

Press Release

Aditya Medisales Limited

February 16, 2023



Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	300.00	ACUITE AA+ CE Stable Reaffirmed	-
Non Convertible Debentures (NCD)	700.00	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	700.00	-	-

Rating Rationale

Acuite 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.300.00 Cr. of Aditya Medisales Limited (AML). The outlook is '**Stable**'.

Furthermore, Acuite has withdrawn the long term rating on the issue of non-convertible debentures of Rs.500.00 Cr. of Aditya Medisales Limited (AML). Acuite has also withdrawn the long term rating on the proposed non-convertible debentures of Rs.200.00 Cr. The rating has been withdrawn on account of the request received from the company along with redemption certificate as per Acuite policy on withdrawal of ratings.

Rationale for the Rating Reaffirmation

The rating reaffirmation is on account of strong support from AML's promoter i.e. Shanghvi Financial Private Limited (SFPL) and high level of unencumbered level of promoter shares. AML is a part of Dilip Shanghvi Group. Mr. Dilip Shanghvi is a Promoter and Managing Director of Sun Pharmaceuticals Industries Limited (SPIL). The rating also factors in the strong credit profile of SPIL and its track record of dividend payout over the years. SFPL holds ~40% stake in SPIL (market capitalization: ~Rs.2.4 lakh Cr. as on 08 February 2023) and the major portion of the revenue of SFPL is dividend payout from SPIL. The outstanding NCDs raised by AML are backed by Unconditional and Irrevocable Corporate Guarantee by SFPL and pledge of shares of SPIL held by SFPL. Furthermore, the company has already redeemed NCDs of Rs.500 Cr. on September 2022. The rating derives strength from a high level of unencumbered promoter shares (~98% as of December 2022) thereby providing large headroom. The NCDs also stipulates a condition on total debt for SFPL on a consolidated basis which should not be more than Rs.7,250 Cr. Any significant increase in debt levels or significant downfall in the share price of SPIL will be key credit monitorable.

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. Later in June 2019, AML has discontinued the distribution business for SPIL and is now engaged in investing activity and trading of construction materials. 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 which was incorporated in 1993. 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. 2.4 Lakh Cr. as on February 08, 2023. The promoter, Mr. Dilip Shanghvi along with his family and investment companies ("Promoter Group") hold ~54.48 per cent stake in SPIL as on 31 December 2022.

Standalone (Unsupported) Rating

ACUITE BBB-/Stable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of AML. Furthermore, 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

Corporate Guarantee from Shanghvi Finance Private Limited

The borrowings under NCDs is supported by corporate guarantee from SFPL. SFPL by virtue of its significant holding of ~40.30 per cent stake in SPIL has a healthy revenue profile through dividend inflows. SPIL has been declaring dividend in a range of 100% to 350% over the past five years. Furthermore, SFPL's has generated cash accruals in FY2022 of Rs.718.45 Cr. as against of Rs.581.44 Cr. in FY2021. The increase in cash accruals in FY2022 is majorly on account of high dividend payout by SPIL. SFPL's outstanding debt as on 31 March 2022 stood at Rs. 537.97 Cr which consist of only short-term borrowings. 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 flow 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.

Rating driven by pledge of shares of Sun Pharmaceutical Industries Limited

The NCDs 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 outstanding NCDs is 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 was Rs. 38,722 Cr. on which it posted a net profit of Rs. 3406 Cr. for FY2022. 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 67 per cent of its total consolidated revenue is from overseas markets. The market capitalization of the company is more than Rs. 2.4 lakh Cr. as on February 08, 2023. Its investor base includes leading domestic and foreign institutional investors. The Promoter Group hold ~54.48 per cent as on December 2022. Out of these 54.48 per cent promoter holding, Shanghvi Finance Private Limited holds ~40.30 per cent and balance 14.18 is held by Promoter

Group in individual capacity and through other entities including AML. As on December 2022, out of the total Promoter Group shareholding, ~98 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.2,645 Cr. as on February 03, 2023. 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.

Weaknesses

Market Risk arising from adverse movement in stock prices

AML is presently an investment vehicle for the promoter group and a trading entity which revenues are primarily linked to the dividend from its holding in SPIL (1.67% as on December 2022 of Sun Pharma's total equity) besides its investments in certain partnership firms of the promoter and trading of building materials. 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 and AML functions majorly as an investment vehicle. 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 expected to have moderate revenue streams from its trading business and dividend with interest flows on its investments/loans. Hence, timely redemption or refinance of these debentures will remain to be a key monitorable. However, the company has already redeemed NCDs of Rs.500 Cr. on September 2022 and the balance outstanding of Rs.300 Cr. is expected to get redeemed in end of February 2023. 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.

ESG Factors Relevant for Rating

Not Applicable

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 CE Structure

The CE structure has been designed to ensure adequacy and timeliness in the receipt of funds required for debt service. The team has also undertaken a sensitivity analysis to factor in shortfall in revenue and special margin collections. An independent trustee will be appointed to monitor the structured payment mechanism.

Liquidity Position

Strong

AML's liquidity will be driven by support from the Promoter Group of SPIL. Since AML's revenue streams are primarily linked to dividend income from SPIL, the company's ability to redeem or refinance the outstanding NCDs will be a key rating sensitivity factor. Furthermore, the company has timely redeemed NCDs to the tune of Rs.500 Cr. in September 2022.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	289.56	213.86
PAT	Rs. Cr.	29.32	3.92
PAT Margin	(%)	10.12	1.83
Total Debt/Tangible Net Worth	Times	0.35	0.62
PBDIT/Interest	Times	1.27	1.12

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Explicit Credit Enhancements: <https://www.acuite.in/view-rating-criteria-49.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels

of risk. For more details, please refer Rating Criteria “Complexity Level Of Financial Instruments” on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Feb 2022	Proposed Non Convertible Debentures	Long Term	200.00	ACUITE Provisional AA+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	300.00	ACUITE AA+ (CE) Stable (Reaffirmed)
12 Feb 2021	Non Convertible Debentures	Long Term	300.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	200.00	ACUITE Provisional AA+ (CE) Stable (Reaffirmed)
12 Feb 2020	Non Convertible Debentures	Long Term	300.00	ACUITE AA+ (CE) Stable (Assigned)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) Stable (Reaffirmed)
	Proposed Non Convertible Debentures	Long Term	200.00	ACUITE Provisional AA+ (CE) Stable (Reaffirmed)
03 Feb 2020	Proposed Non Convertible Debentures	Long Term	500.00	ACUITE Provisional AA+ (CE) Stable (Assigned)
	Non Convertible Debentures	Long Term	500.00	ACUITE AA+ (CE) Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE519S07036	Non-Convertible Debentures (NCD)	13 Feb 2020	Not Applicable	28 Feb 2023	Simple / Complex	300.00	ACUITE AA+ CE Stable Reaffirmed
Not Applicable	INE519S07028	Non-Convertible Debentures (NCD)	28 Aug 2019	Not Applicable	12 Sep 2022	Simple / Complex	500.00	Not Applicable Withdrawn
Not Applicable	Not Applicable	Proposed Non-Convertible Debentures	Not Applicable	Not Applicable	Not Applicable	Simple / Complex	200.00	Not Applicable Withdrawn

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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