

Supplementary Disclosures for Provisional Rating



Aditya Medisales Limited

December 31, 2021

Rating Reaffirmed

Instrument Rated*	Rs.500.00 Cr. (Non-Convertible Debentures)
Long Term Rating	ACUITE AA+ (CE) / Outlook: Stable (Reaffirmed)
Instrument Rated*	Rs.300.00 Cr. (Non-Convertible Debentures)
Long Term Rating	ACUITE AA+ (CE) / Outlook: Stable (Reaffirmed)
Instrument Rated*	Rs.200.00 Cr. (Non-Convertible Debentures)
Long Term Rating	Provisional ACUITE AA+ (CE) / Outlook: Stable (Reaffirmed)

Pursuant to SEBI Circular SEBI/ HO/ MIRSD/ MIRSD_CRADT/ P/ CIR/ 2021/ 554 dated 27th April, 2021, please find below the additional disclosures pertaining to Provisional Rating. The previous rating rationale is appended herewith for reference.

Additional Disclosures

The rating on the Rs. 200 Cr. NCDs is provisional and the final rating is subject to (pending steps/documentation):

1. Receipt of the executed trust deed and its legal vetting by Acuité
2. Receipt of the final term sheet and confirmation from trustee regarding the compliance with all the terms and conditions

Supplementary disclosures for Provisional Ratings

A. Risks associated with the provisional nature of the credit rating

1. Lack of third party monitoring of compliance in absence of executed trust deed and no finalized terms in absence of final term sheet
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

B. Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE BBB- / Stable

C. Timeline for conversion to Final Rating for a debt instrument proposed to be issued:

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the proposed debt instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the proposed debt instrument.

Policy of Acuite for Provisional Rating: <https://www.acuite.in/provisional-ratings.htm>

Press Release

Aditya Medisales Limited

February 12, 2021

Rating Reaffirmed

Instrument Rated*	Rs.500.00 Cr. (Non-Convertible Debentures)
Long Term Rating	ACUITE AA+ (CE) / Outlook: Stable (Reaffirmed)
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* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE AA+ (CE)**' (**read as ACUITE double A plus (Credit Enhancement)**) on the issue of non-convertible debentures of Rs.800.00 Cr. of Aditya Medisales Limited (AML). The outlook is '**Stable**'.

Acuité has reaffirmed the long term rating of '**Provisional ACUITE AA+ (CE)**' (**read as Provisional ACUITE double A plus (Credit Enhancement)**) on the proposed non-convertible debentures of Rs.200.00 Cr. The outlook is '**Stable**'. The conversion to final rating is subject to the execution of a trust deed and confirmation from debenture trustee.

The rating reaffirmation is on account of AML's strong Promoter Sanghavi Financial Private Limited (SFPL) and high level of unencumbered level of promoter shares. AML is a part of a Dilip Shanghvi Group. Mr. Dilip Shanghvi is a Promoter and Managing Director of Sun Pharmaceuticals Industries Limited (SFIL). The rating factors in the strong credit profile of SFIL and its track record of dividend payout. SFPL holds ~40% stake in SFIL (market capitalization: more than Rs.1,50,000 Cr. as on 30 January 2021) and the major portion of the revenue of SFPL is dividend payout of SPIL.

The NCDs raised by AML are backed by Unconditional and Irrevocable Corporate Guarantee by SFPL and pledge of shares of SPIL held by SFPL. The rating derives strength from a high level of unencumbered promoter shares (~91% as of January 2021) thereby providing large headroom. The NCDs also stipulates a condition on total debt for SFPL on a consolidated basis. The total debt should not be more than Rs.7,250 Cr. as against the total outstanding of Rs.2,739 Cr. Any significant increase in debt levels or significant downfall in the share price of SPIL will be key credit monitorables.

About the company

Mumbai based - Aditya Medisales Limited (AML) was Incorporated in 1990, and 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 FY2020 was Rs. 33,474 Cr. on which it posted a net profit of Rs. 3,765 Cr. 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 more than Rs. 150,000 Cr. as on January 31, 2021. The promoter, Mr. Dilip Shanghvi along with his family and investment companies ("Promoter Group") hold ~52.68 per cent stake in SPIL as on 31 December 2020.

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 40.30 per cent of the total shareholding of SPIL as on December 2020. The proposed NCD transaction will be secured by the pledge of SPIL's shares held by SFPL and corporate guarantee of SFPL.

Unsupported (Standalone) Rating

ACUITE BBB-

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of AML and its subsidiary Asawari Property Private Limited. Acuité has also factored in support by way of pledge of shares of SPIL held by SFPL 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 non-convertible debentures of AML are secured by way of pledge of equity shares of Sun Pharmaceutical Industries Limited (SPIL) held by Shanghvi Finance Private Limited (SFPL). The stipulated asset cover for two NCDs is 2.0x and 1.55x respectively 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 Rs. 33,473 Cr. on which it posted a net profit of Rs. 3,765 Cr. for FY2020. 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 from overseas markets. SPIL is the 8th Largest Specialty Generic company in USA. The market capitalization of the company is more than Rs. 150,000 Cr. as on January 31, 2021. Its investor base includes leading domestic and foreign institutional investors. The Promoter Group hold ~52.68 per cent as on December 2020. Out of these 52.68 per cent promoter holding, Shanghvi Finance Private Limited holds ~40.30 per cent and balance 12.37 is held by Promoter Group in individual capacity and through other entities including AML. As on January 2021, out of the total Promoter Group shareholding ~91 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 Acuité, the pledge based borrowings across Promoter Group stood at Rs.2,739 Cr. as on January 31, 2021.

The rating also factors in adherence to the proposed covenants on maximum indebtedness of Rs.7250 Cr. (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.

Acuité believes that the promoters of SPIL will continue to support the debt servicing commitments under the NCDs issuances. 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 NCDs is supported by corporate guarantee of SFPL. SFPL by virtue of its significant holding of 40.30 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 generated cash accruals in FY2020 of Rs.516.03 Cr. as against cash loss of Rs.73.44 Cr. in FY2019. The significant increase in cash accruals in FY2020 is majorly on account of high dividend payout by SPIL. SFPL's outstanding debt as on 31 March 2020 stood at Rs.865.91 Cr. SFPL's financial flexibility is derived from the value of its unencumbered shares in SPIL viz-a-viz its borrowings and other contingent exposures.

Acuité 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 December 2020 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. The distributorship has been discontinued in FY2020 and based on the discussion with management, AML is likely to function as an investment vehicle going forward.

The rating is based on pledge of shares of Sun Pharmaceutical Industries Limited (SPIL) held by SFPL. The NCDs are for period of 3 to 3.5 years 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 revenue 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. Acuité 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: Strong

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.

Rating Sensitivities

- Any significant deviation in share prices of Sun Pharma

Material Covenants

- Total debt for SFPL on a consolidated basis to not exceed Rs.7,250 Cr.

Assessment of Adequacy of Credit Enhancement

Acuité has conducted sensitivity on the operating performance of SPIL & SFPL and has found that, even in the stress scenarios the credit enhancement is likely remain adequate.

Outlook: Stable

Acuité 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	28.75	13.10
PAT	Rs. Cr.	8.83	(45.92)
PAT Margin	(%)	30.70	(350.58)
Total Debt/Tangible Net Worth	Times	0.84	0.07

PBDIT/Interest	Times	1.07	(6.11)
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Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Explicit Credit Enhancements - <https://www.acuite.in/view-rating-criteria-49.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of the Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12-Feb-2020	Non-Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) /Stable (Reaffirmed)
	Non-Convertible Debentures	Long Term	300.00	ACUITE AA+ (CE) /Stable (Assigned)
	Non-Convertible Debentures	Long Term	200.00	Provisional ACUITE AA+ (CE) /Stable (Reaffirmed)
03-Feb-2020	Proposed Non-Convertible Debentures	Long Term	500.00	Provisional ACUITE AA+ (CE) /Stable (Assigned)
	Non-Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) /Stable (Reaffirmed)
26-Aug-2019	Non-Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) /Stable (Assigned)
21-Aug-2019	Proposed Non-Convertible Debentures	Long Term	500.00	Provisional ACUITE AA+ (CE) /Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of the Instrument/ Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
INE519S07028	Non-Convertible Debentures	28-Aug-18	Not Applicable	12-Sept-22	500.00	ACUITE AA+ (CE) / Stable (Reaffirmed)
INE519S07036	Non-Convertible Debentures	13-Feb-20	Not Applicable	28-Feb-23	300.00	ACUITE AA+ (CE) / Stable (Reaffirmed)
Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	200.00	Provisional ACUITE AA+ (CE) / Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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