Rating Rationale

ShreeGen Pharma Limited (SPL)

17 Dec 2018

Brickwork Ratings revises ratings to 'B+/ A4' for the reduced bank loan facilities of Rs 18.73 Crs of ShreeGen Pharma Limited ('SPL' or the 'Company')

Particulars:

Facilities#	Amount (Rs Crs) Previous	Amount (Rs Crs) Present	Tenure	Ratings[1] Previous (05-April-2018)	Ratings[1] Present
Fund based: Cash Credit Term Loans O/S	12.50 12.29	5.00 8.73	Long term	BWR BB- ISSUER NOT COOPERATING*	**BWR B+ [Pronounced BWR B Plus] (Outlook: Stable) Downgraded and removed from Issuer Not Cooperating* category**
Non Fund based: Letter of Credit Bank Guarantee	15.00 1.00	4.50 0.50	Short term	BWR A4 ISSUER NOT COOPERATING*	**BWR A4 [Pronounced BWR A Four] Reaffirmed and removed from Issuer Not Cooperating* category**
Total	**40.79^**	**18.73**	**Rupees Eighteen Crores and Seventy Three Lakhs only**		

*Issuer did not cooperate; Based on best available information
^Previously rated limits also included proposed limits, which were not later sanctioned by the Bank.

#Annexure I shows details of bank loan facilities
[1]For definitions of the rating symbol please visit our website www.brickworkratings.com

Long Term Rating Downgraded, Short term rating reaffirmed and removed from Issuer Not Cooperating* category

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financials upto FY18, publicly available information and information/ clarifications provided by the Company's management.

The downgrade of ratings takes into consideration the deterioration in the financial performance of the Company in FY17 & FY18 and the overall weakening of the credit profile, strained liquidity position on account of losses, insufficient order book position resulting in inefficient capacity utilization at the manufacturing plant & operating losses, net worth erosion and insufficient cash flows to meet the loan obligations of the Company. The ratings are also constrained by moderate scale of operations in the intensely competitive pharmaceutical industry, highly working capital intensive business operations and exposure to high foreign exchange fluctuation risks as around 82% of Company's raw materials were imported in FY18.

However, the ratings continues to draw strength from the industry experience of the promoters, diversified product mix comprising of Active Pharmaceutical ingredients and bulk drugs and established relations with buyers and suppliers. The efforts being made by the Company to turn around, both by controlling costs and by improving revenue, are also taken note of.

Going forward, the ability of the Company to increase its turnover and profitability margins as estimated by utilizing the operating capacity of the newly constructed block of the manufacturing facility, strengthen its credit profile and manage its working capital effectively would be the key rating sensitivities. Also, the Company's efforts to manage the foreign exchange fluctuation risks would be critical factor for rating, although the Company has planned to minimize imports and substitute imports with domestically procured raw material & in house manufacturing of intermediate products. The ability of the Company to procure quality raw material from domestic suppliers along with in house manufacturing in a timely manner shall also be a key rating sensitivity.

Rating Outlook: Stable

BWR believes **ShreeGen Pharma Limited (SPL)'s** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Key rating drivers

Deterioration in the financial performance of the Company- The Company's financial performance has deteriorated in FY17 & FY18, due to insufficient work orders resulting in stagnant revenues & inefficient utilization of the production capacity at the manufacturing unit. The Company has not been able to meet the projected financial performance for FY18, due to lack of sufficient demand for their products in view of high price related market competition.

Weakened credit profile- The credit profile has weakened in FY17 & FY18, as seen in poor debt protection metrics. EBITDA (Rs -3.93 Crs) and EBIT (Rs -4.96 Crs) were negative in FY18, due to higher operating expenses during the last three years. The EBITDA levels are insufficient to cover even the interest and finance charges of the Company. The Company has incurred net losses in FY17 & FY18.

Weak order book position- The Company is not able to secure enough orders, which has resulted in inefficient utilization of the plant capacity.

Net worth erosion- Tangible net worth has declined to Rs 10.15 Crs as on March 31 2018 from Rs 17.58 Crs as on March 31 2017, as a result of high accumulated losses.

Moderate scale of operations in the intensely competitive pharmaceutical industry- The Company's business operations are relatively small in terms of scale & size. The Company operates in a highly working capital-intensive industry.

Experienced management- The management of the Company is well qualified and experienced in the Pharmaceuticals & bulk drugs industry.

Analytical approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

About the Company

Incorporated in October 2012 at Hyderabad, **ShreeGen Pharma Limited (SPL)** is a closely held public limited company engaged in the manufacturing of Active Pharmaceutical ingredients and bulk drugs. The Company had commenced its operations in December 2013. The Company's operations are managed by Mr. B R Mangeswar Reddy. The manufacturing facility is in Bidar, Karnataka, which is around 140 Kms. from Hyderabad. The plant is located in KIADB developed industrial area with necessary infrastructure for the manufacture of Bulk Drugs and Drug Intermediates. The Company has a R&D facility at Hyderabad, which has professionals from the diverse fields of organic synthesis, analytical knowledge, microbiology & formulations. This division has qualified organic chemists. The present laboratory is well equipped with the latest equipment and manned by a set of qualified professionals working towards the development of new products/ molecules. The plant is operating at 61% of capacity presently. The Company had also commenced operations in the newly constructed Block of the facility in Dec 2016. The Company is ISO 9001: 2015 certified, for its R&D, manufacturing of bulk drugs and intermediates. Domestic sales contributed 95% to total sales sin FY18, followed by exports to outside India to countries such as Egypt and Ecuador (5%).

The main products manufactured in the existing facility at Bidar are: Rosuvastatin calcium, Telmesartan, Ezetimibe, Clopedogrel bisulphate, Etodolac, Ribavirin, Ethambutol, Sildenafil Citrate, Lansoprazole, Esomeprazole, Rabeprazole, Valproic acid, Sodium Valproate, Ambroxol Hydrochloride, and Mebeverine Hydrochloride. The Company's R&D facility is located at Hyderabad and has qualified professionals from the diverse fields of organic synthesis, analytical knowledge, microbiology & formulations. The

Company has recently launched new products viz. CIS BROMO BENZOATE, RACECADOTRIL EP, ROSUVASTATIN CALCIUM Ph. Eur, etc, to improve their sales.

Around 82% of the Company's raw material requirements were met out of imports from China & other western countries in FY18, which exposes the Company to high foreign exchange fluctuation risks. The Company presently does not follow hedging practices to cover the forex risk. However, as informed by the management, during 2018-19, they have not made any imports at all. The Company is making continuous efforts to effectively replace their import of raw material (for the products such as Racecadotril, Allopurinol, Rosuvastatin Calcium from China) with domestic sourcing of raw material & in house production of intermediate products, due to higher import prices. The Company has also confirmed that they have made suitable arrangements, with domestic suppliers for quality raw materials at reasonable price and for in house production of intermediate products. There are certain testing and quality approval procedures in place to control the quality parameters.

Mr. B.R. Mangeswar Reddy is the Managing Director. Mr. Sistla Ramakrishna and Mr. D. Srinivasa Reddy are the other Directors. All the Directors have extensive experience in the pharmaceuticals industry.

Financial Performance

FY15 was the first full year of Company's business operations. Net sales (comprised of sale of bulk drugs) was almost stagnant at Rs 21.79 Crs in FY18 as against Rs 21.70 Crs in FY17. During FY18, the EBITDA levels (Rs -3.93 Crs) are insufficient to cover even the interest and finance charges of the Company (Rs 2.08 Crs). The Company's financial performance has deteriorated in FY18, as seen in stagnant revenues, operating losses and net losses over last two years. Net losses increased to Rs (7.43) Crs in FY18 from Rs (4.97) Crs in FY17. Tangible net worth has declined to Rs 10.15 Crs as on March 31 2018 from Rs 17.58 Crs as on March 31 2017, as a result of accumulated losses. Total debt stood at Rs 17.45 Crs as on March 31 2018. Long term borrowings of Rs 12.42 Crs in FY18 comprised of bank term loans of Rs 8.50 Crs, and unsecured loans from Directors and Shareholders of Rs 3.89 Crs. Short term borrowings of Rs 5.03 Crs comprised of Cash credit limits from the bank. Total debt/ Tangible net worth stood at 1.72 times as on March 31 2018. ISCR and DSCR were negative in FY18 mainly due to operating losses in the Company. The working capital cycle stood at 66 days in FY18 owing to high receivable & inventory days. The receivables were stretched in FY18, mainly due to GST transitioning issues during the year with the existing customers. The key financial parameters are summarized in Annexure II.

As informed by the management, on a provisional basis, the Company has achieved net sales of Rs 11.70 Crs as on 30-Sep-2018 and expects to achieve ~Rs 24 Crs by end of FY19.

Status of non-cooperation with other CRA: CRISIL Ratings vide their rating rationale dated 20 November 2018, has reaffirmed the ratings on the bank facilities of ShreeGen Pharma Limited at 'CRISIL B/Stable/CRISIL A4 Issuer Not Cooperating', as the issuer has remained uncooperative.

Any other information: Not Applicable.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (2018)			Rating History		
		Tenure	Amount (Rs Crs)	Rating	05 Apr 2018^	2017	12 Dec 2016^
1	Fund based Limits	Long term	13.73	BWR B+ [Pronounced BWR B Plus] (Outlook: Stable) Downgraded and removed from Issuer Not Cooperating* category	BWR BB- ISSUER NOT COOPERATING* Downgraded and migrated to Issuer Not Cooperating* category	-	BWR BB (Stable) Assigned
2.	Non Fund based Limits	Short term	5.00	BWR A4 [Pronounced BWR A Four] Reaffirmed and removed from Issuer Not Cooperating* category	BWR A4 ISSUER NOT COOPERATING* Reaffirmed and migrated to Issuer Not Cooperating* category	-	BWR A4 Assigned
	Total		**18.73**	**Rupees Eighteen Crores and Seventy Three Lakhs only**			

*Issuer did not cooperate; Based on best available information

^Amount rated: Rs 40.79 Crs

Hyperlink/Reference to applicable Rating Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

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ShreeGen Pharma Limited (SPL)

Annexure I: Details of the bank facilities rated (Rs Crs)

Limits	Bank Name	Rated Limits (Rs Crs)
Fund based: Cash Credit Term Loan O/S **Non Fund based**: Letter of Credit Bank Guarantee	State Bank of India, SME Branch, Somajiguda, Hyderabad	 5.00 8.73 4.50 0.50
Total		**Rs 18.73 Crs (Rupees Eighteen Crores and Seventy Three Lakhs only)**

ShreeGen Pharma Limited (SPL)
Annexure II
Key Financial Parameters

Particulars	31/Mar/2017	31/Mar/2018
Result Type	**Audited**	**Audited**
Total Operating Income (Rs Crs)	21.70	21.79
EBITDA (Rs Crs)	-1.57	-3.93
PAT (Rs Crs)	-4.97	-7.43
Tangible Net Worth (Rs Crs)	17.58	10.15
Total Debt/TNW (Times)	0.85	1.72
Current ratio (Times)	2.23	1.21

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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