January 06, 2023

Suraj Laboratories Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	50.00	[ICRA]BB- (Stable); assigned
Long-term Fund-based – Cash credit	20.00	[ICRA]BB- (Stable); assigned
Total	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Suraj Laboratories Private Limited (SLPL) factors in the company's exposure to project related risks such as timely execution and cost overruns, given that it is setting up a greenfield facility for manufacturing active pharmaceutical ingredients (APIs). Also, given that this is the Prasaditya Group's first foray into the API industry and in the absence of any past track record of operations, SLPL's ability to achieve satisfactory scale up in operations post commissioning, remains to be demonstrated. Further, as the project is being partially funded through debt, repayment obligations and interest costs during the initial years are likely to moderate the capitalisation and coverage indicators, as SLPL's operations are expected to scale up gradually. The company is also expected to be vulnerable to industry characteristics like volatility in raw material prices, regulatory changes and high competitive intensity.

However, the rating draws comfort from operational and financial synergies enjoyed by SLPL as part of the Prasaditya Group, a well-diversified business group. ICRA has also noted the sizeable part of proposed funding contribution already infused by the promoters, and also expects them to provide timely funding support to SLPL, in case required for timely commissioning of the project and/or scale up of operations.

The Stable outlook reflects ICRA's opinion that SLPL will continue to benefit as part of the Prasaditya Group.

Key rating drivers and their description

Credit strengths

Operational and financial synergies enjoyed by SLPL as part of the Prasaditya Group – SLPL is a part of the Prasaditya Group, a well-diversified business group with operations in multiple countries, including India; and presence across sectors like cement, steel, engineering, finance, chemicals, and textiles. SLPL's promoters have already infused a large part of their proposed fund contributions towards the capex being undertaken by the company for setting up its manufacturing facility. Moreover, ICRA expects SLPL's promoters to provide timely funding support to SLPL, in case required for timely commissioning of the project and/or scale up of operations.

Credit challenges

Lack of experience in the pharmaceutical industry as the first company in the Group to venture into the sector – Though the Group is present across multiple sectors in the domestic and international markets, SLPL marks its first entry into the pharmaceutical sector. The Group has appointed experienced professionals from the pharmaceutical sector in key management roles to support SLPL's operations. However, in the absence of any track record of operations, the company's ability to achieve satisfactory scale up in operations remains to be demonstrated.

Exposure to project related risks, including risks of stabilisation of plants as per expected operating parameters, post commissioning of the project – SLPL remains exposed to project related risks such as time and cost overruns, since its manufacturing facility is currently under construction. Moreover, post commissioning of the manufacturing facility, scale up of operations also remains dependent upon timely receipt of requisite approvals and registrations, and establishment of a supplier and customer base.

Sizable dependence on debt financing likely to cause credit indicators to remain at suppressed level during the initial phase, post commissioning of the project – The total project cost of ~Rs. 115.5 crore is proposed to be funded by a term loan of ~Rs. 50.0 crore and balance through equity/unsecured loans (~33% of total cost already infused till November 2022) from the promoters. The repayment obligations and interest costs during the initial years are expected to supress the capitalisation and coverage indicators, as SLPL's operations are expected to scale up gradually.

Vulnerability of profitability to fluctuations in raw material prices and regulatory changes – Akin to other players in the industry, SLPL would be exposed to vulnerability of profitability due to fluctuations in raw material prices owing to substantial dependence of the industry on China for sourcing raw materials. As part of the pharmaceutical sector, SLPL also remains exposed to risks of scrutiny by regulatory agencies along with vulnerability towards changes in the industry's regulatory environment.

Low entry barriers leading to a highly competitive and fragmented industry – The Indian API industry is characterised by low entry barriers leading to a fragmented industry and a highly price competitive environment, which can impact the ability of SLPL to scale up its operations while continuing to maintain targeted profitability.

Liquidity position: Stretched

SLPL's liquidity position is stretched, given that it currently does not have any cash flow generating operations and is undertaking sizeable debt-funded capex for setting up its manufacturing facility. While the promoters have infused a large part of their fund contribution towards the capex and the term loan has already been sanctioned, in case of any considerable delay in the loan disbursement or any material cost overruns, the promoters will be required to provide incremental funding support for completing the project.

Rating sensitivities

Positive factors – ICRA may upgrade SLPL's rating if the entity is able to commission the project in a timely manner without any material cost overruns, while satisfactorily scaling up operations.

Negative factors – Pressure on SLPL's rating could arise if there is a considerable delay in the commissioning of the project or cost overruns and/or lack of timely and adequate financial support from the promoters. Lower than expected scaling up of operations post commissioning of the project, adversely impacting the business/ financial risk profile of the entity could also lead to a rating downgrade.

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	Standalone

About the company

SLPL is a private limited company incorporated on May 3, 2021, for manufacturing and sales of bulk drugs and intermediaries. It is part of the Prasaditya Group, which is present globally across various sectors like cement, automobiles, engineering, infrastructure, finance, IT/ITeS, paper and power, chemicals, and textiles. SLPL is currently setting up an API manufacturing unit in Yadgir, Karnataka, which is expected to be commissioned by the end of FY2024.

Key financial indicators (audited)

SLPL	FY2022*
Operating income	0.1
PAT	(0.2)
OPBDIT/OI	-304.4%
PAT/OI	-304.4%
Total outside liabilities/Tangible net worth (times)	-
Total debt/OPBDIT (times)	-
Interest coverage (times)	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**Company was incorporated in 2021 and presently does not have any operations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)*	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Jan 06, 2023	-	-	-
1	Fund-based Term Loan	Long term	50.00	-	[ICRA]BB- (Stable)	-	-	-
2	Fund-based Cash credit	Long term	20.00	-	[ICRA]BB- (Stable)	-	-	-

**as on December 5, 2022*

Note: Term loan was not disbursed as on December 5, 2022

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash credit	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	December 5, 2022	10.2%	December 2032	50.00	[ICRA]BB- (Stable)
NA	Cash credit	December 5, 2022	9.7%	NA	20.00	[ICRA]BB- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

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