March 26, 2020

Jodas Expoim Pvt. Ltd: [ICRA]BBB- (Stable)/ [ICRA]A3 assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based/CC	0.00	3.00	[ICRA]BBB- (Stable); Assigned
Fund based	0.00	36.00	[ICRA]A3; Assigned
Unallocated Limits	35.00	66.00	[ICRA]BBB- (Stable); Assigned/Outstanding
Total	**35.00**	**105.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings takes into account the strong growth in revenues and profitability margins in FY2019 and 9MFY2020 backed by addition of new products following the commencement of own manufacturing operations. Over the last four years, the company has established Cephalosporins, Oncology and contrast media manufacturing facilities which have also received Russia-GMP and EUGMP aprovals. The rating also factors in Jodas Expoim Pvt. Ltd.'s (JEPL) healthy financial risk profile with gearing at 0.83 times as on March 31, 2019 with debt majorly comprising unsecured loans from promoters, interest coverage of 22.8 times, TD/OPBITDA of 1.69 times, and NCA/Total Debt of 51% in FY2019. The rating also considers promoters' extensive experience in the Russian healthcare market for over two decades; and JEPL's diversified product profile with revenues from Anti-infectives, Oncology and Contrast media segments.

The rating is, however, constrained by high geographical concentration with ~99% of revenues generated from exports to Russia and high customer concentration with top two customers contributing ~96% of revenues in 9M FY2020. Although the company is expanding to other markets by registering its products, the concentration on Russian markets is expected to remain high over the medium term. The company registered more than 170 products across various markets in the last two years which would support its future revenue growth. The rating is also constrained by high working capital intensity with debtor days at 190 given that the company's customers supplying to government hospitals in Russia; high competition due to the presence of large number of generic drug manufacturers and exporters in Europe for anti-infective and oncology segment; and exposure to probable risks arising from coronavirus outbreak in China which is a key rating monitorable. ICRA also notes the project execution risk arising from proposed debt-funded capex of Rs. 50.00 crore in the near term which could adversely impact the company's liquidity position to an extent.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's belief that JEPL will continue to benefit from the extensive experience of JEPL's promoters in the Russian healthcare market, and diversified product portfolio.

Key rating drivers and their description

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 more than two decades of experience in the Russian pharmaceutical market. The company has manufacturing facilities for Cephalosporin antibiotics, Oncology and Contrast media and the facilities have received regulatory approvals such as Russia-GMP and EUGMP.

Healthy revenue growth and profitability margins during FY2019: The operating income witnessed a strong growth to Rs. 178.96 crore in FY2019 and Rs. 172.14 crore in 9MFY2020 from Rs 89.35 crore in FY2018 on the back of addition of new products in Oncology and contrast media segments. The operating margins improved to 23.81% in FY2019 from 10.09% in FY2018 owing to increase in production from own manufacturing facility. JEPL's own manufacturing facilities contributed to 36% and 54% of total revenues in FY2019 and 9M FY2020 respectively, increasing from 16% in FY2018 with the remaining contributed by third-party manufacturers through loan license agreements. The margins are likely to remain healthy at above 25% levels in the medium term on the back of improving capacity utilisation and increased share of revenues from oncology and contrast media segments which have higher margins.

Comfortable financial risk profile: The capital structure is comfortable with majority of the debt comprising interest-free unsecured loans from promoters. The total debt of Rs. 71.81 crore as on March 31, 2019 comprises working capital borrowings of Rs. 27.55 crore and unsecured loans from promoters of Rs. 44.26 crore. The coverage indicators are strong as reflected by interest coverage of 22.80 times, Total Debt/OPBITDA of 1.69 times and NCA/Total Debt of 51% in FY2019. Despite the sizeable debt-funded capex plans in the near term, the credit metrics are expected to remain comfortable.

Diversified product portfolio: 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 supported improvement in profitability margins for the company in the last two years. The company has registered about 70 products in the Russian market and over 100 products across various markets in the last two years which is likely to result in increased orders from other markets in the medium term.

Credit challenges

Moderate scale of operations: JEPL's scale of operations is moderate with revenues of Rs. 178.96 crore in FY2019 and Rs 172.14 crore in 9mFY2020. Although the revenue is expected to improve in the medium term with expected increase in commercial orders from new markets, it continues to remain moderate.

High geographical and customer concentration: The revenues are highly concentrated with ~99% of revenues derived from exports to Russia and top two customers contributing ~96% of revenues in 9M FY2020. Although the company is expanding to other markets by registering its products, the concentration on Russian markets is expected to remain high over the medium term.

High working capital intensity: The working capital intensity is high with NWC/OI at 32% in 9mFY2020 owing to high debtor days. The debtor days are high owing to 120-180 days of credit period offered to its key customers who supply to government- hospitals in Russia. Further, the working capital requirements are supported to an extent by high creditor period availed from raw material suppliers and payables towards product registrations.

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 constraining pricing and profitability margins. However, the company's presence in niche and high-value segments mitigates this to an extent. Moreover, the pharmaceutical industry is exposed to probable risks arising from the recent outbreak of the Novel Coronavirus (COVID-19) in China causing supply chain disruptions for APIs and intermediates which are the key raw materials for JEPL's manufacturing. However, the company holds raw material inventory sufficient for 3 months of production mitigating the impact of coronavirus on the company to an extent.

Sizable capex exposing to project execution risk: The company is currently setting up production lines for oncology injectables and general injectables at a total cost of about Rs. 25.0 crore, and proposes to set expand its R&D facility at an estimated cost of Rs. 50.0 crore to support its product development across oncology, cephalosporin, critical care and contrast media segments. The project cost is proposed to be funded through a term loan and internal accruals. Timely financial closure, and the company's ability to commence project within stipulated timeline with no cost-overrun remains crucial.

Liquidity position: Adequate

The company's liquidity position is adequate with average fund-based limit utilization remaining moderate at ~61% during past twelve months with the limits largely unutilized in the last two months. Further, despite sizeable debt-funded capex plans in the medium term, the liquidity is expected to be supported by the company's healthy cash flows from operations.

Rating sensitivities

Positive Triggers: ICRA could upgrade JEPL's rating if there is significant improvement in company's scale of operations while maintaining profitability margins, along with reduction in customer and geographic concentration of revenues. Improvement in working capital intensity, especially marked by reduction in debtor days would also support rating upgrade. Specific credit metrics that could lead to an upgrade of JEPL's rating include (1) TOL/TNW less than 1.5 times on a sustained basis (2) Gross operating cycle (Debtor days + Inventory days) less than 180 days on a sustained basis.

Negative Triggers: Negative pressure on JEPL's rating could arise if revenues and margins are lower-than-expected or if there is a deterioration in working capital cycle impacting the company's liquidity position. Higher-than-projected debt funded capex impacting the company's capital structure could also be a trigger for rating change.

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:

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 and currently deals with about 75 products across various categories. The company set up its own manufacturing facility in Medak, Telangana and has facilities to manufacture products mainly in three therapeutic segments, Anti-infectives, Oncology and Contrast Media with the facilities approved by Russia-GMP and EU-GMP.

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. Crore)	89.35	178.96
PAT (Rs. Crore)	3.10	19.92
OPBDIT/ OI (%)	10.09%	23.81%
RoCE (%)	11.45%	27.80%
Total Outside Liabilities/Tangible Net Worth (times)	4.60	1.98
Total Debt/ OPBDIT (times)	11.37	1.69
Interest Coverage (times)	6.33	22.80
DSCR	9.29	20.47

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 (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2020		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					26-Mar-2020	04-Mar-2020	25-Feb-2019	-	-
1	Term loan	Long Term	0.00	-	-	-	[ICRA]BBB- (Stable)	-	-
2	Fund based/CC	Long Term	3.00	-	[ICRA]BBB- (Stable)	-	-	-	-
3	Fund based	Short Term	36.00	-	[ICRA]A3	-	-	-	-
4	Unallocated	Long Term	66.00	-	[ICRA]BBB- (Stable)	[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	Fund based/CC	NA	NA	NA	3.00	[ICRA]BBB- (Stable)
NA	Fund based	NA	NA	NA	36.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	66.00	[ICRA]BBB- (Stable)

Source: Jodas Expoim Pvt. Ltd.

ANALYST CONTACTS

K. Ravichandran
+91-44-45964301
ravichandran@icraindia.com

R Srinivasan
+91-44-45964315
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

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.

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