

August 07, 2023

Raghava Life Sciences Private Limited: Rating upgraded to [ICRA]BB(Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	30.00	50.00	[ICRA] BB (Stable); upgraded from [ICRA]BB-(Stable)
Long-term – Fund-based – Cash Credit	10.00	25.00	[ICRA] BB (Stable); upgraded from [ICRA]BB-(Stable)
Long-term – Unallocated	70.00	35.00	[ICRA] BB (Stable); upgraded from [ICRA]BB-(Stable)
Total	110.00	110.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade on the bank lines of Raghava Life Sciences Private Limited (RLSPL) factors in the reduction of project risk with the completion and commencement of operations of its new manufacturing plant, which doubled its production capacity to 300 kilo litres (KL). The company incurred ~Rs. 87.0 crore for setting up the new plant, which was funded through Rs. 30.0 crore of bank debt and the remaining Rs. 57.0 crore through a mix of unsecured loans from promoters, group entities, and internal accruals. The incremental cost towards the project in FY2023 was entirely funded by interest free unsecured loans from the promoter group. Increased production capacity along with proposed launch of new products is expected to support the company in scaling up its operations over the medium term.

RLSPL recorded a strong revenue growth of ~31% in FY2023 on the back of healthy orders for its contract research and manufacturing services (CRAMS) division and healthy growth in active pharmaceutical ingredients (APIs) and intermediates volumes. However, the revenues remained subdued in Q1 FY2024 owing to subdued demand from the US market for its CRAMS division; although its API sales, which is a largely domestic business, have been healthy. ICRA expects the company to record muted growth in FY2024 on account of sluggish demand from its global customers. It has applied for the Certificate of Suitability - EU (CEP) approval for two of its API molecules, Lacosamide and Bilastine, whose receipt would support the company in scaling up its export revenues over the medium term. While the company's margins moderated by ~100 bps in FY2023 owing to costs incurred towards the new unit, its operating margins are expected to remain healthy at 15-17% in the near term. The rating further draws comfort from the experience of RLSPL's management in the API manufacturing and contract research services industry, which has helped it build a healthy customer base. The rating also considers the favourable long-term demand prospects for the industry, which augurs well for the company's growth.

The ratings are, however, constrained by RLSPL's working capital intensive nature of operations owing to high inventory holding period. Moreover, the company's inventory holding increased over the past two years, stretching its working capital cycle further. However, its inventory holding is expected to moderate gradually with stabilising raw material prices. The ratings are further constrained by modest scale of operations; however, the company has doubled its installed capacity in 2023, which will support the revenue growth; although timely ramp up of operations remain critical. The ratings also consider high customer concentration with RLSPL's top five customers generating ~64% of its revenues in FY2023. The rating also factors in the exposure of RLSPL's margins to the volatility in raw material costs. The company's financial risk profile remains moderate, characterised by leverage capital structure with gearing of 3.3 times as on March 31, 2023, along with total debt/OPBIDTA of 12.2 times in FY2023.

The Stable outlook on the long-term rating reflects ICRA's expectation that RLSPL will be able to scale up its operations with healthy margins and improve its financial profile.

Key rating drivers and their description

Credit strengths

Significant experience of management in the pharmaceuticals industry – RLSPL's management has experience in the pharmaceutical industry, which has supported the company in securing orders for providing contract research services, and API manufacturing, despite its limited operational track record. It has developed more than 20 APIs and intermediaries, and is planning to launch 11 new products in FY2024, which are a mix of APIs and intermediates.

Favourable demand prospects for API manufacturing – The long-term demand prospects for the industry remain favourable, which augurs well for the company's growth. Moreover, the company has been focusing on developing new products across therapeutic segments such as cardiovascular, anti-hypertensive, anti-diabetic, and antihistamine.

Credit challenges

Modest scale of operations – The company's scale of operations remained modest marked by revenues of Rs. 65.5 crore in FY2023, despite a healthy growth of 31% during the year. Revenues in Q1 FY2024 were subdued owing to weak demand for contract research orders, which are largely from US clients. While the company's revenue growth is expected to be muted in FY2024, increase in production capacity (RLSPL doubled its capacity in FY2023) and proposed launch of new products are expected to support its growth over the medium term.

Higher customer concentration risk – The customer concentration risk is high with RLSPL's top five customers accounting for almost 64% of its revenues in FY2023. However, the proposed launch of new products, which would cater to various customers across countries, is expected to reduce the risk to an extent, going forward.

Margins exposed to fluctuations in raw material prices – The company's operating margins are exposed to the price volatility of raw materials and APIs, given the intense competition and fixed-price nature of contracts. While the company has been able to pass on the increased costs to its end-customers in the CRAMS division, to an extent, its pricing flexibility in the API division remains limited.

High working capital intensity and moderate financial profile – The firm's working capital intensity remained high with NWC/OI of 75-77% over the last two years, given the high inventory holding period. At any given time, the firm holds an inventory of 160 to 180 days, given the long business cycle. Going forward, improvement in the working capital management from the release of inventory will remain a key rating monitorable. The firm extends a credit period of up to 120 days to its customers and receives a credit period of 120-180 days from its suppliers. The company's financial risk profile remained moderate, characterised by high leverage with gearing of 3.3 times (3.0 times as on March 31, 2022) and total debt/OPBIDTA of 12.2 times (11.9 times in FY2022) as on March 31, 2023. However, ICRA notes that a part of RLSPL's debt comes from its promoters and promoter group, which does not carry any interest or defined repayment schedule.

Liquidity position: Adequate

The liquidity position is adequate, supported by expected retained cash flows of ~Rs. 10-15.0 crore in FY2024. While the buffer in working capital limits was low at Rs. 1.0-1.5 crore as on March 31, 2023, the company has enhanced the working capital limits by Rs. 3.0 crore in June 2023. The expected reduction in inventory holding along with enhanced working capital limits is likely to support RLSPL's liquidity. The company has term loan repayment obligations of ~Rs. 5.0-6.0 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade RLSPL's ratings if there is a substantial improvement in revenues and earnings, resulting in improved debt coverage metrics. Specific credit metrics that may lead to a rating upgrade include DSCR more than 1.3 times on a sustained basis.

Negative factors – Pressure on RLSPL’s rating could arise if any decline in revenues or profitability margins adversely impacts the debt coverage indicators. Any major debt-funded capex impacting the credit metrics, or any stretch in the working capital cycle impacting the liquidity position would also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company’s standalone financial profile.

About the company

Raghava Life Sciences Private Limited was incorporated in January 2018 by Mr. Lohith Reddy and Ms. Sapni Reddy. RLSPL has two business verticals—API manufacturing and providing CRAMS. The API business is focused on developing and manufacturing APIs from its Good Manufacturing Practices (GMP) compliant facilities at Bhiknoor in the Kamareddy district of Telangana.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	50.1	65.5
PAT	2.7	3.5
OPBDIT/OI	16.6%	15.5%
PAT/OI	5.4%	5.3%
Total outside liabilities/Tangible net worth (times)	3.4	3.6
Total debt/OPBDIT (times)	11.9	12.2
Interest coverage (times)	5.9	5.0

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 (Rs. crore) as on Mar 31, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				August 07, 2023	May 30, 2022	-	February 02, 2021
1 Term Loan	Long Term	50.00	26.8	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)
2 Cash Credit	Long Term	25.00	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	[ICRA]BB- (Stable)
2 Unallocated	Long Term	35.00	-	[ICRA]BB (Stable)	[ICRA]BB- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund based – Term Loan	Simple
Long Term – Fund based – Cash Credit	Simple

Long Term – Unallocated

Not Applicable

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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	Nov 2021	-	Nov 2028	50.00	[ICRA]BB (Stable)
NA	Cash Credit	-	-	-	25.00	[ICRA]BB (Stable)
NA	Unallocated	-	-	-	35.00	[ICRA]BB (Stable)

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
+91 12 44545300
shamsherd@icraindia.com

Srikumar K
+91 44 45964318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 45474829
nithya.debbadi@icraindia.com

Raviteja Etikala
+91 40 45474829
etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6169 3300
shivakumar@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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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.