Felix Generics Private Limited

May 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	43.70	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	1.30	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Felix Generics Private Limited (FGPL) derives strength from extensive experience of promoters in pharmaceuticals industry, established manufacturing set-up with research and development (R&D) capabilities and synergy derived being the subsidiary of Ireland based Felix Pharmaceuticals Private Limited (FPPL, holding 99.99% in FGPL as on March 31, 2024). The ratings further derive strength from the moderate profitability, comfortable capital structure and debt coverage indicators, adequate liquidity and stable industry outlook.

However, the above rating strength are constrained by the company's small scale of operations with limited product basket, presence in the competitive industry with geographical concentration, susceptibility of its profitability to foreign exchange risk and inherent regulatory risk associated with pharmaceutical industry. Ratings of FGPL are also constrained due to implementation and stabilisation risk associated with the on-going diversification as well as capacity expansion project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in scale of operations with total operating income (TOI) above ₹200 crore while maintaining profit before interest, lease, depreciation and tax (PBILDT) margin above 12% on sustained basis.
- Total debt to PBILDT below 2.50x on sustained basis.

Negative factors

- Moderation in the PBILDT margin below 10% on sustained basis.
- Overall gearing above 1x on sustained basis.
- Any cost escalation or time overrun in ongoing project impacting the liquidity of the company.

Analytical approach: Standalone

Outlook: Stable

The outlook on the long-term rating of FGPL is "Stable" considering extensive experience of the promoter in the pharmaceutical industry along with parentage of FPPL. CARE Ratings Limited (CARE Ratings), expects FGPL to maintain comfortable financial risk profile, supported by moderate cash accruals and low debt levels.

Detailed description of the key rating drivers:

Key strengths

Extensive experience of the promoters in the pharmaceuticals industry

FGPL is promoted by Neeraj Agrawal who has more than 25 years of experience in the pharmaceutical industry. He has worked as a CEO with Jubilant Generics Private Ltd (subsidiary of Jubilant Life Sciences Ltd.) from 2004 to 2014 managing their global generic business. He looks after the overall operations of the company. FGPL is 99.99% owned by FPPL, which is engaged in research development, manufacturing and sale of generic medicine for companion animals. Promoters are ably supported by the experienced management team in the functioning of the company. Praveen Chaudhary, Executive Director, has experience of over two decades in the pharmaceutical domain and looks after the plant operations as well as project execution. Shruti Agarwal is the chief financial officer and been associated with the company since April 2015.

Established R&D capabilities and manufacturing set-up.

FGPL had established its R&D unit at Noida in 2016. It is engaged in the development and manufacturing of bio-equivalent generics product for companion pets – mainly, cats and dogs for its parent i.e. FPPL. It started with development of the oral solid dosages (OSD) formulations for the companion pets and expanding portfolio across other dosage forms like injectables, oral suspensions and paste. FGPL's manufacturing facility is located at Pithampur SEZ in Indore, Madhya Pradesh which manufactures plain tablets, chewables, soft chewables, oral liquids, and oral pastes with installed capacity of around 15 crore tablets per annum. The manufacturing site is approved by Health Product Regulatory Authority (HPRA), Ireland in April 2021 and U.S. Food and Drug Administration (USFDA) in October 2022. As articulated by the management, FGPL didn't received any material observation from

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

the concerned authority during the visits. FGPL manufactures nine formulations and has a strong product development pipeline. Apart from this, it is expanding into injectables market. CARE Ratings expects FGPL to continue to benefit from its R&D skills with focus on new products development in the niche veterinary generic segment.

Synergy derived with parentage of FPPL

FPPL, founded by Neeraj Agrawal, Shumeet Banerji and Sir Jon Symonds, holds 99.99% equity stake in FGPL as on March 31, 2024. It is engaged in the developing and manufacturing generic drugs for companion animals. FPPL, on a standalone level, sells products in US market and doesn't have any manufacturing operations. The products which FPPL sells, are being developed at various locations which includes FGPL, and other third-party contract research and manufacturing organisation located in India and other countries. FPPL is the sole customer of FGPL which results in the operational synergy with defined payment terms resulting in controlled working capital requirement. Furthermore, board of FPPL has renowned and experienced professionals thus benefiting FGPL in strategic as well as technical matter.

Financial risk profile marked by moderate profitability, comfortable capital structure and moderate debt coverage indicators

FGPL reported operating and cash losses during initial R&D phase where in it was only receiving the service charges from FPPL. Later, with the increase in scale, PBILDT margin improved to around 16-18% during FY21-FY23. Furthermore, with commencement of formulation sales margin moderated to 13.07% during 9MFY24 (Prov.) and likely to remain at the similar level going forward. With the moderate profitability and low depreciation and interest cost, gross cash accruals (GCA) though remained low, it grew steadily from ₹6.44 crore during FY21 to ₹11.59 crore during FY23 and ₹11.38 crore during 9MFY24.

FGPL was a debt free company with moderate tangible net worth of ₹75.85 crore as on March 31, 2023. It is undertaking capex of around ₹150 crore which is expected to be funded with the low debt to equity mix of around 0.74:1. Furthermore, during Q4FY24, FGPL availed USD 6 million (around ₹49.77 crore) in terms of external commercial borrowing (ECB), from FPPL, which is to be used for its capex as well as operational expenditure purpose. CARE Ratings has treated the ECB from the FPPL as part of the net worth considering its tenure and purpose. Thus, with low reliance on debt, CARE Ratings expects FGPL to maintain its comfortable capital structure in near to medium term.

Furthermore, with low debt levels and moderate profitability, FGPL is expected to maintain moderate debt coverage indicators going forward.

Stable industry outlook

Rising pet ownership is sparking a higher demand for the veterinary services. This trend is propelling the market for a wide array of healthcare products for companion animals including medication, vaccines, and dietary aids among others. Enhanced availability of the veterinary treatments and healthcare products is further driving the veterinary health industry.

Key weaknesses

Implementation and stabilisation risk associated with the on-going capacity expansion project

FGPL is undertaking project for manufacturing of injectables with installed capacity of up to 900 litres batches. The total cost of the project is estimated at ~₹110 crore which is expected to be funded through term loan of ₹43.70 crore and balance from the liquidity and promoter contribution. As on March 31, 2024, FGPL had incurred cost of around ₹56 crore which was funded from the term loan of ₹8.30 crore, ECB of ₹12.82 crore and remaining through creditors, cash accruals and available liquidity. The trial run is expected from January 2025 onwards whereas commercial production is expected from April 2026.

This apart, FGPL is also undertaking capex of around ₹40 crore primarily for the capacity expansion and expansion of warehouse. The same is expected to be funded through term loan of around ₹20 crore and remaining from promoter contribution and internal accruals. It is envisaged to complete in phase wise manner by end of March 2025.

Project implementation risk is low, considering the past experience of management in the project execution. However, completion of the project and commencement of the operation in the time-bound and cost-effective manner shall remain the key rating monitorable. Considering almost doubling of the capacity post completion of the capex, any delay in the acceptance of the product post its launches or demand slowdown in the USA market may result in the under-utilisation of the manufacturing capacity thus impacting its return indicators. Also, since the proposed injectable plant is built as per c-GMP guideline of the USFDA, receipt of the necessary regulatory approval in timebound manner is crucial for the growth prospect of the company.

Small scale of operations with limited product basket

FGPL commenced formulation sales from March 2023 onwards. Income prior to that period pertains to service income which FGPL received from FPPL which remained in small scale. Revenue grew steadily from ₹13.80 crore during FY19 to ₹63.14 crore during FY23 and ₹87.04 crore during 9MFY24. With the commencement of the formulation sales, CARE Ratings expects TOI of around ₹130 crore for FY24. FGPL has small product basket and derived around 75% of its net sales from only two products during

9MFY24 thus reflecting product concentration risk along with customer concentration since FGPL's entire sales is to FPPL. However, CARE Ratings considers that FGPL has strong product development pipeline and the commercialisation of the same in a phase-wise manner shall lower the product concentration risk to certain extent. In near term, CARE Ratings expects FGPL's revenue to grow at a CAGR of 30-40% supported by the scale-up of the existing operations and operationalisation of additional capacity.

Presence in the competitive industry with geographical concentration and susceptibility of its profitability to foreign exchange risk

The pharmaceutical industry is highly fragmented due to the significantly large product basket having varied applications. Moreover, FGPL's product profile consists of generic medicines for companion animals which is a niche segment. However, many companies have started entering the market thereby increasing competition which may limits its profitability. Further, key raw materials for FGPL are various active pharmaceutical ingredients (APIs) and pharmaceutical excipients having a limited supplier base. Also, current raw material prices may change with increase in competition thus exposing company's profitability to any adverse change in raw material prices in the absence of any long-term agreements with suppliers.

However, since FGPL operates on the "cost plus margin" model, which enables it to pass on any adverse fluctuation and maintain its profitability. It imports around 80-90% of its raw material which exposes its profitability to the foreign exchange fluctuation risks in the absence of any formal hedging policy. However, it has natural hedge available as its entire sales is to parent, which is invoiced in USD, thus partially mitigating the forex volatility risk as it keeps balance receivable on open basis which benefits of rupee depreciation.

Inherent regulatory risk associated with pharmaceutical industry

FGPL is exposed to regulatory risk since the players in the pharmaceutical industry need to manufacture products that meet the set quality standards of the various regulators across the globe as well as per the customer requirement. The company's operations remain exposed to regulatory actions in terms of maintaining product standard, facility approvals, socio-political environment of export destinations among others. Good manufacturing practice (GMP) must be followed for the control and management of manufacturing and quality control. Furthermore, the pharmaceutical industry is highly regulated in many other jurisdictions and requires various approvals, licenses, registrations, and permissions for business activities. Any non-adherence can lead to the significant impact of the business and financial performance.

Liquidity: Adequate

FGPL's liquidity remained adequate marked by moderate albeit growing cash accruals along with receipt of the ECB from parent, part of which is also utilised for working capital requirement. Currently, FGPL does not have any working capital limits, however, going forward, it may consider availing ₹10 crore of working capital limits. Furthermore, existing cash accruals and un-utilized proceeds from ECB are adequate for its capex as well as operational requirements. FGPL has free cash and bank balance of ₹9.57 crore December 31, 2023. It reported CFO of ₹12.64 crore during FY23.

Current ratio and quick ratio remained comfortable at 3.48x and 2.22x respectively as on March 31, 2023. FGPL's operations are working capital intensive marked by average inventory days of 60-70 days, average debtor's days of around 15-30 days as against supplier days of around 60-70 days. Operating cycle is expected to remain at around 50-70 days.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

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

About the company

Incorporated in October 2014, FGPL is engaged in the manufacturing of the veterinary generic formulation. Ireland based, FPPL holds 99.99% stake in the FGPL. FPPL is promoted by Mr. Neeraj Agrawal, Shumeet Banerji & Jon Symonds. Mr. Neeraj Agrawal is also the promoter/director of FGPL. FGPL's manufacturing facility is located at Pithampur SEZ, Indore with installed capacity of around 15 crore tablets per annum. Currently, it is undertaking a capex to manufacture veterinary injectable products.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (Prov.)
Total operating income	48.17	63.14	87.04
PBILDT	8.10	11.24	11.38
PAT	4.80	7.28	7.85
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	183.30	832.90	NM

A: Audited; Prov.: Provisional; NM: Not meaningful since nil interest cost during 9MFY24; 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	May 2032	43.70	CARE BBB-; Stable
Fund-based/non-fund-based-LT/ST	-	-	-	-	1.30	CARE BBB-; Stable / CARE A3

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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	1.30	CARE BBB-; Stable / CARE A3	-	-	-	-
2	Fund-based - LT-Term Loan	LT	43.70	CARE BBB-; Stable	-	-	-	-

LT: Long term; LT/ST: 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-Term Loan	Simple
2	Fund-based/non-fund-based-LT/ST	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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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