Farmson Pharmaceutical Gujarat Private Limited

June 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	20.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Assigned
Short Term Bank Facilities	115.00	CARE A1 (A One)	Assigned
Total Bank Facilities	**135.00 (Rs. One Hundred Thirty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Farmson Pharmaceutical Gujarat Private Limited (FPGPL) derive strength from its leading presence in the API (Active Pharma Ingredient) manufacturing, vast experience of its promoters, vertically integrated operations along with its geographically diversified revenue stream derived from its reputed clientele and good growth prospects for the pharmaceutical industry. The ratings also factor in FPGPL's large scale of operations with substantial growth during FY22 (FY refers to period April 1 to March 31), and strong financial risk profile marked by healthy profitability margins, robust capital structure and strong debt protection metrics as well as liquidity position.

The ratings are however, constrained on account of product concentration risk with focus on single product, i.e. paracetamol, susceptibility of profitability to volatility in prices of key raw materials and foreign exchange rate fluctuation, and presence in a highly regulated and competitive bulk drug segment of pharmaceutical industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained increase in scale of operations to Rs.2500 crore backed by diversification in product profile while sustaining PBILDT margin at 30%

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decrease in total operating income to Rs.1400 crore along with reduction in PBILDT margin to below 20%
- Deterioration of overall gearing to above 0.3x on a sustained basis
- Cash and bank balance of company depleting below Rs.350 crore on sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Strong market position with largest installed capacity for paracetamol production in India, geographically diversified revenue stream and reputed clientele:

FPGPL is one of the leading paracetamol manufacturers in India and has the largest installed capacity for paracetamol manufacturing in the country. The company's plants have various regulatory approvals in place including WHO-GMP by Food & Drug Control Administrative (India), EU-GMP by National Institute of Pharmacy and Nutrition, Hungary, EDQM by European Commission, Russian GMP by MOH Russia, Korean GMP/DMF by MOH Korea among others.

The company has market presence across more than 40 countries with exports constituting ~29% of total sales in FY21 (Rs.280 crore) which increased to ~36% in FY22 (Rs.748 crore). Company's overseas customers are spread across Indonesia, Ireland, France, Japan, Nigeria, Thailand and Bangladesh. Apart from this, it is also a key supplier to several leading pharmaceutical companies in India.

Experienced and resourceful management:

The promotor of FPGPL - Mr. Samir Patel has more than 3 decades of experience in the industry. The current management team also possesses strong industry experience and is supported by a highly experienced and qualified team of professionals in different functions.

Strong operational efficiency backed by vertically integrated operations:

FPGPL derives benefit of backward integration by manufacturing of key starting material (KSM) for producing Paracetamol i.e. Para Amino Phenol (PAP), leading to better margins. The promotors of FPGPL had initially commenced manufacturing of PAP under JNP Products, a partnership firm of promoters of FPGPL. During FY21, the manufacturing facility of JNP Products was acquired by FPGPL on slump sale basis.

Control over production of key raw material insulates FPGPL's PBILDT margin from adverse supply shocks and volatility in price of KSM, to a certain extent.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Large scale of operations with healthy profitability
FPGPL's total operating income (TOI) registered a compounded annual growth rate of 41% over the past 3 years with increase in TOI from Rs.729 crore in FY19 to Rs.2,059 crore in FY22 (Prov.). TOI more than doubled to Rs.2,059 crore in FY22 from Rs.989 Crore in FY21 on the back of increase in both, sales volume as well as realization of paracetamol. The sales realization of paracetamol increased by more than 35% in FY21 and more than 50% in FY22 on the back of higher demand during the covid-19 pandemic and raw material availability issues, whereas the sales volume registered ~20% YoY growth in FY22 over FY21.

Company's PBILDT margin improved from 21.79% in FY19 to 42.05% in FY21 on the back of better realisations coupled with benefit of backward integration. In FY22, FPGPL reported PBILDT margin of 35.25% which moderated to some extent from FY21 level on the back of increase in raw material cost with supply chain issues faced by manufacturers. In line with growth in operations, FPGPL's cash accruals grew significantly from Rs.111 crore in FY19 to Rs.559 crore in FY22.

Robust capital structure with strong debt coverage indicators
FPGPL had a robust capital structure with overall gearing remaining below 0.10x over the past 3 years ended FY22. It improved from 0.21x as on March 31, 2019, to almost nil as on March 31, 2022, on the back of strengthening of net worth base with accretion of profit and negligible reliance on debt. FPGPL's net worth base strengthened to ~Rs.1100 crore as on FY22 end from Rs.236 crore as on FY19 end. Free cash and liquid investments exceeded total outstanding debt resulting in zero net-debt position for the company from FY20 onwards.
In line with significant improvement in performance, FPGPL had strong debt coverage indicators which improved over the past 3 years ended FY22 with PBILDT interest coverage of 246x during FY22.

Good Growth prospects for the pharmaceutical industry
The size of the Indian pharmaceuticals market (IPM) is around USD 45.7 billion (around Rs.3,40,000 crore) in FY21. IPM is expected to grow at around 11% and reach a size of over USD 60 billion (around Rs.4,50,000 crore) by the end of FY23. The outlook for IPM remains stable in medium to long term backed by growth opportunity in terms of capitalizing on major blockbuster drugs coming off-patent paving the way for entry of generics, especially in the USA market, and geographical diversification into emerging markets. In the domestic market, the formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income, government initiatives like product linked incentive (PLI) scheme, new national health protection scheme & Ayushman Bharat program, improvement in access to healthcare facilities along with growing penetration of health insurance.

Key Rating Weaknesses
Product concentration risk
FPGPL is a leading producer of paracetamol in India and globally. However, the company focuses solely on paracetamol manufacturing resulting in concentrated product profile. Paracetamol has been the mainstay analgesic and antipyretic since its commercial availability due to its low cost and consistent safety profile, thus mitigating the API obsolescence risk. However, absence of any major R&D and a potential product pipeline, constrains FPGPL's ability to diversify its product profile and revenue stream.

Susceptibility of profit margin to volatility in cost of raw material and exchange rates
FPGPL's profitability is susceptible to volatility in price of key raw materials despite vertically backward integration. The key raw materials procured by the company to manufacture PAP/Paracetamol are commoditised products and price of these raw materials exhibits volatility based on price of crude oil, market forces and other geo-political factors. Also, FPGPL derives some portion of its revenue from export sales and imports some of its raw material requirement. While this provides natural hedge to some extent, profitability of the company is susceptible to any foreign exchange rate fluctuation in absence of any active hedging policy for its unhedged portion.

Presence in highly regulated and competitive bulk drug industry
The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations, and permissions for business activities. Any delay or failure in getting approval can adversely impact the business prospect of the company.
Also, the Indian bulk drugs/formulations industry is highly fragmented with presence of several standalone bulk drug manufacturers as well as many formulators with backward integration in bulk drug production. Large players with the ability to develop new and complex products have their margins insulated from pricing pressures. However, margins of independent bulk drug/formulations players with limited portfolio may face pricing pressure due to competition in the industry.

Liquidity - Strong
Liquidity of company is supported by strong cash accruals, negligible fund based working capital limit utilizations and strong cash and bank balance. Company's operating cycle remained lean at ~20 days over the past 3 years.
Average utilization of working capital limits remained minimal at 1.1% over the past 12 months ended February 2022. Also, with unencumbered cash & bank balance of more than Rs.580 crore as at FY22 end, company's overall liquidity position remained strong.

Analytical approach: Standalone

Applicable Criteria
[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Pharmaceutical]

About the Company
Established in 1969 by Mr. KK Vithani, FPGPL is a leading producer of API/Bulk drug – Paracetamol in India and globally. The reins of company are currently with Mr. Samir K Patel – Son of Mr. KK Vithani.
FPGPL has 2 manufacturing units in Vadodara for manufacturing Paracetamol with aggregate capacity of 40,800 Metric Tonnes per Annum (MTPA) and one unit for manufacturing PAP (Para Amino Phenol)– key raw material for paracetamol, which is located at Jhagadia, Gujarat.

Brief Financials (Rs. crore)	31-03-2020 (A)*	31-03-2021 (A)	31-03-2022 (P)
Total operating income	730.19	988.91	2,059.21
PBILDT	202.68	415.88	725.97
PAT	133.56	292.65	524.35
Overall gearing (times)	0.05	0.02	0.00
Interest coverage (times)	60.54	68.01	246.27

A: Audited, P: Provisional
*Combined financials of FPGPL and its group concern, JNP Products

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

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Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	D ate of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	20.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	110.00	CARE A1
Non-fund-based-Short Term		-	-	-	5.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	20.00	CARE A; Stable / CARE A1				
2	Non-fund-based - ST-BG/LC	ST	110.00	CARE A1				
3	Non-fund-based-Short Term	ST	5.00	CARE A1				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Non-fund-based – Short Term	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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