CRISIL
Ratings

Rating Rationale

September 30, 2022 | Mumbai

Symed Labs Limited

Rating Action

Total Bank Loan Facilities Rated	**Rs.122 Crore**
Long Term Rating	**CRISIL A/Stable**
Short Term Rating	**CRISIL A1**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings' ratings on the bank facilities of Symed Labs Limited (Symed) continue to reflect the strong market position of the company in the active pharmaceutical ingredients (APIs) industry, its healthy operating efficiency and comfortable financial risk profile. These strengths are partially offset by modest scale of operations and large working capital requirement.

In July 2021, the erstwhile promoters of the company, Dr G Mohan Rao and Dr PS Reddy, sold 74% stake to Viyash Life Sciences Pvt Ltd which is backed by Global PE firm Carlyle. Viyash Life Sciences Pvt Ltd (Viyash) was formed in 2019 and is currently in its expansion phase. Dr Rao and Dr Reddy continue to hold 13 % stake each, which would be sold to Viyash in due course of time. CRISIL Ratings will continue to monitor the developments with respect to the acquisition of balance 26% by Viyash and get clarity on new management's stance of support towards Symed.

Revenue for fiscal 2022 was largely flattish at Rs 486 crore, as against Rs 480 crore recorded previous fiscal. Contribution from exports stood at over 60% which is expected to increase further over the medium term. Overall, revenues are expected to grow at 8-12% over the medium term, backed by diversified product portfolio, established customer relationships, process patents for key products and strong research and development (R&D) capabilities.

Symed's operating margin was impacted in fiscal 2022 and stood at 12.4% in fiscal 2022 as against 29.6% a year earlier primarily on account of one-time transaction charges pertaining to the stake sale and one-time bonus paid to employees totalling ~Rs. 50 crore. Excluding the same, the operating margins were at about 21%. Going forward also, margins are expected to sustain at 21-22% over the medium term.

Financial risk profile is expected to remain comfortable backed by expected annual accruals of ~Rs. 90-100 crore per annum as against moderate capex of ~Rs. 35-40 crore per annum. Debt including working capital is expected to remain at ~ Rs 30-40 crores as aginst expected networth of ~ Rs. 520-550 crore in FY23 resulting in a strong capital structure. Debt protection metrics also expected to remain healthy with interest cover to remain over 30 times and NCATD of over 2.25 times over the medium term.

Analytical Approach

For arriving at its ratings, CRISIL Ratings has considered the standalone business and financial risk profiles of Symed.

Key Rating Drivers & Detailed Description

Strengths:

Strong market position in API manufacturing: Symed's product portfolio has gradually grown to over 50 APIs catering to various therapeutic segments, such as anti-convulsants, pain management, anti-psychotics, anti-hemantics and anti-infectives. In addition, Symed has established healthy relationships with its customers, such as Torrent Pharmaceuticals Ltd, Alkem Laboratories Ltd ('CRISIL AA+/Stable/CRISIL A1+') and Mylan Laboratories Ltd ('CRISIL AA-/Stable') which is expected to support its healthy business risk profile.

Healthy operating efficiency: The company has maintained healthy operating efficiency as indicated by strong operating margins in excess of 20% and return on capital employed (RoCE) in excess of 20% (excluding one time charges of ~Rs. 50 crore incurred in fiscal 2022 on account of the stake sale) recorded over the past 5 years. This has been made possible through regular addition of high-margin molecules to the product portfolio and near full capacity utilisation. It has US Food and Drug Administration (USFDA) approvals for two of its plants which has also helped expand geographical reach.

Comfortable financial risk profile: Adjusted gearing was nil as on March 31, 2022, while adjusted interest cover age ratio was 33.4 times in fiscal 2022. Capex of Rs 35-40 crore per annum, over the medium term, will likely be funded through internal accrual with minimal dependence on debt, thus keeping the gearing healthy. The financial risk profile is expected to remain comfortable, with steady cash flow from operations and the absence of large, debt-funded capex over the medium term.

Weaknesses

Modest scale of operations with revenue concentration and exposure to intense competition: Symed's revenue was Rs 486 crore in fiscal 2022 with around 22% coming from the Linezolid molecule. It has remained at over 20% over the years, resulting in significant dependence on a single product. However, the company has been trying to diversify its product base and has several new products in the pipeline. Its ability to scale up revenue from these new products and reduce dependency on Linezolid, wherein the patent is due to expire in fiscal 2025, will remain a key monitorable.

Large working capital requirement: Symed's operations are working capital intensive, as reflected in gross current assets of 257 days as on March 31, 2022, driven by sizeable receivables. Working capital requirement is expected to remain high, driven by higher credit period offered to export customers.

Liquidity: Strong
The company has a strong liquidity profile driven by expected healthy cash accrual of Rs 90-100 crore per annum against moderate annual capex of Rs 35-40 crore over the medium term. Further, utilization against fund based working capital limits of Rs. 70 crore has remained moderate at 35-40% during first quarter of this fiscal providing additional cushion.

Outlook: Stable
Symed's business risk profile should see sustained improvement over the medium term, driven by steady de mand across geographies, diversification in product base and focus on high-margin molecules. The financial risk profile should remain comfortable, driven by healthy cash accruals, absence of debt-funded capex and steady accretion to reserve.

Rating Sensitivity Factors
Upward Factors
- Better-than-anticipated revenue growth on a sustained basis while maintaining operating margins at around 21-23%
- Diversification in product profile and increase in geographical diversification

Downward Factors
- Sharp fall in revenue or material decline in operating profitability to below 18% impacting cash generation
- Stretch in the working capital cycle or large, debt-funded capex, including in any unrelated business, resulting in weakening of the financial risk profile
- Higher-than-expected dividend outflow or support provided to group companies

About the Company
Incorporated in 1998 by Dr G Mohan Rao and Dr B Parthasaradi Reddy, Symed manufactures APIs. The company has a portfolio of about 50 APIs across diverse therapeutic segments. It has three API plants, one R&D centre and two intermediate plants (all in and around Hyderabad). Two of the plants are USFDA-approved and cater exclusively to overseas markets.

Global PE firm Carlyle backed pharma company Viyash Life Sciences Pvt Ltd has taken over majority stake (74%) in Symed labs limited in July 2021. Viyash Life Sciences Pvt Ltd, incorporated in 2019, is a mid-tier API and formulation player. It currently has ten manufacturing facilities in India with a combined capacity of ~2000 KL as well as one formulation facility in US. Majority of the company's facilities are US FDA approved for API or Intermediates and are capable of servicing both regulated and semi-regulated markets. Viyash was set-up by Dr. Hari Babu (erstwhile Global COO of Mylan and CEO of Mylan India) in partnership with Dr. Srihari Raju Kalidindi (erstwhile Executive Director of Laurus Laboratories).

Dr. G Mohan Rao and Dr. Parthasaradi Reddy, founder of Symed, continue to hold 13% stake each in the company which would be sold to Carlyle in due course of time.

Key Financial Indicators

Particulars	Unit	2022	2021
Revenue	Rs crore	486	476
Profit After Tax (PAT)	Rs crore	28	97
PAT Margin	%	5.8	20.3
Adjusted debt/adjusted networth	Times	0.00	0.08
Adjusted interest coverage	Times	33.4	26

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Cash Credit*	NA	NA	NA	75	NA	CRISIL A/stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	10	NA	CRISIL A/stable
NA	Letter of Credit	NA	NA	NA	35	NA	CRISIL A1
NA	Bank Guarantee	NA	NA	NA	2	NA	CRISIL A1

**Interchangeable with packing credit/packing credit in foreign currency/working capital demand loan (WCDL)*

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	85.0	CRISIL A/Stable	29-08-22	CRISIL A/Stable	01-06-21	CRISIL A/Stable		--	18-12-19	CRISIL A-/Positive	CRISIL A-/Positive
			--		--	20-01-21	CRISIL A/Stable		--	14-10-19	CRISIL A-/Positive	--
Non-Fund Based Facilities	ST	37.0	CRISIL A1	29-08-22	CRISIL A1	01-06-21	CRISIL A1		--	18-12-19	CRISIL A2+	CRISIL A2+
			--		--	20-01-21	CRISIL A1		--	14-10-19	CRISIL A2+	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	2	CRISIL A1
Cash Credit*	75	CRISIL A/Stable
Letter of Credit	35	CRISIL A1
Proposed Long Term Bank Loan Facility	8	CRISIL A/Stable
Proposed Long Term Bank Loan Facility	2	CRISIL A/Stable

**Interchangeable with packing credit/packing credit in foreign currency/working capital demand loan (WCDL)*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for the Pharmaceutical Industry

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Poonam Upadhyay Director **CRISIL Ratings Limited** B:+91 22 3342 3000 poonam.upadhyay@crisil.com Aashna Aggarwal Senior Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Aashna.Aggarwal@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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