

July 12, 2023

Siflon Pharma Private Limited: [ICRA]BB (Stable)/[ICRA]A4 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Fund-based term loan	34.75	[ICRA]BB (Stable); assigned
Long-term/ Short-term fund-based working capital facility	45.00	[ICRA]BB (Stable)/[ICRA]A4; assigned
Long-term/ Short-term – Unallocated	10.25	[ICRA]BB (Stable)/[ICRA]A4; assigned
Total	90.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to Siflon Pharma Private Limited (SPPL) factor in its promoters' extensive experience of more than two decades in the veterinary pharmaceutical active pharmaceutical ingredients (API) industry and its healthy market share for some of its key molecules. The ratings also factor in SPPL's diversified geographical presence with around 55% of revenue being contributed by exports in FY2023. SPPL exports its products across the globe including countries like China, Germany, Kenya, Morocco, Uruguay and Jordan. ICRA notes the new manufacturing facility commissioned by SPPL in Visakhapatnam (Andhra Pradesh) in November 2022. This is expected to further support the growth of SPPL's revenue with diversification of its product portfolio and entry into new markets.

However, the ratings are constrained by SPPL's modest scale of operations and stretched liquidity position owing to high working capital intensity of the business. Nevertheless, expected fund infusion by the promoters, higher internal accruals and low capex outlay are expected to support the improvement in its liquidity position. SPPL's profitability also remains vulnerable to volatility in raw material prices and elevated competitive intensity of the industry. The ratings also factor in SPPL's exposure to forex risk—considering that ~55% of its revenue is generated through exports—and regulatory risks akin to its peers in the pharmaceutical industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that SPPL's credit profile will be supported by improvement in accrual generation, supported by scaling up operations in its recently commissioned manufacturing facility; and reduction in its debt levels.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the veterinary API industry – SPPL's promoter, Mr. Rallapalli Ananthaiah, has an extensive experience of more than two decades in the veterinary pharmaceutical industry. The business was started in 1999 under a partnership firm, Siflon Drugs, which was recently converted into a private limited company (SPPL) in May 2022. Over the years, the company has widened its product portfolio and geographic presence under his able guidance. SPPL's key products, i.e., Oxytoclozanide, Rafoxanide, Closantel Base and Closantel Sodium contribute 75-85% of its total revenues. SPPL is one of the market leaders for its key product, Oxytoclozanide. SPPL is also exploring opportunities to launch new products including human APIs over the medium term.

Geographically diversified revenue base – SPPL's revenues are well diversified geographically with exports generating ~55% of its revenues. SPPL exports to more than 20 countries across the globe with China, Germany, Kenya, Morocco, Uruguay and

Jordan being some of its key markets. Moreover, with the commissioning of the new manufacturing facility at Visakhapatnam, SPPL is focussed on adding new customers, which is expected to support the growth of exports, going forward.

Credit challenges

Moderate financial risk profile – Despite steady growth over the years, SPPL's scale of operations has remained modest, resulting in limited cash accrual generation. Moreover, the company incurred significant debt-funded capex over the past few years for setting up a greenfield manufacturing facility at Visakhapatnam, which coupled with increased reliance on working capital borrowings has led to moderation in its debt coverage metrics with total debt/OPBDITA, interest coverage and TOL/TNW of 3.8 times, 3.2 times and 2.4 times, respectively, in FY2023. However, with expected scale up of operations and reduction in debt levels, the coverage metrics are expected to improve over the medium term.

Profitability remains susceptible to raw material price volatility and competitive pressures – SPPL's profitability remains susceptible to volatility in the prices of its raw material. Moreover, the fragmented nature of the industry coupled with low entry barriers leads to high competitive pressures, resulting in low pricing flexibility for its products. This was also demonstrated by moderation in the company's revenue in FY2023 due to decline in average realisations amid increased competition.

High working capital intensity of the business – Working capital cycle of SPPL has remained stretched with working capital intensity of 43.1% in FY2023 over 23.1% in FY2022, owing to high debtor and inventory levels. This has also resulted in high utilisation of working capital limits (average utilisation of 97% over the last 15 months). However, with stabilisation of operations at the recently commissioned Visakhapatnam facility, some optimisation of the working capital cycle is expected over the near term.

Exposure to regulatory and forex risks – Companies in the API industry are exposed to regulatory risks with respect to various authorities across geographies. Facilities of SPPL are WHO GMP/GMP certified and are exposed to risks associated with non-compliances in addition to changing landscape of government policies. Moreover, considering more than 50% of its revenues are contributed by exports, SPPL is also exposed to risks arising out of volatility in foreign exchange rates.

Liquidity position: Stretched

SPPL's liquidity profile is stretched, due to high working capital intensity of the business and modest cash accruals. SPPL has working capital limits of Rs. 45 crore which remained almost fully utilised over the last 12 months (97% average utilisation) ending March 2023. SPPL has repayment obligations of around Rs. 6.5 crore p.a. in FY2024 and FY2025, which are expected to be serviced through internal accruals. Expected fund infusion by the promoters, higher internal accruals and low capex outlay are expected to support the improvement in SPPL's liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates a healthy growth in revenue and accrual generation, coupled with improvement in working capital intensity leading to improvement in its liquidity position on a sustained basis.

Negative factors – The ratings could be downgraded if there is a substantial decline in revenues and margins, or if any stretch in the working capital cycle exerts further pressure on the liquidity position or debt coverage metrics, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceutical Industry Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

SPPL is a veterinary API/ bulk drug manufacturing company of the Siflon Group. The business was started in 1999 by its promoter, Mr. Rallapalli Ananthaiah, under a partnership firm, Siflon Drugs, which was recently converted into a private limited company (SPPL) in May 2022. The key products of SPPL include oxyclozanide, rafoxanide, closantel base, closantel sodium, closantel amino compound, etc. SPPL has two manufacturing facilities in Ananthapur and Visakhapatnam (Andhra Pradesh).

Key financial indicators (audited)

SPPL - Standalone	FY2021	FY2022	FY2023*
Operating income	136.1	155.5	131.2
PAT	15.5	20.2	7.4
OPBDIT/OI	16.4%	17.3%	17.4%
PAT/OI	11.4%	13.0%	5.7%
Total outside liabilities/Tangible net worth (times)	2.4	1.8	2.4
Total debt/OPBDIT (times)	1.8	2.2	3.8
Interest coverage (times)	5.1	4.5	3.2

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2020
				Jul 12, 2023	-	-	-
1 Term loans	Long term	34.75	25.00	[ICRA]BB (Stable)	-	-	-
2 Working capital facility	Long term and short term	45.00	-	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-
3 Unallocated	Long term and short term	10.25	-	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/ Fund based term loan	Simple
Long term/short term fund based working capital facility	Simple
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 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 I	December 2020	8.00%	March 2029	20.00	[ICRA]BB (Stable)
NA	Term loan II	November 2022	9.90%	August 2023	5.00	[ICRA]BB (Stable)
NA	Term loan III	April 2023	10.90%	April 2033	9.75	[ICRA]BB (Stable)
NA	Working capital facility	NA	NA	NA	45.00	[ICRA]BB (Stable)/[ICRA]A4
NA	Unallocated	NA	NA	NA	10.25	[ICRA]BB (Stable)/[ICRA]A4

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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