February 29, 2024

Sainor Laboratories Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Cash Credit	21.60	21.60	[ICRA]BBB+ (Stable); Reaffirmed
Long Term-Fund Based-Others	0.00	8.68	[ICRA]BBB+ (Stable); Assigned
Long Term-Fund Based-Term Loan	35.00	35.16	[ICRA]BBB+ (Stable); Reaffirmed and assigned for enhanced amount
Long Term / Short Term-Unallocated Limits	1.50	24.66	[ICRA]BBB+/[ICRA]A2; reaffirmed and assigned for enhanced amount
Short Term-Non Fund Based-Others	29.90	34.90	[ICRA]A2; Reaffirmed and assigned for enhanced amount
Total	**88.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider ICRA's expectation that Sainor Laboratories Pvt Ltd. (SLPL) will maintain its credit profile, despite a correction in the scale of operations, with low debt levels, comfortable coverage metrics and adequate liquidity position. The ratings factor in SLPL's established presence in the lithium-based chemical space and semi-formulations segment, supported by a strong customer base and niche product profile. SLPL witnessed a sharp revenue growth of 123% in FY2023 on the back of a steep increase in realisations of n-Butyllithium (NBL), SLPL's main product. This increase in realisations is attributed to a multifold increase in lithium prices, which were passed on to its customers during the year. However, lithium prices have corrected significantly in the past few quarters, which is expected to result in a 34-38% contraction in revenues in FY2024. Nevertheless, revenues would be higher than FY2022 levels. A lower scale of operations is expected to result in a decline in operating margins to 15-18% in FY2024 from 23.6% in FY2023. However, the company's capital structure and coverage metrics are expected to remain comfortable with an estimated TOL/TNW of less than 1 times and DSCR of 5-7 times in FY2024.

The ratings remain constrained by product concentration risks in both segments. In the lithium-based chemicals division, the top three products - NBL, lithium carbonate and lithium metal pellets - contributed 77% of the sales in 8M FY2024. Similarly in the semi-formulations segment, the top product, omeprazole, contributed to 84% of segment revenues in FY2023. The ratings are also constrained by the working capital-intensive nature of operations owing to higher debtor days and inventory holding. The ratings also factor in the susceptibility of margins to fluctuations in the raw material prices, reagents and other alkyl-based products, which are crude derivatives.

The Stable outlook on [ICRA]BBB+ rating reflects ICRA's opinion that SLPL's established track record, reputed customer profile and healthy demand prospects for its products will support the improvement of its earnings and financial profile.

Key rating drivers and their description

Credit strengths

Long track record and established relationships with reputed customers – The company has established relationships with reputed customers, as reflected by repeat orders over the years. SLPL's clientele includes players such as Divis Laboratories Ltd, Syngene International Limited, Dr. Reddy's Laboratories Limited, etc.

Niche product profile aids the company in pricing and margins – SLPL is one of the few companies capable of manufacturing lithium-based chemicals. It has a registered portfolio of about 350 products across the therapeutic segment. Lithium is a hazardous chemical and the manufacturing of its products involves significant technical know-how, creating higher entry barriers.

Comfortable capital structure and debt protection metrics – The company's revenues and earnings increased sharply in FY2023 on the back of higher realisations. While correction in realisations is expected to result in a contraction in revenues and impact the margins in FY2024, the company's capital structure and debt metrics are expected to remain comfortable with an estimated DSCR of 5-7 times and total debt/OPBITDA of less than 1 times.

Credit challenges

High product concentration - The company's product concentration is high in both segments, i.e. semi-formulations and lithium-based chemicals. In the semi-formulations segment, omeprazole pellets (anti-ulcerative) account for over 80% of the segment's revenues. In the lithium-based chemicals segment, the top three products accounted for 77% of the segment's revenues in 8M FY2024. However, the addition of new products and a niche product profile with lower competition offer comfort to an extent in the medium term.

Increased working capital intensity - The working capital intensity increased to 41% in H1 FY2024 from 28% in FY2023, owing to higher debtors and lower creditors. SLPL's working capital intensity is expected to remain high in the near term owing to high debtors. Longer transit times owing to the Red Sea crisis would also keep the working capital intensity elevated in the near term. SLPL extends 90 days of credit to its domestic customers, whereas export sales are against the letter of credit. For key products, which can only be imported and require bulk purchasing, the company holds a high inventory.

Susceptibility of margins to raw material price movements and operations exposed to regulatory restrictions— The company's margins are susceptible to fluctuations in raw material prices. Lithium is the key raw material for its organo-metallic compounds, which constitute a major portion of its revenues. As the company relies entirely on Lithium imports, it is exposed to geopolitical risks, particularly due to its dependence on China for the same. The company is also exposed to regulatory risks as it deals with hazardous reagents and lithium.

Liquidity position: Adequate

The company's liquidity is adequate with a buffer of Rs. 10-15 crore in the working capital limits (against drawing power and sanctioned limits) and free cash deposits of Rs. 46 crore as on January 31, 2024. SLPL is expected to generate Rs. 25-30 crore retained cash flows in FY2025. It has repayment obligations of ~Rs. 10-12 crore in the next 12 months and capex plans of Rs. 5-6 crore.

Rating sensitivities

Positive factors – ICRA could upgrade SLPL's rating if there is steady growth in scale while maintaining healthy margins and debt protection metrics. Moreover, improved product profile or client diversity, and strengthening the business profile would also support a rating upgrade.

Negative factors – The ratings could be downgraded if subdued demand or any sharp decline in realisations results in a material decline in accruals and impacts its liquidity position. Specific credit metrics that could result in a rating downgrade include total debt/OPBDITA exceeding 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceuticals Rating Methodology - Chemicals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sainor Laboratories Private Limited. ICRA has revised its rating approach from standalone to consolidated as SLPL acquired an entity, Skills Life Sciences Ltd., which expected to be merged with SLPL in the medium term.

About the company

SLPL was incorporated in 2003. In August 2017, Sainor Pharma Private Limited (SPPL) was amalgamated with Sainor Laboratories Private Limited. SLPL manufactures fine chemicals such as alkyl lithium, alkyl aluminium and other lithium-based products and anti-ulcer drug loaded pellets (semi-formulation/ pelletisation). The entity's Unit 1 and Unit 3 have capacity to manufacture lithium-based products while Unit 2 manufactures pellets.

Key financial indicators (audited)

SLPL Consolidated	FY2022	FY2023
Operating income	385.5	872.0
PAT	55.6	138.7
OPBDIT/OI	22.5%	23.4%
PAT/OI	14.4%	15.9%
Total outside liabilities/Tangible net worth (times)	0.9	0.8
Total debt/OPBDIT (times)	0.8	0.4
Interest coverage (times)	20.2	33.4

Source: Company, ICRA Research; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for last 3 years		
		Type	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 FY2021
					Feb 29, 2024	Dec 29, 2022	Sep 06, 2021	Sep 29, 2020
1	**Cash Credit**	Long term	21.60	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB- (Positive)
2	**Non-Fund Based**	Short Term	34.90	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3
3	**Term Loan**	Long Term	35.16	29.32	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB(Stable)	[ICRA]BBB- (Positive)
4	**Fund Based-Others**	Long Term	8.68	-	[ICRA]BBB+ (Stable)	-	-	-
5	**Unallocated Limits**	Long Term/Short term	24.66	-	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable) /[ICRA]A2	[ICRA]BBB(Stable) /[ICRA]A3+	[ICRA]BBB-(Positive) / [ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short -term –Non Fund-based	Very Simple
Fund Based-Term Loans	Simple
Fund based-Others	Simple
Unallocated Limits	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	21.60	[ICRA]BBB+ (Stable)
NA	**Non-Fund Based**	NA	NA	NA	34.90	[ICRA]A2
NA	**Term Loan**	FY2021	NA	FY2028	35.16	[ICRA]BBB+ (Stable)
NA	**Fund based-Others**	NA	NA	NA	8.68	[ICRA]BBB+ (Stable)
NA	**Unallocated Limits**	NA	NA	NA	24.66	[ICRA]BBB+ (Stable) / [ICRA]A2

Source: Company

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

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Sainor Laboratories Private Limited	100.00%	Full Consolidation
Skills Life Sciences Private Limited	100.00%	Full Consolidation

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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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