Steriscience Specialties Private Limited

September 5, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	112.00 (Enhanced from 63.54)	CARE BB+ (RWD)	Continues to be on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	260.00 (Enhanced from 146.46)	CARE BB+ / CARE A4 (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Steriscience Specialties Private Limited (SSPL) continues to factor in the nascent stage of operations with moderate scale, albeit significant improvement in FY24, customer concentration risk and inherent exposure to regulatory risks with the pharmaceutical industry. The company primarily focuses on manufacturing antibiotics in the injectable form. In FY24, the sales has improved by 27% to ~Rs. 400 crores, but the company has still not reported net profits.

The ratings are positively driven by the existence of experienced and resourceful promoters, who extended financial, operational, managerial support to the entity. The promoters have demonstrated track record of turning around business and exiting them profitably. The strong order book combined with the positive outlook for the injectables segment and overall pharma sector provides reasonable visibility regarding the near-term sales growth.

The reason for placing the ratings on watch with developing implications is owing to the impending restructuring and the possible impact of the same on the credit profile of SSPL. The restructuring involves demerger of CDMO and soft gel business of Strides Pharma Science Limited (Strides), identified CDMO business of SSPL both of which is expected to get merged with OneSource Specialty Pharma Limited (OS). Currently, the management has filed for NCLT approval and expects to complete the entire transaction by March 2025. CARE Ratings will continue to monitor the above restructuring and will resolve the watch once the transaction gets concluded

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Ability to successfully scale up operations and achieve sustained TOI growth of 15% while maintaining PBILDT margins at above 17%.
- Reduction of total debt/PBILDT below 4x.

Negative factors

- Fall in sales below Rs. 300 crores or fall in PBILDT below 10%
- Any change in support philosophy of parent company or promoter towards SSPL resulting in weakening of operational/financial linkages between the two.

Analytical approach: Standalone

CARE Ratings has adopted a standalone factoring linkages with promoter and other group companies.

Outlook: Not applicable

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

Detailed description of the key rating drivers:

Key weaknesses

Moderate scale of operations, albeit the same improving

Given that SSPL is in its growth phase, the sales has increased by 27% YoY to Rs. 395 crores in FY24 with PBILDT substantially increasing to 15% from 4% in FY23 owing to economies of scale and better fixed cost absorption. The increase in sales is attributed to increased ANDA approval and higher sales from own products.
The company has achieved Q1FY25 sales of Rs. 94 crores (Q1FY24: Rs 92 crores) with EBIDTA margin of ~12% (Q1FY24: 4%). Intense competition is expected to constrain scalability, with revenue expected at Rs 450-500 crore in FY25, despite growing by more than 25% to ~Rs 400 crore in FY24. The growth in revenue is expected to stem from launch of new products, long term supply agreements and demand prospects. FY25 is expected to be the first year in which SSPL will report net profits. At present the global injectables industry is dominated by few large international players occupy significant market share. The domestic contract manufacturing space is highly fragmented with multiple players operating at different scale of operations. SSPL targets products where there is a shortage with a potential addressable market size of USD 200 million. The ability of the company to successfully scale up operations will remain a key monitorable in the near term.

High customer & therapeutic segment concentration risk:

Around 90% of sales in the SSPL is to the Singapore entity (IP holder) Steriscience pte, which in turn has multiple customers. Technically, SSPL acts as a contract manufacturer for Singapore entity backed up with manufacturing and supply agreement. The ultimate consumers are located in US, Brazil, Australia and Canada. There are three to four major customers in FY24 who have contributed to around 70-80% of total sales. In terms of geography 80% of FY24 sales is to customers in US. Given the rapport shared by the promoter with the customer, it is expected that SSPL will continue to derive revenue from sale of its products.
The company has been diversifying its customer base and in Q4 and Q1 SSPL has added three new customers. Given the impending restructuring, SSPL is also able to reach out to customers of OneSource and Strides.
Also, currently majority of the products are exposed to one therapeutic area which is anti-infectives. Going forward, high demand therapeutic areas like anaesthetics amongst others will be focused by the company for diversification.

Exposure to regulatory risk

SSPL is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical formulations and injectables. Besides, the pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given, India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from USFDA. Hence, ongoing regulatory compliance has become critical for Indian pharma companies including SSPL they seek to strengthen its position in the regulated markets like USA, UK etc. till date there have been no major audit observations for the company.

Key strengths

Extensive industry experience and proven turn around track record of promoters

The primary promoter of SSPL is Mr. Arun Kumar, who also founded Strides in 1990. The main business model of the promoter and holding companies is to acquire distress companies, turnaround its operations and monetize them profitably. The profits made out of such divestment is used for reinvestment into existing businesses, acquisition of other distress businesses or is distributed to promoters or other shareholders. Mr. Arun Kumar has demonstrated track record of turning around business and exiting them profitably. Under his leadership, Strides Pharma has sold Agila Specialities to Mylan Laboratories at USD 1.6 billion in FY13 and exited the injectables segment.

Healthy order book providing near term sales visibility

The order book as on July 31st 2024 is Rs. 274 crores, which includes purchase orders in hand of ~Rs. 80 crores, deferred revenue (from Mylan) of Rs. 87 crores and customer forecasts of Rs. 106 crores. The company will also receive orders from new customers and new products expected to be launched this year. The company has achieved Q1FY25 sales of Rs. 94 crores with EBIDTA margin of ~12%. Based on the product pipeline, successful audit the outlook for FY25 remains positive with a round Rs. 485 to Rs. 500 crores of sales and EBITDA of Rs 100 crores. The company has got 4 ANDAs approved this year bring the total to 28. The company also has 1 NDA approved, 8 ANDAs under approval.

Leveraging established relationships and brand name of promoters to attract PE investments:
Promoters have been able to infuse funds from own sources as well as attract PE investors for infusion of funds to support the operations of its businesses in its development phase. The investments from PE players acts as a testament to the industry's confidence in the promoters' ability and the SSPL's sales growth visibility.

Accredited manufacturing facilities & well qualified R&D team:
Though the company was incorporated in FY21, in order to enable quick scalability, acquired 2 integrated US FDA and 1 EU GMP approved facility (In FY23, all facilities have been approved by US FDA). The company also entered into a JV with Brooks Laboratories Limited and all 4 units are currently approved by US FDA. On a combined basis, these units have a capacity to produce 121 million of liquid vitals, 40 million of dry powder vitals, 28 million pre-filled syringes, 36 million autoinjectors, 20 million Lyophilized Vials (removing the water) and 54 million of Ampoules (capsule containing injectables). The availability of highly experienced quality and regulatory personnel to meet the highest global quality standards, ensures compliance and the company also guides its clients through the regulatory approval process. The other strength of SSPL is that it is fully integrated with a strong R&D team. The R&D team is lead by Dr. Vijaykanth who has over 20 years of extensive research and development experience in sterile pharmaceutical parenteral, including complex injectables and novel drug delivery systems for USA, Europe, and emerging markets. Prior to joining SSPL, Dr. Vijay worked in leading pharmaceutical companies like Astron Research Ltd., Mylan (where he was the Director, R&D). Having an experienced R&D team in house enables fast-track development of products and ensures quick facility inspections & approvals. The ability of the company maintains accredited manufacturing facilities reduces the regulatory risk to some extent.

Liquidity: Adequate

The liquidity position of SSPL is adequate on the back of FY25 expected GCA of around Rs. 70 to 90 crores with debt repayments of Rs. 15-20 crores and maintenance capex of Rs. 20-30 crores. GCA turned positive in FY24 for the first time, on the back of higher sales and PBILDT. Given that SSPL is in its growth phase and in the absence of an established long track record on a standalone basis, the cash accruals were negative till FY23. SSPL is expected to meet its debt obligations independently in the next two years. The existence of healthy order book (as on July 31st 2024) of Rs. 274 crores provides near term sales visibility. SSPL enjoys considerable financial flexibility and technical support from its promoter group. Its management has a track record of incubating and developing pharmaceutical businesses globally. The average utilization of fund based facilities is around 90% for the 12 months ended March 2024. As per the discussions with the management and the past track record of promoters supporting the entity, it is understood that the parent company will infuse funds on a need basis to SSPL.

Assumptions/Covenants: not applicable

Environment, social, and governance (ESG) risks: not applicable

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
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

SSPL was incorporated in the year 2020 and is involved in the development and manufacture of a range of products primarily in the sterile injectables segment namely – Ampoules, liquid Vials, Dry powder Vials, Lyophilized Vials, Autoinjectors and Pre-filled Syringes. SSPL's origination started with Agila Specialties, which was part of Strides Group up to 2012-13, after which it was acquired through strategic transaction by Mylan laboratories limited. The promoter Mr. Arun Kumar had signed a noncompete agreement in FY2014 for a span of six years during the sale of the injectables unit of Agila Specialities to Mylan. Post this, SSPL was formed to continue and build on the legacy of Agila. The manufacturing facility was purchased from Mylan and majority of the team is also retained. SSPL India includes two plants in Bangalore.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)	Q1FY25 (UA)
Total operating income	311.20	395.29	94.30
PBILDT	11.68	57.85	11.30
PAT	-40.68	-6.30	NA
Overall gearing (times)	NM	NM	NA
Interest coverage (times)	0.46	1.31	NA

A: Audited; Prov.: Provisional; UA: Unaudited; NA: Not available NM: Not meaningful 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
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	260.00	CARE BB+ / CARE A4 (RWD)
Term Loan-Long Term		-	-	31-10-2029	112.00	CARE BB+ (RWD)

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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	260.00	CARE BB+ / CARE A4 (RWD)	-	1)CARE BB+ / CARE A4 (RWD) (31-Jan-24) 2)CARE BB+ / CARE A4 (RWD) (20-Dec-23)	-	-
2	Term Loan-Long Term	LT	112.00	CARE BB+ (RWD)	-	1)CARE BB+ (RWD) (31-Jan-24)	-	-

LT: Long term; ST: Short 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	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
2	Term Loan-Long Term	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.

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About us:
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