Swiss Garniers Biotech Private Limited

December 26,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	53.62 (Enhanced from 26.40)	CARE BB; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE) have taken a combined view of Swiss Garniers Biotech Private Limited (SGBT), and it group companies, Swiss Garniers Genexiaa Sciences Private Limited (SGGS) and Swiss Garniers Life Sciences (SGLS), while assessing the credit risk profile as all the three entities are in similar line of business and operate under same management.

The ratings assigned to bank facilities of Swiss Garniers Biotech Private Limited (SGBT) are constrained by leveraged capital structure, weak debt coverage indicators, regulatory risks associated with healthcare industry and high technology transfer costs. The ratings, however, derive strength from long standing relationship with customers and the addition of new customers, experienced promoters and a well-qualified management team.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in capital structure and coverage indicators.
- Sustained improvement in TOI to over ₹ 500 crores on a consolidated basis.

Negative factors

- Reduction in off-take from customers leading to a reduction in the scale of operations.
- Sustained deterioration in capital structure with overall gearing above 2.5x.

Analytical approach: Combined

CARE has taken a combined view of all the three entities of Swiss Garnier Group (SG group) viz. (SGGS), Swiss Garnier Life Sciences SGLS and Swiss Garniers Biotech Private Limited (SGBT) as all the entities are managed by the same promoter family and are engaged in similar business of contract manufacturing of formulations. SGBT holds 19.36% stake in the in SGGS.

Outlook: Stable

CARE ratings believes that SGBT and the group will continue to maintain a stable business profile backed by its track record of operations and association with reputed client base.

Detailed description of the key rating drivers:

Key weaknesses

Moderation in scale of operations

The TOI of the group has declined by 18.52% compared to ₹431.30 Cr in FY'22 to ₹351.41 Cr in FY'23. The drop in revenue was majorly attributed to the firm's strategic decision to discontinue some of the lower margin products. Further the group bears higher cost in technology transfer where in, before the large-scale commercialization of a new drug, the company must bear the costs of clinical trials, running pilot batches, stability study and documentation, etc. To overcome the challenges inherent to the nature of pharmaceutical industry, the group is focusing on implementing 'one product in one unit' that will help the group in rationalizing the cost and have better operational efficiency. The group is also working towards cost cutting measures by automating the process which will further aid in increasing output, consolidating inventory and energy saving methods. The PBILDT margin of the group improved from 10.38 % in FY'22 to 11.75 % in FY'23, albeit a drop in revenues, with rationalizing the fixed costs and cost optimization measures implemented.

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

Moderately Leveraged capital structure

The capital structure of SG Group remained leveraged with an overall gearing at 1.75x as on March 31, 2023. The gearing continues to remain leveraged at similar levels due to groups' borrowings from NBFCs and Unsecured loans from related parties. The promoters have infused around Rs. 35 crores during FY 23 as Unsecured loans for supporting the repayment obligations and for liquidity cushion.

Exposed to regulatory risk

The companies in the pharma industry are exposed to regulatory risk, as the industry is highly regulated in many countries and requires various approvals, licenses, registrations, and permissions for business activities. Apart from the initial approvals, the ability of the companies to continue to observe the regulatory and current good manufacturing practice (CGMP) standards without receiving any critical observations from regulatory authorities are viewed critically.

Key strengths

Extensive experience of promoters

The promoter of the group has more than three decades of experience in the industry. Mr. M S Theivendran, Promoter of SG group, is a chemical engineer and has extensive industrial experience of around three decades. In April 2004, he and his wife set up Swiss Garnier Life Sciences (SGLS) at Baddi in Himachal Pradesh. While Mr Theivendran takes care of the operations, marketing and overall management of the group entities, his wife Ms T Rethinavalli takes care of finance, procurement, and HR related functions. The second line of management is in place with Mr. M.S. Theivandran's sons who are now part of the business. Mr. Vignesh Gandhi is a qualified post graduate medical professional and with certification in Healthcare Management program. Mr. Vishnu Gandhi is a Chemical Engineer and holds a Management certification, MBA.

Presence across therapeutic segments and capacity utilization

The group caters to diversified segments which includes Gastroenterology, Diabetology, Gynecology, Cariology, Pain Management and others, they offer more than 700 products across these segments. The group has witnessed an incremental increase in revenue from Cardiology, Diabetology and Gastroenterology. The overall capacity utilization for the group stands around 40-45%. The overall utilization stands lower due to minimal utilization of Plant 2 of Swiss Garnier Genexiaa Sciences Private Limited (SGGS) considering the cost efficiency in operating high-capacity plant for smaller orders. Further, during FY'24 the company expects to achieve increased capacity utilizations of 50-60% for the plant.

Long- Standing relationship with customers with high reliance on top customers

The group has maintained long standing relationship with customers like Lupin, Dr. Reddy's, Abbott and others. The top 10 customers comprise of around 55-60% of the TOI marking high dependence on the mainstream pharmaceutical companies. The group has discontinued some of the products which were not contributing to the bottom line, and they plan to focus on offers from customers for higher volume and better margin. The group has made additions to their customer profile with entry of Novartis and Pharma & Medical Bureau of India (PMBI). The company has also participated in tenders under Pradhan Mantri Bhartiya Janaushadhi Pariyojana. The group is currently dealing with the state governments and supplies products to Himachal Pradesh, Madhya Pradesh, Punjab, Assam, and others. The company is in process for registering/ participating in tenders for Central government projects. The company plans to focus more on exports and institutional clients. SG group holds a legacy of 70-80% repeat orders, contributing to their topline with 20-30% new orders on a year-on-year basis.

Liquidity: Stretched

The liquidity of the group is marked by tightly matched accruals to repayment obligations. The total working capital limits stand at Rs.61 Cr with the average working capital utilization for both the entities (SGGS& SGBT) at 90%-95%. The WC Cycle stretched from 50 days as on Mar 2022 to 97 days as on mar 2023 mainly on account of increased inventory holdings with 81 days (FY22) vs 109 days (FY23). The group centralises its purchasing and stocks inventory for 2-2.5 months to meet the demand and stabilize the product that takes around three months. Accordingly gets credit from supply for about 2-3 months. The group has cash and bank balance of ₹22.14 Cr as on 31st Mar 2023.

Applicable criteria

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

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

SGBT was incorporated in February 2010 by Mr. M.S. Theivendran and his wife Ms. T Rethinavalli. SGBT is a part of the decade old SG Group and is engaged in the contract manufacturing of formulations for domestic as well as multi-national pharmaceutical companies. It started commercial operations in May 2010 in Baddi, Himachal Pradesh. The other two entities of the SG Group viz. SGGS and SGLS are based at Mehatpur (Himachal Pradesh) and Sikkim and are operational since May 2013 and May 2006 respectively. All the three entities of SG group are engaged in the contract manufacturing business of formulations and the product line comprises tablets, capsules, soft gelatine, dry syrup, liquid and powdered orals, ointments, herbal, nutraceuticals, and other similar products.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	114.32	160.68	156.09
PBILDT	13.48	12.59	15.50
PAT	3.73	3.52	2.12
Overall gearing (times)	2.02	1.49	1.99
Interest coverage (times)	2.04	2.36	1.53

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.75	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	31-December-2033	22.87	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - ST-Bank Overdraft	ST**	-	-	1)Withdrawn (27-Jun-23)	1)CARE A4 (12-Dec-22)	-	-
2	Fund-based - LT-Term Loan	LT*	22.87	CARE BB; Stable	1)CARE BB; Stable (27-Jun-23)	1)CARE BB; Stable (12-Dec-22)	-	-
3	Fund-based - LT-Cash Credit	LT*	30.75	CARE BB; Stable	1)CARE BB; Stable (27-Jun-23)	1)CARE BB; Stable (12-Dec-22)	-	-

*Long term **Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:
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