

Rating Update

December 04, 2023 | Mumbai

Fredun Pharmaceuticals Limited

Update as on December 04, 2023

This update is provided in continuation of the rating rationale below.

The key rating sensitivity factors for the rating include:

Upward factors

- Sharp rise in topline and better operating profitability, leading to cash accrual over Rs 15 crore
- Consistent improvement in the working capital cycle and liquidity

Downward factors

- Decline in revenue and operating profitability, resulting in cash accrual below Rs 9 crore
- Further stretch in the working capital cycle or a large, debt-funded capex

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Fredun Pharmaceuticals Limited (FPL) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

FPL was incorporated in 1987 by Mr Nariman Medhora and his wife, Dr Daulat Medhora. The company manufactures pharmaceutical formulations such as tablets, syrups, capsules, and ointments. Product basket includes multiple therapeutic classes such as anti-diabetics, anti-retroviral and anti-hypertensive. The manufacturing unit is in Palghar, Maharashtra, and the corporate office in Mumbai.

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Rating Rationale

April 13, 2023 | Mumbai

Fredun Pharmaceuticals Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	Rs.85 Crore (Enhanced from Rs.50 Crore)
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A3 (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings on the bank facilities of Fredun Pharmaceuticals Limited (FPL).

The ratings reflect extensive experience of the promoters in the pharmaceutical formulations business, diversified product profile and geographical presence and moderate financial risk profile. These strengths are partially offset by large working capital requirement, exposure of the operating margin to volatility in raw material prices and stretched liquidity.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoters:** The key promoters -- Dr Daulat Medhora and Mr Nariman Medhora - have more than three decades of experience in the pharmaceutical formulations business and have been instrumental in research & development work and manufacturing of new products. Mr Fredun Medhora (managing director) has been in the business for over a decade. The promoters initiated strategies to expand product categories and enhance geographical reach; they are also likely to extend timely, need-based funding support.
- **Diversified product profile and geographical reach:** FPL has offerings in 23 therapeutic classes (including anti-diabetics, anti-retroviral and anti-hypertensive), with around 450 products registered in overseas markets. It also exports to over 46 countries in South Asia, Africa, Commonwealth of Independent States, and Latin America. The wide product basket and geographical presence provide diversity in the revenue profile. Addition of new product registrations and foray into new product categories and markets help in consistent scaling up of operations. Revenue increased to Rs 222 crore in fiscal 2022 from Rs 96 crore in fiscal 2019, reporting a compound annual growth rate of around 32%. The revenue are estimated at Rs 265-280 Cr for the FY2023 supported by increasing capacity and sales from petcare segment launched in 2021.
- **Moderate financial risk profile:** FPL's networth is estimated to remain moderate around Rs 77 to 79 crores as on March 31, 2023 (Rs 68 crores as on March 31, 2022) supported by steady accretion to reserves. Overall, capital structure is marked by comfortable gearing and total outside liabilities to adjusted networth of 0.85-0.90 time and 1.70-1.85 times as estimated on March 31, 2023 (from 0.89 time and 1.75 times, respectively, a year before). Debt protection metrics are moderate, with interest coverage and net cash accruals to adjusted debt of above 3.1-3.4 times and 0.18-0.21 time in fiscal 2023 (as against 3.27 times and 0.14 time, respectively, in fiscal 2022). Financial risk profile is expected to remain moderate over the medium term in absence of any major debt-funded capital expenditure (capex) or acquisition plans.

Weakness:

- **Large working capital requirement:** Although gross current assets improved to 250 days as on March 31, 2022, from around 350 days a year ago, the working capital cycle is likely to be stretched owing to the growing scale of and hence will remain closely monitored. Inventory is large at 90-120 days as the company maintains numerous stock keeping units and minimum order while company also has to offer adequate credit to its customers. The working capital cycle is supported by credit extended by the suppliers on procurement working capital bank lines and fresh capital infusion.
- **Exposure to volatility in input material prices:** The operating margin has fluctuated between 7% and 10% for the four fiscals ended March 31, 2022. The company has export-oriented business and sells its products to semi-regulated markets. Rise in key input prices, higher logistics cost and expenditure towards new product development/registration impact profitability. Further, large inventory stocking exposes the company to sharp variations in raw material prices.

Liquidity: Stretched

Liquidity should remain supported by the timely, need-based funds extended by the promoters. Cash accrual is projected at Rs 13-20 crore per annum, sufficient to meet the debt repayment obligation of Rs 2-3 crore over the medium term. Bank limit utilisation was high, at more than 95% for the 12 months ending February 2022. New working capital have been disbursed for the company in March 2023 which shall support the liquidity in the company and management of the liquidity remains key monitorable.

Outlook: Stable

FPL will continue to benefit from the extensive experience of its promoters.

Rating Sensitivity Factors

Upward factors

- Sharp rise in topline and better operating profitability, leading to cash accrual over Rs 15 crore
- Consistent improvement in the working capital cycle and liquidity

Downward factors

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- Further stretch in the working capital cycle or a large, debt-funded capex

About the Company

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Key Financial Indicators

As on/for the period ended	Unit	9 months ended Dec 31, 2022	March 31, 2022	March 31, 2021
Operating income	Rs.Crore	194.61	222.59	135.06
Reported profit after tax (PAT)	Rs.Crore	8.46	6.34	2.01
PAT margin	%	4.3	2.8	1.49
Adjusted debt/adjusted networkth	Times	-	0.89	1.07
Interest coverage	Times	3.30	3.2	2.48

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity Levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	63	NA	CRISIL BBB-/Stable
NA	Proposed Cash Credit	NA	NA	NA	5	NA	CRISIL BBB-/Stable
NA	Packing Credit	NA	NA	NA	5	NA	CRISIL A3
NA	Term Loan	NA	NA	May-2027	12	NA	CRISIL BBB-/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	85.0	CRISIL BBB-/Stable / CRISIL A3		--	12-09-22	CRISIL BBB-/Stable / CRISIL A3		--		--	--
Non-Fund Based Facilities	ST		--		--	12-09-22	CRISIL A3		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	28	State Bank of India	CRISIL BBB-/Stable
Cash Credit	35	HDFC Bank Limited	CRISIL BBB-/Stable
Packing Credit	5	Saraswat Bank	CRISIL A3

Proposed Cash Credit Limit	5	Not Applicable	CRISIL BBB-/Stable
Term Loan	12	Saraswat Bank	CRISIL BBB-/Stable

This Annexure has been updated on 13-Apr-2023 in line with the lender-wise facility details as on 12-Sep-2022 received from the rated entity.

Criteria Details

Links to related criteria
Rating Criteria for the Pharmaceutical Industry
CRISILs Bank Loan Ratings
The Rating Process
Rating criteria for manufacturing and service sector companies
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Understanding CRISILs Ratings and Rating Scales

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