January 31, 2022

Shodhana Laboratories Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash credit	3.75	0.00	-
Short term – Fund based	0.50	0.00	-
Short term – Non fund based	6.20	0.00	-
Long term/Short term – Unallocated	0.00	10.45	[ICRA]A-(Positive)/[ICRA]A2+ reaffirmed;
Total	**10.45**	**10.45**	

**Instrument details are provided in Annexure-1*

Rationale

The Positive outlook on the ratings of Shodhana Laboratories Private Limited (SLPL) (earlier known as Shodhana Laboratories Limited, or SLL) takes into consideration the expected improvement in the company's credit profile as ramp-up in the production at the Vizag unit supports growth in accruals. The company witnessed healthy revenue growth of 24% in FY2021 on the back of higher sales from its major products and improvement in revenue from overseas markets. The company's revenue growth is expected to be muted in FY2022 on account of lower sales volumes; however, addition of new products and customers is expected to support scale up operations in the medium term. SLPL plans to increase its capacity at the Visakhapatnam (Andhra Pradesh) plant in FY2023, which would also support its growth in the medium term. The ratings consider the company's healthy financial risk profile with negligible debt levels, comfortable coverage indicators, and its strong liquidity position. The ratings continue to favourably factor in the established presence of the company spanning over two decades in the pharmaceutical industry and its established customer base of reputed pharmaceutical majors.

The ratings are, however, constrained by the high product concentration risk with SLPL's top five products accounting for more than 80% of its revenues in the last three years. Further, its existing portfolio comprises matured molecules and the company may witness volatility in sales owing to high dependence on customer production schedules. The ratings are also constrained by intense competition in the highly fragmented Active Pharmaceutical Ingredient (API) industry from both domestic and Chinese players, affecting the pricing flexibility of the company. Further, SLPL's margins remained moderate at 9-12% in the last two years with the major portion of its revenues contributed by domestic customers.

Key rating drivers and their description

Credit strengths

Established presence of the company in the pharmaceutical industry – The company has an established presence in the pharmaceutical industry, spanning over two decades. The promoters have more than three decades of experience in the pharmaceutical industry and continue to provide operational as well as technical guidance for managing SLPL's operations.

Reputed customer base – The company has a reputed customer profile, including Aurobindo Pharma Limited, Mylan Laboratories Limited, Dr. Reddy's Laboratories Limited, etc. Further, established relationships with its customers and being their preferred and approved source have supported SLPL's revenues over the years. The customer concentration risk remained moderate with the top 10 customers contributing 55-60% of its revenues in the last two years.

Comfortable financial risk profile – The company's financial profile is healthy as its net debt position is negative and its coverage indicators continue to remain strong with interest coverage ratio of 83.1 times, and Total Debt/OPBITDA of 0.1 time in FY2021, and 209.5 times and 0.0 time, respectively, in 9M FY2022. Also, the company's liquidity position remains strong with sizeable free cash and liquid investments and minimal debt repayment obligations.

Credit challenges

Moderate scale of operations – The company's scale of operations is moderate with an operating income of Rs. 262.3 crore in FY2021, which improved from Rs. 211.4 crore in FY2020. The revenue growth is expected to be muted in FY2022 as seen in revenue of Rs. 205.2 crore in 9M FY2022 on account of lower sales volume. However, the addition of new products and customers is expected to support scale up of SLPL's operations in the medium term. The commissioning of the new unit in Visakhapatnam along with capacity expansion plans for the unit would support its revenue growth from FY2023.

High product concentration – The company's product profile primarily consists of APIs and intermediates in the antidepressant and antihypertensive segments, which together accounted for ~60% of its revenues in FY2021 and 5M FY2022. Given that the existing portfolio comprises mature molecules and intense competition in the industry, the company would need to constantly develop new molecules to reduce its revenue concentration risk. The company may witness volatility in sales owing to high dependence on customer production schedules. However, the demand from overseas markets has improved significantly, which would diversify the customer concentration risk and increase the revenue and realisations, going forward.

Intense competition with fragmented market structure – The company continues to be affected by stiff competition from both domestic and Chinese players, limiting its pricing flexibility and constraining its margins over the years. Pricing pressure is further heightened by SLPL's limited presence in the export markets and highly fragmented domestic market structure, affecting its margins. The company's margins have remained moderate at 9-12% in the last two years with the major portion of its revenues contributed by domestic customers (73%).

Liquidity position: Strong

The liquidity position of the company remained strong with unencumbered cash balances of ~Rs. 40.7 crore as on December 31, 2021 against repayment obligations of Rs. 0.4 crore. The company also has capex plans of Rs. 20.0-25.0 crore for its capacity expansion in FY2023 and FY2024, which is expected to be funded entirely from the existing cash balances and internal accruals. Despite a sizeable capital expenditure in the near term, the liquidity position is expected to remain strong.

Rating sensitivities

Positive factors – The ratings of SLPL may be upgraded if there is a sustained growth in revenues along with healthy profitability margins leading to healthy coverage metrics and liquidity position. Improvement in product diversification will also have a positive impact on the company's rating.

Negative factors – The ratings of SLPL may witness a downward pressure if there is a substantial decline in revenues or reduced profitability, adversely impacting the coverage metrics and liquidity position.

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	For arriving at the ratings, ICRA has considered the standalone financials of SLPL.

About the company

Shodhana Laboratories Private Limited was incorporated in September 2000 by Dr. Giridhar Thota, a Doctorate in Chemistry with an experience of over 20 years in the pharma industry. Prior to this, Dr. Thota was associated with Dr. Reddy's Laboratories (DRL) from 1984 to 2000. SLPL primarily manufactures intermediates and APIs for formulation majors in both the domestic and export markets. The company's manufacturing facilities are at Jeedimetla, Hyderabad (Telangana) and Visakhapatnam (Andhra Pradesh). Sale of intermediates accounts for the major portion of its revenues, while the rest is contributed by the sale of APIs. SLPL primarily caters to formulation majors in India, while ~27% of its revenues is derived from exports to semi-regulated markets.

Key financial indicators (audited)

	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	211.4	262.3	205.2
PAT (Rs. crore)	14.1	20.4	33.0
OPBDIT/OI (%)	9.6%	11.5%	22.1%
PAT/OI (%)	6.7%	7.8%	16.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.3	0.1
Total Debt/OPBDIT (times)	0.0	0.1	0.0
Interest Coverage (times)	56.6	83.1	209.5

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Provisionals for 9M FY2022**

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Amount Outstanding as of Dec 31, 2021	Date & Rating in	FY2021	FY2020	FY2019
					Jan 31, 2022	Oct 30, 2020	Apr 04, 2019	-
1	Cash credit	Long-term	0.00	NA	-	[ICRA]A-(Positive)	[ICRA]A- (Stable)	-
2	Fund based	Short term	0.00	NA	-	[ICRA]A2+	[ICRA]A2+	-
3	Non fund based	Short term	0.00	NA	-	[ICRA]A2+	[ICRA]A2+	-
4	Unallocated limits	Long term/ Short term	10.45	NA	[ICRA]A-(Positive) /[ICRA]A2+	-	-	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term /Short term – unallocated	NA

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 analyzing 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	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Unallocated limits	NA	NA	NA	10.45	[ICRA]A-(Positive)/ [ICRA]A2+

Source: *Company*

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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar K
+91 44 4496 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Akshay Dangi
+91 40 4067 6528
akshay.dangi@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.