, European Directorate for the Quality of Medicines & HealthCare (EDQM), US Food and Drug Administration Authority (FDA), Korean FDA, Mexican FDA certifications for manufacturing various bulk drugs. SLL's product portfolio includes over 39 products and it has a global footprint that extends across 78 countries. The major shareholding of the company is with its founder, Dr. Satish Wagh.

As per the provisional numbers, for FY2021, SLL registered a net profit of Rs. 123.4 crore on an operating income of Rs. 389.5 crore.

Key financial indicators

SLL Standalone	FY2020	FY2021
	Audited	Provisional
Operating Income (Rs. crore)	320.2	389.5
PAT (Rs. crore)	72.2	123.4
OPBDITA/OI (%)	33.5%	43.4%
PAT/OI (%)	22.5%	31.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.7
Total Debt/OPBDITA (times)	0.8	0.4
Interest Coverage (times)	17.5	44.4

PAT: Profit After Tax; OPBDITA: Operating Profit Before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; 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

	Instruments	Current Rating (FY2022)						Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in			Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					July-26-2021	June-8-2021	May-13-2021	-	January-15-2020	-
1	Cash Credit	Long-Term	(25.00)*	-	[ICRA]A-(Stable)	[ICRA]BBB+(Stable) Outstanding	[ICRA]BBB+(Stable) ISSUER NOT COOPERATING	-	[ICRA]BBB+ (Stable)	-
2	PSC	Short-Term	80.00	-	[ICRA]A2+	[ICRA]A2 Outstanding	[ICRA]A2 ISSUER NOT COOPERATING	-	[ICRA]A2	-
3	Packing Credit	Short-Term	(56.50)*	-	[ICRA]A2+	[ICRA]A2 Outstanding	[ICRA]A2 ISSUER NOT COOPERATING	-	[ICRA]A2	-
4	Letter of Credit	Short-Term	43.00	-	[ICRA]A2+	[ICRA]A2 Outstanding	[ICRA]A2 ISSUER NOT COOPERATING	-	[ICRA]A2	-
5	Letter of Credit (Inland)	Short-Term	(20.00)^	-	[ICRA]A2+	[ICRA]A2 Outstanding	[ICRA]A2 ISSUER NOT COOPERATING	-	[ICRA]A2	-
6	Buyer's Credit	Short-Term	(25.00)^	-	[ICRA]A2+	[ICRA]A2 Outstanding	[ICRA]A2 ISSUER NOT COOPERATING	-	[ICRA]A2	-
7	Bank Guarantee	Short-Term	(1.05)^	-	[ICRA]A2+	[ICRA]A2 Outstanding	[ICRA]A2 ISSUER NOT COOPERATING	-	[ICRA]A2	-

**Sub limit within PSC,*
^Sub limit within LC

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based- Cash Credit	Simple
Short-term fund-based-Post Shipment Credit	Simple
Short-term fund-based-Packing Credit	Simple
Short-term non-fund based- Letter of Credit	Very Simple
Short-term non-fund based- Letter of Credit (Inland)	Very Simple
Short-term fund based-Buyers' Credit	Simple
Short- term Non-fund based- Bank Guarantee	Very 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, is available on ICRA's 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	Cash Credit	-	8.25%	-	(25.00)*	[ICRA]A-(Stable)
NA	PSC	-	-	-	80.00	[ICRA]A2+
NA	Packing Credit	-	-	-	(56.50)*	[ICRA]A2+
NA	LC	-	-	-	43.00	[ICRA]A2+
NA	LC (Inland)	-	-	-	(20.00)^	[ICRA]A2+
NA	Buyers' Credit	-	-	-	(25.00)^	[ICRA]A2+
NA	Bank Guarantee	-	-	-	(1.05)^	[ICRA]A2+

Source: Supriya Lifescience Ltd

**Sub limit within PSC, ^Sub limit within LC*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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