Spansules Formulations India Private Limited

February 10, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4.72	CARE BB; Stable; ISSUER NOT COOPERATING*	Downgraded from CARE BB+; Stable and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	24.13	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	Downgraded from CARE BB+; Stable / CARE A4+ and moved to ISSUER NOT COOPERATING category

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

CARE Ratings Ltd. has been seeking information from Spansules Formulations India Private Limited (SFIPL) to monitor the rating(s) vide e-mail communications dated December 19, 2024, to January 10, 2025, among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on SFIPL's bank facilities will now be denoted as **CARE BB; Stable, ISSUER NOT COOPERATING and CARE BB; Stable/CARE A4, ISSUER NOT COOPERATING***

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).
The ratings have been revised on account of non-availability of requisite information due to non-cooperation by Spansules Formulations India Private Limited with CARE's effort to undertake a review of the outstanding ratings.

Analytical approach: Combined

CARE has combined financials of two entities of the Spansules group namely Spansules Formulations India Private Limited (SFPL) and Spansules Pharmatech Private Limited (SPPL) since, these said entities are engaged in a similar line of activity and have common promoters along with having operational linkages.

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from the extensive experience of the promoters and established clientele in the industry.

Detailed description of the key rating drivers

At the time of last rating on December 06, 2023, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies.):

Key weaknesses

Moderate with fluctuating PBILDT margin

The group's PBILDT margin stood moderate and have been fluctuating during FY21 to FY23 due to raw material price fluctuation, which was not completely passed on to the customer, however, with commercialising its intermediates/API unit in the mid of FY23, the PBILDT improved by 247 bps to 7% in FY23 compared to 4.52% in FY22. The group has setup intermediates/API unit under SPPL, which is a part of backward integration plan for better cost control, which led to lower raw material cost, which in turn improved its margin in FY23 and is expected to improve further on account of full fledge operations in FY24 and beyond.

In FY24, the group's TOI stands at Rs. 243.35 crore with PBILDT at Rs. 21.86 crore and PAT at Rs. 9.89 crore.

Leveraged capital structure with low net worth base

The capital structure of the company marked by overall gearing ratio has improved yet remained moderate at 1.65x as on March 31, 2023, compared to 1.83x as on March 31, 2022, on account of increasing yet low net worth at Rs 33.87 crore as on March 31, 2023, and a little higher working capital utilization as on the balance sheet date.

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

The debt coverage indicators have deteriorated in FY23 compared to FY22 and remained at a moderate level at the back of high debt levels. With the increase in the interest cost on account of availing fresh term loan for the capex, the interest coverage deteriorated and remained satisfactory at 4.04x during FY23 against 5.30x during FY22. The debt to GCA has also deteriorated and stood high at 5.12x during FY23 against 4.95x during FY22 on account of higher debt levels.

The overall gearing of the group stood at 1.43x with a net-worth of Rs. 45.32 as on March 31, 2024. The interest coverage ratio and debt to GCA stood at 3.35x and 4.93x respectively.

Working capital intensive nature of operations albeit favourable operating cycle
The operations of the company are working capital intensive in nature due to the high credit offered to large pharma companies and on account of various products mix in the company's offerings. The group allows credit period upto 90 days, however, considering the competition in the market from other established players, it tends to extend to upto 120 days. The collection remains high at 110 days in FY23 compared to 96 days in FY22. The inventory holding stands comfortable, and was in the range of 15-30 days, the inventory mainly constitutes raw material which the company has to maintain to ensure smooth production and to cater the demand of its long-term customer on timely manner. Despite being into working capital-intensive industry, the group has maintained a favourable operating cycle at <40 days during FY20-FY23.

In FY24, the operating cycle of the group stands at 64 days.

Exposure to regulatory risk and raw material price volatility
Pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Furthermore, the key raw material required for the manufacturing primarily include API (Active Pharmaceuticals Ingredients) the prices of which are volatile in nature, hence the group remains susceptible to commodity price variation risks. Raw material cost is the major cost is major component in the cost structure. Hence, profitability is susceptible to fluctuations in raw material prices.

Foreign exchange fluctuation risk
Spansules group is exposed to foreign exchange fluctuation risk in view of large volume and high value transactions of export, a phenomenon common to the players in the industry. However, for Spansules group, the risk gets mitigated to certain extent as forex fluctuations are negotiated by company with major clients in majority of cases; however, in absence of any active forex hedging policy, performance remains susceptible to volatility in foreign exchange fluctuation.

Key Strengths

Experienced promoter with long track record in the pharmaceutical industry
The group track record of more than one decade and is promoted and managed by Mr. Venkata Subba Rao Guttikonda (Managing Director) and Mrs. Rama Devi Guttikonda (Executive Director). The directors have industry experience ranging from 13-20 years. Additionally, the directors are supported by a team of experienced and qualified professionals.
The directors of the SPPL and SFIPL are qualified postgraduates and graduate with having more than a decade of experience in manufacturing of pharmaceutical industry (mainly in ready to fill pharma products). Their vast experience is also expected to help the company to develop the business in near future.

Continuous growth in the scale of operations
The total operating income (TOI) of the group have been continuously improving at a CAGR of 17% during FY21-FY23 period, the TOI reported an increase from Rs 180.41 crore in FY21 to Rs 245.01 crore in FY23. Growth in revenue is attributed to the increase in demand for its pharma products in the domestic and export market supported by optimal operational performance of both the entities.

Reputed clientele albeit concentration risk
The company has business operations with reputed client base. The top customers of the company include Synokem Pharmaceuticals Ltd, Ajanta Pharma Limited, Zydus Lifesciences Ltd, Alkem laboratories etc. The top 5 customers contributed approximately 50-60% to the total sales of the group during FY21-FY23, reflecting concentration risk. The company has been getting the repetitive orders from its clients which reflect its demonstrated ability to provide quality products. Apart from sales to reputed clients in India, the company exports to various countries in the Asian region. The association with reputed clientele and repeated orders them is expected to support the sustenance of the scale of operations in short to medium term.

Accredited manufacturing facilities with diversified product portfolio

The manufacturing facilities of the company; both at Telangana and Andhra Pradesh, are approved by World Health Organization's Good Manufacturing Practices (WHO GMP) and European Union Good Manufacturing Practices (EU-GMP). The group has presence in fast-growing therapeutic segments. The main product portfolio of company consists of gastrointestinal, anti-infective, antidepressants, anti-obesity, cardiovascular drugs, respiratory drugs, pain management, etc. Apart the group also supplies nutraceuticals products (health supplements). The company manufactures products based on the demand from clients and requirements of the market.

Good growth prospects for the pharmaceutical industry

Indian pharmaceutical industry (IPI) is ranked 3rd globally in terms of volume and 13th in terms of value. The Indian Pharmaceutical industry is valued at around $50 billion and is expected to grow at a CAGR of 10.7% by 2030. The pharmaceutical market in India is expected to reach $65 billion by 2024, and $130 billion by 2030. The growth potential of the Indian pharmaceutical industry is attributed to its large domestic market, cost-effective manufacturing capabilities, and skilled workforce, increasing focus of Indian companies in R&D, China plus One strategy of developed economies. Supported by the government's policies in form of PLI (Production Linked Incentives) aims to become a global pharmaceutical hub.

Liquidity: Adequate

The group's liquidity position is adequate characterized by sufficient projected accruals of Rs.12.63 crore vis-à-vis its repayment obligations of Rs 5.22 crore in FY24. The group has moderate cash balance of Rs.2.32 crore as on March 31, 2023. Bank limits are utilized to the extent of ~85%, supported by above unity current ratio at 1.18x.

The group's cash balance stood at Rs. 2.69 crore and current ratio at 1.21x as on March 31, 2024.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Nil

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Policy in respect of non-cooperation by issuers
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

About the group

Spansules group is an 18-year-old group in Hyderabad promoted by Mr. Venkata Subba Rao Guttikonda, and other family members have joined the company and are actively involve in the operations. The group is into manufacturing of semi-finished/ready to fill formulations pellets (used for finished formulation), nutraceuticals products, Active Pharmaceutical Ingredients (API) and formulations. The group operates two entities i.e. Spansules Pharmatech Private Limited (SPPL) and Spansules Formulations India Private Limited (SFIPL). The group is majorly deriving the business from pellets where the combined capacity stands at 2.05 lakh kg / month. It generates 65-70% of the sales from domestic market, who are into pharmaceutical business, and balance- 30-35% from the export market. The export market covers 20 countries which include un-regulated and semi regulated countries.

Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)^
Total operating income	245.01	243.35
PBILDT	17.14	21.86
PAT	8.65	9.89
Overall gearing (times)	1.65	1.43
Interest coverage (times)	4.04	3.35

^As per the annual report extracted from ROC

About Spansules Formulations India Private Limited (SFIPL)

SFIPL is into manufacturing of specialised formulations and ready to fill pellets. It deals in multiple therapeutic categories like gastrointestinal, anti-infective, anti-depressants, anti-obesity, cardiovascular drugs, respiratory drugs, pain management, etc and supplies to institutional clients.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)^
Total operating income	166.27	166.91
PBILDT	10.23	13.55
PAT	6.30	8.36
Overall gearing (times)	1.19	0.98
Interest coverage (times)	6.08	5.95

A: Audited UA: Unaudited; Note: these are latest available financial results

^As per the annual report extracted from ROC

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan		-	-	February 2028	4.72	CARE BB; Stable; ISSUER NOT COOPERATING*
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	24.13	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for last three years

		Current Ratings	Rating History

Sr. No.	Name of the Instrument/Bank Facilities	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 - LT-Term Loan	LT	4.72	CARE BB; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable (06-Dec-23)	-	-
2	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	24.13	CARE BB; Stable / CARE A4; ISSUER NOT COOPERATING*	-	1)CARE BB+; Stable / CARE A4+ (06-Dec-23)	-	-

*Issuer did not cooperate; based on best available information.
LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple

Annexure-5: Lender details

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

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