

Press Release
Aditya Medisales Limited

August 21, 2019

Rating Assigned



Total Instrument Rated*	Rs.500 Cr.
Long Term Rating	ACUITE AA+ Provisional (SO) / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE AA+ Provisional (SO)**' (read as **ACUITE double A plus Provisional (Structured Obligation)**) on the Rs.500 crore Proposed Non-Convertible Debentures of **ADITYA MEDISALES LIMITED (AML)**. The outlook is '**Stable**'.

Incorporated in 1990, Aditya Medisales Limited (AML) was initially engaged as a distributor of Sun Pharmaceutical Industries Limited & its subsidiary Sun Pharma Laboratories Limited for domestic formulations products in India. AML is an associate company of SPIL. Later in June 2019, AML has discontinued the distribution business for SPIL and is now engaged in investing activity. AML has been categorised as a promoter entity as per the disclosures on the stock exchanges.

Sun Pharmaceutical Industries Limited (SPIL) is promoted by Mr. Dilip Shanghvi, the company is one of the leading Pharmaceutical companies in India. It was incorporated in 1993. Sun Pharma's consolidated turnover for FY2019 was Rs. 28,686 crore on which it posted a net profit of Rs. 2,665 crore. It has a product portfolio of over 2000 products with presence over 100 countries. The company is listed on BSE and NSE with a market capitalization of ~Rs. 100,000 crore as on August 19, 2019. The promoter, Mr. Dilip Shanghvi along with his family and investment companies ("Promoter Group") hold ~52.37 per cent stake in SPIL.

About the corporate Guarantor – Shanghvi Finance Private Limited (SFPL)

SFPL is an investing company of the promoter family. It has been listed as promoter entity as per the disclosures on the stock exchange. SFPL held ~40 per cent of the total shareholding of SPIL as on June 2019. The proposed NCD transaction will be secured by the pledge of SPIL's shares held by SFPL and corporate guarantee of SFPL.

The rating of Rs. 500.00 Cr. of Proposed NCDs is provisional and the final rating is subject to:

- Finalisation of term sheet
- Confirmation from the debenture trustee regarding execution support from Shanghvi Finance Private Limited (SFPL), and Power of Attorney over SPIL's shares held by SFPL, Guarantee Document and compliance with other terms and conditions as per the term sheet
- Undertaking from AML to submit monthly details of pledge based borrowing across all Promoter Group companies (including SFPL)

The provisional rating is valid for 90 days and Acuite reserves the right to alter/modify/extend/withdraw the rating any time prior to 90 days, if such an action is deemed appropriate.

Analytical Approach

Acuite has considered the consolidated business and financial risk profiles of AML and its subsidiary Asawari Property Private Limited. Acuite has also factored in support of the promoters of SPIL by way of pledge of shares of SPIL and unconditional and irrevocable guarantee of SFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Rating driven by pledge of shares of Sun Pharmaceutical Industries Limited**
The proposed non-convertible debentures of AML are secured by a way of pledge of equity shares of Sun Pharmaceutical Industries Limited (SPIL) held by Shanghvi Finance Private Limited (SFPL). The stipulated

asset cover for these instrument will be 2.0x during the entire tenor of the NCD. Apart from asset cover, the term sheet has timelines for top up and invocation of pledge.

SPIL is one of the leading listed Pharmaceutical companies in India with consolidated revenues of was Rs. 28,686 crore on which it posted a net profit of Rs. 2,665 crore for FY2019. The company has a presence in about 100 countries (including USA, Europe, Emerging Markets, Canada, Japan and Australia & New Zealand) with more than 2000 product portfolio. The company generates around 73 per cent of its total consolidated revenue is from overseas markets. SPIL is the 8th Largest Specialty Generic company in USA. The market capitalization of the company is ~100,000 crore (~USD 14.3 billion) as on August 19, 2019. Its investor base includes leading domestic and foreign institutional investors. The Promoter Group hold ~52.37 per cent as on June 2019. Out of these 52.37 per cent promoter holding, Shanghvi Finance Private Limited holds ~40.00 per cent and balance 12.37 is held by Promoter Group in individual capacity and through other entities including AML. As on June 2019, out of the total Promoter Group shareholding ~91.12 per cent was unencumbered indicating significant flexibility to raise additional funding/offer top ups to existing investors. As per the data submitted by the company to Acuite, the pledge based borrowings across Promoter Group stood at Rs.1,788 crore as on July 17, 2019.

The rating also factors in adherence to the proposed covenants on maximum indebtedness of Rs.7250 crore (entire borrowing as well as all contingent exposures (including but not limited to corporate guarantee, contingent liability, undertaking etc.) or 20% of the value of SPIL's share held by SFPL to total borrowings whichever is lower. There are clauses relating to restrictions on 'change of control' over SFPL to protect the interest of the investors.

Acuite believes that the promoters of SPIL will continue to support the debt servicing commitments under the proposed NCDs issues. The financial flexibility of the promoters (in terms of value of unencumbered shares in SPIL viz-a-viz pledge based borrowings) will be a key credit monitorable.

- **Corporate Guarantee from Shanghvi Finance Private Limited**

The borrowings under proposed NCD will be supported by corporate guarantee of SFPL. SFPL by virtue of its significant holding of 40.00 per cent stake in SPIL has a healthy revenue profile through dividend flows. SPIL has been declaring dividend in a range of 100% to 350% over the past five years. SFPL's has been able to generate robust accruals of ~Rs.136 crore in FY2019 (Prov.) (PY: Rs.378 crore) primarily on the back of these dividend flows. SFPL's outstanding debt as on 31 March 2019 (Prov.) stood at Rs.535.57 crore. SFPL's financial flexibility is derived from the value of its unencumbered shares in SPIL viz-a-viz its borrowings and other contingent exposures.

Acuite believes that SFPL will continue to generate a robust cash flows from its investments in SPIL and will maintain its debt levels at prudent levels (within the covenants agreed upon with the lenders. Since, the revenue flows of SFPL is highly dependent on SPIL's performance and dividend policy, the financial performance and position of SPIL will be a key credit monitorable.

Weaknesses

- **Market Risk arising from adverse movement in stock prices**

AML is presently an investment vehicle for the promoter group and hence its revenues will be primarily linked to the dividend from its holding in SPIL (1.67% as on June 2019 of Sun Pharma's total equity) besides its investments in certain partnership firms of the promoter. Till FY2019, the company was engaged as a distributor of Sun Pharmaceutical Industries Limited & its subsidiary Sun Pharma Laboratories Limited for domestic formulations products in India as a domestic distributor for SPIL's products. AML had generated revenues of ~Rs.8936 crores in FY2019 (Prov.) and net profit of Rs.29.70 crore. The net worth of the company stood at Rs.238.60 crore as on 31 March 2019 (Prov.) as against total debt of Rs.150 crore. The distributorship has been discontinued in the current financial year and based on the discussion with management, AML is likely to function as an investment vehicle going forward.

The proposed rating is based on pledge of shares of Sun Pharmaceutical Industries Limited held by SFPL. The proposed NCDs will be for period of 3 years 15 days with a bullet repayment structure (including accrued interest till date of redemption). The clauses pertaining to 'Prepayment Event' also include a drop in market capitalization of SPIL by 50% from the date of financing. In the event of such a sharp drop, the lenders are entitled to seek early repayment of the NCDs. Going ahead, AML is not expected to have any major revenues streams except for the dividend and interest flows on its investments/loans. Hence, AML will be dependent on the timely infusion/refinancing by the promoters to support the redemption of these debentures.

As the rated instruments are long term in nature, the downside risk of stock will be elevated. Since the stock market is prone to volatility, occurrence of events such as slowdown in FII flows, sharp depreciation in domestic currency, political events, and other such macroeconomic events, can cause decline in stock prices. These are events which could impact the overall indices causing a general downtrend in prices. Additionally, company specific factors such as lower-than-expected performance, regulatory actions etc. can also influence movements in stock prices. Acuite believes that in view of the long term nature of the proposed NCDs and the sensitivity of the proposed NCDs to the volatility in the market price of SPIL, any material decline in the market capitalization of SPIL will impart a negative bias to the rating. Any sharp and continuous decline in share prices could potentially lead to challenges in adhering to the covenants.

Liquidity position

AML's liquidity will be driven by support from the Promoter Group of SPIL. Since AML's revenue streams are expected to be subdued the company's ability to refinance these NCD will be a key rating sensitivity factor.

Outlook: Stable

Acuite believes that AML will maintain a 'Stable' credit profile on the back of its association and continuous support from SPIL. The outlook may be revised to 'Positive' if AML demonstrates significant improvement in its profitability and debt protection indicators. Conversely, the outlook may be revised to 'Negative' if the shares of SPIL faces downfall in stock prices owing to occurrence of events considering stock market volatility.

About the Rated Entity - Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	8,936.00	8,009.51	7,793.40
EBITDA	Rs. Cr.	154.10	114.50	86.54
PAT	Rs. Cr.	29.70	29.17	17.92
EBITDA Margin	(%)	1.72	1.43	1.11
PAT Margin	(%)	0.33	0.36	0.23
ROCE	(%)	30.96	20.31	38.67
Total Debt/Tangible Net Worth	Times	0.63	2.87	1.94
PBDIT/Interest	Times	1.19	1.33	1.24
Total Debt/PBDIT	Times	0.79	4.31	3.31
Gross Current Assets (Days)	Days	33	85	50

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Acuite has taken a note of the matter between SEBI and SPIL related to whistleblower complaints about AML being distributor for domestic formulation products of Sun Pharma. Acuite has also taken a note of the clarification issued by SPIL dated December 03, 2018 in response to media reports. The final outcome of this matter is unascertainable at present and Acuite shall closely monitor any developments in this regard.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Trading Entities - <http://acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>
- Securitised Transactions - <https://www.acuite.in/view-rating-criteria-29.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Proposed NCD	Not Applicable	Not Applicable	Not Applicable	500.00	ACUITE AA+ Provisional (SO) /Stable

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About Acuité Ratings & Research:

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