

Press Release

Sun Pharma Advanced Research Company Limited

September 07, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	200.00	ACUITE AA Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	200.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE AA' (read as ACUITE double A)** on the Rs. 200.00 Cr bank facilities of Sun Pharma Advanced Research Company Limited (SPARC). The outlook assigned is **'Stable'**.

Rationale for the Rating Reaffirmation

The rating reflects SPARC's established operational track record and experienced management, robust R&D pipeline and parent support from Shanghvi Finance Private Limited (SFPL) in the form of corporate guarantee. SPARC is a part of the Sun Pharma Group (SPG) headed by Mr. Dilip Shanghvi. Mr. Shanghvi also holds directorship position in SPARC. The rating also draws comfort from business synergies SPARC has with Sun Pharmaceutical Industries Limited (SPIL) – flagship of SPG. The above-mentioned strengths are partly offset by long gestation periods and capital-intensive nature of drug research and development process. Continued support from promoters and timely commercialization of key products under development key rating sensitivity factors for SPARC.

About the Company

SPARC with its corporate office in Mumbai is a clinical stage bio-pharmaceutical company and is part of the Sun Pharma Group. It was incorporated in 2006 when the innovative product group was carved out of Sun Pharma Industries Limited (SPIL). It is primarily engaged in pharmaceutical research and development activity and earn its revenue from license fee / royalty on technology / R&D services. It undertakes research in the field of Oncology, Neuro Degeneration, Ophthalmology and Dermatology. It has its office in Mumbai (India) and New Jersey (USA) alongwith R&D centers at Mumbai and Vadodara (India). Mr. Dilip Shanghvi is the Chairman of the entity and Mr. Anil Raghavan is the CEO. Mr. Dilip Shanghvi and other individuals in the promoter Group along with Shanghvi Finance Private Limited (SFPL) own a majority stake in SPARC (69.09 percent as on June 30, 2022).

About the Guarantor

Shanghvi Finance Private Limited (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 Sun Pharma Industries Limited (SPIL) as on March 2022. The rated bank facilities has been secured by corporate guarantee of SFPL.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SPARC while arriving at the rating. Acuite has also factored in the financial support SPARC will receive from Shanghvi Finance Private Limited (SFPL) on account of the Corporate Guarantee extended by the later.

Key Rating Drivers

Strengths

Extensive experience and established track record in pharma R&D

SPARC is a Mumbai based - clinical stage bio-pharmaceutical company and is part of the SPG. It was incorporated in 2006 when the innovative product group was carved out of SPIL. Mr. Dilip Shanghvi and other individuals in the promoter Group along with Shanghvi Finance Private Limited (SFPL) own a majority stake in SPARC (69.09 percent as on June 30, 2022). Currently Mr. Dilip Shanghvi is the Chairman. He is supported by a highly qualified and experienced senior management team. Mr. Anil Raghavan is the CEO and has an experience of over two decades in the pharmaceutical industry. The rest of the senior management team also have extensive experience in the pharmaceutical industry working in past for companies such as Merck, Sanofi-Aventis, Glaxo Smith Kline and Dr. Reddy's amongst others. The team is also supported by a scientific advisory board consisting of experienced professors from leading medical education institutions across the globe.

Acuite believes that SPARC will derive benefits from its established track record and experienced management in the pharmaceutical industry.

Robust R&D Pipeline and synergies with SPIL

SPARC is engaged in research & development activity and generate their revenue primarily from license fee, royalty on technology and R&D services. It has undertaken research in the field of Oncology, Neuro Degeneration, Ophthalmology and Dermatology It focuses on developing new chemical entities (NCEs) as well as New Drug Delivery Systems (NDDS). It currently has 2 USFDA approved products. They also have a robust R&D pipeline with 9 products at various stages of development, these target epilepsy, glaucoma, different kinds of cancer, and Parkinson's disease. Besides these it has more than 10 pre-clinical assets. Earlier the company relied more on NDDS. NDDS formed 81 percent of its pipeline while NCEs were just 19 percent in 2014. By 2020 the focus has shifted to NCEs which forms 62 percent of the research pipeline and rest is NDDS. Acuite believes that NCEs have higher revenue potential. As the product progresses towards the end of its development process SPARC licenses the same with various pharmaceutical companies. It regularly partners with SPIL - its Group Company which has a robust presence in the overseas market along with other pharmaceutical companies. The company in the past has licensed many of its product to SPIL such as Bevetex and Xelpros. This synergy with SPIL makes it a key entity for SPG. SPIL is one of the leading listed Pharmaceutical companies in India with consolidated revenues of was Rs. 38,654 Cr. on which it posted a net profit of Rs. 3,389 Cr. for FY2022. The company has a presence in about 100 countries (including USA, Europe, Emerging Markets, Canada, Japan and Australia & New Zealand) with product portfolio more than 2000 products. The company generates around 65 per cent of its total consolidated revenue is from overseas markets. SPIL is the 4th Largest Specialty Generic Company in USA. The market capitalization of the company is more than Rs. 2,09,000 Cr. as on September 02, 2022. Its investor base includes leading domestic and foreign institutional investors. The Promoter Group hold ~54.48 per cent as on June 2022. Out of the 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. It has presence in specialty medications for ophthalmology, dermatology and oncology, in generic medications for psychiatry, anti-infective, neurology, cardiology, orthopedic, diabetology, gastroenterology, ophthalmology, nephrology, urology, dermatology, gynecology, respiratory, oncology.

Weaknesses

Long gestation periods, capital intensive nature of operations and susceptibility stringent regulatory environment

SPARC is a clinical stage bio-pharmaceutical company which undertakes pre-clinical and clinical stage research and development. Drug development process involves long gestation periods with constant investments. Heavy costs have to be incurred to carry out research, conduct clinical trials and compensate a highly qualified work force every year. However the major payouts come when a product is near commercialization and a licensing agreement is signed. There is an inherent mismatch of cash flows in the R&D segment. SPARC has some regular revenues which it earns as royalty and fees for carrying out research activities. Although they are low compared to the cost that the company incurs for carrying out the R&D activities. On account of this SPARC has generated losses for all the three years under study. Its revenue and operating loss stood at Rs. 137.25 Cr and Rs. 186.75 Cr in FY2022, Rs. 253.40 Cr and Rs. 131.49 Cr in FY2021 and Rs. 76.85 Cr and Rs. 309.98 Cr in FY2020 respectively. This necessitates periodically capital infusion. The company also faces significant regulatory risks. Since it is engaged in new drug development it has to adhere to a stringent compliance and regulatory environment. Costs incurred on products under development for a long time may get impacted by any adverse regulatory action. However this is mitigated to some extent on account of the strong support and resource mobilization ability of the promoters. Acuité believes completion of product development without significant time overruns or regulatory setbacks will remain a key monitorable.

ESG Factors Relevant for Rating

The inherent material risk to the pharmaceutical industry includes releasing toxic greenhouse gases into the atmosphere. Furthermore, air impurities and polluting water bodies by releasing hazardous substances are other key issues. Additionally, efficient water utilization and material sourcing with a green supply chain are few significant problems.

Employee health & safety management are of primary importance to this industry given the nature of operations. Regulations involving product quality, safety testing, monitoring and manufacturing quality, customer welfare and proper product labelling and marketing compliance are material issues. Furthermore, community relations & inclusive development play a significant role.

Factors such as ethical business practices, management compensation and board administration hold primary importance within this industry. Likewise, legal and regulatory compliance, corruption and bribery associated with acquiring approvals, permits and licences are material risks. Additionally, shareholder's rights and audit control are other material issues to the industry.

Rating Sensitivities

Credit quality of SPIL and SFPL

Any unexpected increase in debt levels in SFPL

Completion of product development without significant time overruns or regulatory setbacks

Material covenants

None

Liquidity Position: Strong

SPARC's product development cycles have long gestation periods. The company has to make significant investments in R&D before returns can be generated from the products. The company has external borrowing for funding these requirements. Its repayment obligations would be in the range of Rs. 75 Cr for year FY2023. However, SPARC's liquidity is supported by strong financial flexibility of the promoters and promoter group. The company is listed on the stock exchanges and has demonstrated ability to raise funds directly from the capital markets. SPARC's liquidity is expected to be strong on account of access to capital markets and strong financial flexibility of the promoters and promoter Group.

Outlook: Stable

Acuité believes that SPARC will maintain a 'Stable' outlook over the medium term on account of extensive experience of management, robust R&D pipeline and its strong resource mobilization ability. The outlook may be revised to 'Positive' in case of faster than expected development of key products and completion of licensing agreement. Conversely, the outlook may be revised to 'Negative' in case significant cost and time overruns in product

development or deterioration in credit quality of SFPL or SPIL.

Other Factors affecting Rating

None

About the Rated Entity - Key Financials

particulars	Unit	FY2022 (Actual)	FY2021 (Actual)
Operating Income	Rs. Cr.	137.25	253.43
Profit after Tax (PAT)	Rs. Cr.	(203.40)	(151.14)
PAT Margin	(%)	(148.19)	(59.64)
Total Debt/ Tangible Net Worth	Times	9.77	(1.40)
PBDIT/ Interest	Times	(13.50)	(12.17)

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

Not Applicable

Any other information

Not Applicable

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>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Jun 2021	Working Capital Demand Loan	Long Term	50.00	ACUITE AA Stable (Assigned)
	Term Loan	Long Term	150.00	ACUITE AA Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Term Loan	14-01-2021	Not available	14-12-2022	50.00	ACUITE AA Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	150.00	ACUITE AA Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuите.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuите.in
Parth Pandit Manager-Rating Operations Tel: 022-49294065 parth.pandit@acuите.in	

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.