

Rating Advisory

February 27, 2020| Mumbai

Advisory as on February 27, 2020

This rating advisory is provided in relation to the rating of Bafna Pharmaceuticals Limited.

CRISIL vide its publication dated January 29, 2020 highlighted the aspect of non-co-operation by Bafna Pharmaceuticals Limited.

Bafna Pharmaceuticals Limited has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

Rating Rationale

June 28, 2019 | Mumbai

Bafna Pharmaceuticals Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.57 Crore
Long Term Rating	CRISIL D (Reaffirmed)
Short Term Rating	CRISIL D (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its ratings on the bank facilities of Bafna Pharmaceuticals Limited (Bafna) at 'CRISIL D/CRISIL D'.

The rating reflects delays by Bafna in servicing its debt obligations. The delays have been caused by sluggish operating performance over the past year resulting in cash losses. Besides, the company's liquidity has also weakened due to a significant stretch in receivables.

During July 2018, one of the company's creditors, Aries had has filed a case against the company under Insolvency and Bankruptcy Code 2016 with the Chennai Bench of National Company Law Tribunal (NCLT) towards total pending dues of Rs 49.2 crore. During January 2019, Bafna had submitted the resolution plan, which was approved by 75% of the financial creditors at the Committee of Creditors meeting. During February 2019, the Chennai bench of NCLT approved the resolution plan and ordered that 70% of the claim amount shall be paid within three months of the approval date. NCLT also ordered the reduction in share capital of all equity shareholders to 10% of the share capital (from 2.36 crore shares to 0.236 crore shares outstanding).

Key Rating Drivers & Detailed Description

Weakness:

*** Constrained financial risk profile:**

Bafna's financial risk profile is sub-par, as reflected by weak debt protection metrics; gearing and interest coverage ratio deteriorated to 2.33 times and -5.91 times respectively as on March 31, 2019 from 1.16 times and -0.59 times in the previous year. Company also reported cash losses in fiscal 2019 due to muted operations, leading to high reliance on short term working capital debt.

*** Working capital intensive operations**

Receivables was 209 days (gross current assets of 378 days) as on March 31, 2019 due to delayed payment from domestic institutional clients; government hospitals in Tamil Nadu, Andhra Pradesh, Maharashtra and Karnataka.

Strengths:

*** Extensive experience of promoters**

Presence of more than two decades in the pharmaceutical industry has enables the promoter to expand operations in both the domestic as well as global markets.

Liquidity

Liquidity remains weak. Weak operating performance in fiscal 2019 has resulted in cash loss, and delay in servicing debt. Further because of large working capital requirement on account of stretched receivables. Liquidity is unlikely to improve over the medium term without equity infusion and turnaround in operations.

About the Company

Bafna was set up in 1981 as a proprietary concern by Mr. Bafna Mahaveer Chand; it was reconstituted as a public limited company in 1995. The promoter, along with his relatives and friends, owns 40.81 per cent of Bafna's equity; the remaining is owned by the public and bodies corporate.

Bafna commenced production in October 1984 with a tablet manufacturing facility at Madhavaram in Chennai and added capsule and oral syrup facilities. In 2001, the company set up a unit for producing betalactam products. While Bafna has, over the years, focused on institutional and generic supplies of pharmaceutical products, it has also steadily increased the number of product registrations in the international market.

The company commissioned its second manufacturing facility in Grantyln (Tamil Nadu). Bafna has also set up a formulations research and development unit at the Grantyln unit. The unit manufactures non-betalactam products for regulated markets in the UK and the US, and new products for markets in India and Sri Lanka. Bafna acquired the Raricap brand from Johnson and Johnson Ltd in April 2011.

Bafna sold its branded generics business (including Raricap and seven other brands) to Strides Arcolab Ltd (Strides Arcolab) through a special purpose vehicle, Strides Actives Pvt Ltd (SAPL), for Rs 48.1 crore and a 26 per cent stake in SAPL. Bafna has the option to exit SAPL after five years at a minimum floor price of Rs 10 crore. Bafna will continue to undertake contract manufacturing for these products of SAPL for a period of five years, post which the contract may be renewed.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	43.8	48.2
Profit after tax (PAT)	Rs crore	-19.7	-16.5
PAT margins	%	-45.0	-34.1
Adjusted debt/Adjusted net worth	Times	2.33	1.16
Interest coverage	Times	-5.9	-0.6

Status of non cooperation with previous CRA: Not applicable

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit*	NA	NA	NA	25	CRISIL D
NA	Cash Credit	NA	NA	NA	3	CRISIL D
NA	Export Packing Credit*	NA	NA	NA	8	CRISIL D
NA	Foreign Bill Discounting*	NA	NA	NA	5	CRISIL D
NA	Letter of Credit & Bank Guarantee#	NA	NA	NA	9	CRISIL D
NA	Long Term Loan^	NA	NA	Mar-17	1.65	CRISIL D
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	5.35	CRISIL D

*100% two-way interchangeability among cash credit, export packing credit, and foreign bills discounting (non-letter of credit) limits.

#One-way interchangeability from NFB to FBWC limit to the extent of Rs 4 crore

^Details Awaited

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/S T	92.00	CRISIL D			15-03-18	CRISIL D	31-01-17	CRISIL D	12-07-16	CRISIL C	CRISIL BB- /Stable
												18-02-16
Non Fund-based Bank Facilities	LT/S T	9.00	CRISIL D			15-03-18	CRISIL D	31-01-17	CRISIL D	12-07-16	CRISIL A4	CRISIL A4+
												18-02-16

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit*	25	CRISIL D	Cash Credit*	25	CRISIL D
Cash Credit	3	CRISIL D	Cash Credit	3	CRISIL D
Export Packing Credit*	8	CRISIL D	Export Packing Credit*	8	CRISIL D
Foreign Bill Discounting*	5	CRISIL D	Foreign Bill Discounting*	5	CRISIL D
Letter of credit & Bank Guarantee#	9	CRISIL D	Letter of credit & Bank Guarantee#	9	CRISIL D
Long Term Loan	1.65	CRISIL D	Long Term Loan	1.65	CRISIL D
Proposed Long Term Bank Loan Facility	5.35	CRISIL D	Proposed Long Term Bank Loan Facility	5.35	CRISIL D
Total	57	--	Total	57	--

*100% two-way interchangeability among cash credit, export packing credit, and foreign bills discounting (non-letter of credit) limits.

#One-way interchangeability from NFB to FBWC limit to the extent of Rs 4 crore

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for the Pharmaceutical Industry](#)

[CRISILs Approach to Recognising Default](#)

[CRISILs Criteria for rating short term debt](#)

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