Modepro (India) Private Limited

December 29, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	25.69 (Reduced from 27.37)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Short Term Bank Facilities	9.00	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**34.69 (₹ Thirty-Four Crore and Sixty-Nine Lakhs Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of ratings to the bank facilities of MPL continue to derive strength from experienced promoters with long track record of operations, reputed and diversified clientele, incentives and various subsidies owing to location of the plant, comfortable capital structure & debt coverage indicators and adequate liquidity position.

The ratings, however, are tempered by modest scale of operations, significant decline in PBILDT margins in FY22, working capital intensive nature of operations, supplier concentration risk, susceptibility of profit margins to fluctuation in input prices, foreign exchange fluctuation & regulatory risk and presence in a highly competitive & fragmented industry

Rating sensitivities

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

- ✓ Increase in the scale of operations with total operating income exceeding Rs.120 crore on a sustained basis.
- ✓ Improvement in the capital structure with the overall gearing reaching below 0.50 times with total liabilities to tangible networth reaching below unity level on a sustained basis.
- ✓ Improvement in the debt coverage indicators with interest coverage exceeding 5 times and total debt to gross cash accruals reaching below 2 times on a sustained basis.
- ✓ Creditors period reaching below 90 days on a sustained basis.

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

- × Continued supply disruption in one of its key raw material, thereby impacting the PBILDT margins declining further from FY22 levels.
- × Deterioration in the liquidity profile with collection & inventory period elongating beyond 120 days each respectively on a sustainable basis.

Outlook: Negative

The supply disruption of one of its key raw material THF (Tetrahydrofuran), which is primarily imported from China, continues to impact PBILDT margins of the company in FY22 and H1FY23. The revision in the outlook from 'Stable' to 'Negative' factors in expected moderation in the financial risk profile in the near term owing to continued supply disruption issues for THF. The outlook may be revised to 'Stable' if the company is able to achieve the envisaged turnover in the medium term, improve its profitability and resultant Gross Cash Accruals.

Detailed description of the key rating drivers

Key rating strengths

Experienced promoters with long track record of operations

The main promoter of the company i.e. Mr. Bobby Kavalam (presently Chairman and CEO of the company) has been associated with the company since its inception and has an experience of more than four decades in the pharmaceutical intermediate and fine chemical industry through his association with MPL and Turbhe Chemicals Private Limited (Group Company rated CARE BB+; Stable / CARE A4+). Other directors of the company Mr. Mathew Kavalam and Mr. Cherian Kavalam having more than two decades of experience in the same industry through their association with the company. Over the years of existence in the market, MPL has developed strong association with the suppliers as well as customers thus, enabling it to garner regular orders from them. MPL has an in-house R&D team, with the ability to manufacture intermediates as per client's specifications. MPL's

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

plant operates according to International Conference on Harmonization (ICH) guidelines and has in-built glass line reactors, stainless steel reactors, pressure reactors to manufacture chemicals, which are capable to carry out different kinds of reactions under different conditions. Moreover, the company follows Global Manufacturing Practice (GMP). On account of long track record of operations and experience of the promoters, the company has gained a reputation and has established good relationships with its customers & suppliers.

Reputed clientele; albeit increase in customer concentration risk
The company continues to deal with various reputed clients across pharmaceutical industry including ICROM Spa, Siegfried (Nantong) Pharmaceuticals Co. Ltd., Neuland Laboratories Ltd, Hetero Drugs Ltd., Indoco Remedies Ltd., Micro Labs Ltd, Indoco Remedies Ltd, Symed Labs Ltd, Ajanta Pharma Ltd, Centaur Pharmaceuticals Pvt Ltd etc. from where the company receives repeat orders to the company. The company continues to have reputed clientele base, however, the contribution from top 5 customers rose to 65.53% in FY22 (as compared to 13.02% in FY21) which was primarily on account of three high value orders received from M/s. ICROM SPA of Rs.19.76 crore, M/s. Siegfried (Nantong) Pharmaceuticals Co. Ltd., of Rs.9.26 crore and M/s. Neuland Laboratories Ltd. of Rs.8.96 crore in FY22. Also, the company is in process of supplying higher level intermediaries to the afore said client, which is currently in approval stage, the share of revenue from these two customers is expected to see an improvement post approval.

Incentives and various subsidies owing to location of plat in C Zone industrial area:
The manufacturing plant of the company is strategically located at Kurkumbh, Pune which is C zone industrial area and thereby the company receives various subsidies and incentives viz. industrial promotion subsidy wherein company received rebate in GST, interest subsidy, exemption from electricity duty, power tariff subsidy for the period of 3 years, 5% subsidy on capital equipment for technology up-gradation, 25-75% subsidy on quality certifications and capital equipment along with various incentives on the audits undertaken by the company thereby providing various cost benefits to the company. The company is eligible for the total subsidy of Rs.10.91 crore to be received over the period of seven years from 1/4/2019 to 31/3/2026.

Decline in profit margins during FY22
The PBILDT in absolute terms declined from Rs.13.15 crore in FY21 to Rs.6.81 crore in FY22 primarily on account of sharp increase in one of its raw material namely THF along with increase in employee Cost (from Rs.8.31 crore in FY21 to Rs.9.34 crore in FY22) primarily on account of settlement of employee dues of around 40 workers who were laid-off owing to closure of its Ambernath Unit during August 2021 which was on a lease basis from January 2018. Furthermore, in line with PBILDT margin coupled with marginally higher depreciation expenses the PAT margin also showed a sharp decline in FY22.

Comfortable capital structure; albeit marginal deterioration in debt coverage indicators in FY22
The company's capital structure marked by overall gearing continue to remain comfortable. The overall gearing of the company remained at 0.77x as on March 31, 2022 (vis-a-vis 0.76x as on March 31, 2021) on account of increase in working capital utilisation by 12.65% (from Rs.19.33 crore in FY21 to Rs.22.12 crore in FY22). Debt coverage indicators as indicated by interest coverage and total debt to gross cash accruals, deteriorated during FY22 over FY21. The interest coverage was at 2.23 times in FY22 (vis-à-vis 3.53 times in FY21) and the total debt/GCA of 8.01 times in FY22 (vis-à-vis 3.11 times in FY21) primarily on account of sharp decline in PBILDT levels by Rs.6.20 crore (from Rs.13.15 crore in FY21 to Rs.6.81 crore in FY22) resulting decline in GCA by Rs.5.56 crore (from Rs.9.33 crore in FY21 to Rs.3.76 crore in FY22).

Key rating weaknesses
Modest scale of operations
The scale of operations of the company continue to remain modest. The ToI of the company declined by 12.16% from Rs.90.26 crore in FY21 to Rs.79.28 crore in FY22, primarily on account of non-availability of raw materials leading to higher prices of key raw material which is primarily imported from China. The above had impacted the production thereby resulting in decrease in ToI in FY22. Furthermore, during 8MFY22 (refers to the period April 1, 2022 to November 30, 2022) the company has achieved TOI of Rs.55.42 crore (vis-à-vis 61.88 crore in 10MFY22). It is expected to achieve ToI of around Rs.83 crore given the pending order book position of Rs.25.00 crore and Rs.12 crore already in the pipeline. thereby providing short term revenue visibility to the company.

Working capital intensive nature of operations
The manufacturing lead time of products depends on the nature of the end product, which varies from 15 days to 1 month and also it imports its key raw material requirement from China. Hence, it necessitates holding of raw material as well as WIP inventory. Further, the company has resorted to holding higher inventory given the issues with increasing trend in prices coupled with lower availability. The overall operations of the company continue to remain working capital intensive marked by gross current asset days of 303 days in FY22 (vis-à-vis 251 days in FY21). The inventory days increased from 135 days in FY21 to 163 days in FY22. The higher inventory of Semi-Finished Goods as at March 31, 2022 was also on account of non-availability of raw material and transport related issues. Furthermore, the collection period also increased from 80 days in FY21 to 97 days in FY22.

Increase in supplier base in FY22
During FY22, top 5 suppliers contributed to 34.39% of the total raw materials purchases (vis-à-vis 17.07% in FY21). However, the contribution from single large supplier has reduced indicating improved supplier diversification. Apart from this the company have added few suppliers in FY22.

Susceptibility of profit margins on account of input prices with foreign currency exposure and regulatory risk
MIPL's most of the raw materials are derivatives of petroleum constituting ~60.25% in FY22 of the total cost (vis-à-vis ~60.16% in FY21), the price of which is fluctuating in nature. Therefore, the cost base remains exposed to any adverse price fluctuations of key raw material. MIPL exports 46.72% of its total sales in FY22 (vis-à-vis 44.76% in FY21) to Italy, Germany, Spain and Ireland and also imported around 26.87% of its raw material from China in FY22 (vis-à-vis 19.64% in FY21). Further, the company avails packing credit as and when required while making forex transaction in order to minimize foreign currency exposure. Nonetheless, the company's profits remain susceptible to a certain extent due to foreign exchange fluctuation risk due to timing differences.

Further, the products and production facilities of the company are subject to continuous revision of regulatory norms, stringent regulatory requirements and unfavorable drug price control policies across various countries which may restrain the market growth.

Presence in a highly fragmented industry leading to stiff competition
The Indian Pharmaceutical industry is highly fragmented and competitive in nature. It consists of large, well established players and also numerous unorganized small units. This competitive and fragmented nature of the industry can have an impact on the profitability margin of the company. With the increasing competition and growing demand for active pharmaceutical ingredients, it has become increasingly essential for the players to set up well-structured distribution network to establish their brands in the market along with massive investment in R&D in order to have ability to ship new and better product other companies simply cannot keep up. However, comfort can be drawn from the long standing association of the MPL with its customer and niche product segments to which the company caters to.

Liquidity: Adequate
Liquidity position of the company remained adequate marked by sufficient cushion in accruals compared to its repayment obligations. The free cash and bank balance stood at Rs.2.16 crore as on March 31, 2022 (vis-à-vis Rs.2.55 crore as on March 31, 2021). The company is projected to generate a GCA of Rs.4.74 crore in FY23 against debt repayment obligation of Rs.2.26 crore.

The current ratio and quick ratio stood moderate at 1.17 times and 0.63 times as on March 31, 2022 respectively (vis-à-vis 1.28 times and 0.66 times as on March 31, 2021). Furthermore, the average utilization of it's of its working capital limits (of Rs.21.00 crore) remained at 97.92% during past 12 months ended November 30, 2022. The cash flow from operating activities stood positive of Rs.5.50 crore in FY22 (vis-à-vis negative of Rs.11.96 crore in FY22).

Analytical approach - Standalone

Applicable criteria
CARE's Policy on Default Recognition
Criteria on assigning Outlook and credit watch to Credit Ratings
Liquidity Analysis of Non-Financial Sector Entities
Financial ratios – Non-Financial Sector
CARE's Methodology for Short-term Instruments
Rating Methodology - Manufacturing Companies

About the company
Modepro (India) Private Limited (MPL) was incorporated in 1992 as a private limited company and is being managed by Mr. Bobby Kavalam, Mr. Mathew Kavalam & Mr. Cherian Kavalam. The company is engaged in manufacturing of drug intermediates which are primarily used as pharmaceutical intermediates for manufacturing of Active Pharmaceutical Ingredients (APIs) used for chronic diseases (Opthalmic, asthma, respiratory disease, pain, stress etc.). The company primarily manufactures pharmaceutical intermediates viz. Pyridine, Piperidine, Thiophene, Doxylamine, Zileuton, Erlotinib and Brinzolamide etc which primarily find application in Opthalmic (70% of total revenue- EYE related). MPL also manufactures fine chemicals and speciality chemicals. The company operates through its manufacturing facilities located in Kurkumbh (Pune) which is ISO 9001:2015 and Good Manufacturing Practices (GMP) certified. The Kurkumbh plant has total installed capacity of 93,490 Kilograms.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23 (P)
Total operating income	90.11	79.28	55.42
PBILDT	13.01	6.81	NA
PAT	6.51	0.63	NA
Overall gearing (times)	0.76	0.77	NA
Interest coverage (times)	3.49	2.23	NA

A: Audited; P: Provisional; NA: Not Available

Current year's performance: During 8MFY23 (refers to the period April 1, 2022 to November 30, 2022) the company has recorded ToI of around Rs.55.42 crore

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

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

Annexure-1: Details of facilities

Name of the Facilities	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		-	-	-	21.00	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	July-2023	3.90	CARE BBB-; Negative
Fund-based - LT-Term Loan		-	-	March-2025	0.79	CARE BBB-; Negative
Fund-based - ST-Packing Credit in Indian rupee		-	-	-	4.50	CARE A3
Non-fund-based - ST-Letter of credit		-	-	-	4.50	CARE A3

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	21.00	CARE BBB-; Negative	1)CARE BBB-; Negative (05-Dec-22)	1)CARE BBB-; Stable (21-Feb-22)	1)CARE BBB-; Stable (15-Feb-21)	1)CARE BBB-; Negative (12-Dec-19)
2	Fund-based - LT-Term Loan	LT	3.90	CARE BBB-; Negative	1)CARE BBB-; Negative (05-Dec-22)	1)CARE BBB-; Stable (21-Feb-22)	1)CARE BBB-; Stable (15-Feb-21)	1)CARE BBB-; Negative (12-Dec-19)
3	Non-fund-based - ST-Letter of credit	ST	4.50	CARE A3	1)CARE A3 (05-Dec-22)	1)CARE A3 (21-Feb-22)	1)CARE A3 (15-Feb-21)	1)CARE A3 (12-Dec-19)
4	Fund-based - ST-Packing Credit in Indian rupee	ST	4.50	CARE A3	1)CARE A3 (05-Dec-22)	1)CARE A3 (21-Feb-22)	1)CARE A3 (15-Feb-21)	1)CARE A3 (12-Dec-19)
5	Fund-based - LT-Term Loan	LT	0.79	CARE BBB-; Negative	1)CARE BBB-; Negative (05-Dec-22)	1)CARE BBB-; Stable (21-Feb-22)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of various facilities rated for this company

Sr. No.	Name of Facilities	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Packing Credit in Indian rupee	Simple
4	Non-fund-based - ST-Letter of credit	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 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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