Press Release
Sun Pharma Advanced Research Company Limited
December 06, 2023
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	-	-

Rating Rationale

Acuité 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 is **'Stable'.**

Rationale for the Rating Reaffirmation
The rating reflects SPARC's established operational track record and experienced management, robust R&D pipeline and strong support from its promoter i.e. Shanghvi Finance Private Limited (SFPL) in the form of corporate guarantee extended to the availed debt facilities. SPARC is a part of the Sun Pharma Group (SPG) headed by Mr. Dilip Shanghvi who also holds directorship position in the company. The rating also draws comfort from business synergies which SPARC has with Sun Pharmaceutical Industries Limited (SPIL) – the flagship of SPG. The above-mentioned strengths are partly offset by long gestation periods and capital-intensive nature of drug research and development process. Acuité believes that the continuous support from its promoters and timely commercialization of key products under development will remain 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 Pharmaceutical 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) along with 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) who owns a majority stake in SPARC (~42 percent as on September 30, 2023).

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 currently holds 40.30 per cent of the total shareholding of Sun Pharma Industries Limited (SPIL) as on September 30, 2023. The rated bank facilities of SPARC have been secured by corporate guarantee of SFPL.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SPARC while arriving at the rating. Acuité has also factored in the financial support SPARC will receive from Shanghvi Finance Private Limited (SFPL) on account of the Corporate Guarantee and line of credit 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 (65.67 percent as on September 30, 2023). 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. Acuité believes that SPARC will derive benefits from its established track record and experienced management in the pharmaceutical industry.

Also, SPARC has issued equity warrants with value to the tune of Rs.1,112 Cr. in FY22 at exercise price of Rs.178 per warrant. Each warrant was converted into 1 equity share on preferential basis upon receipt of 25% of the issue price (i.e. Rs.44.50 per warrant) as warrant subscription money and the balance 75% of the issue price (i.e. Rs.133.50 Cr. per warrant) was payable within 18 months from the allotment date at the time of exercising the option to apply for fully paid up equity shares of Re.1/ each of SPARC against each warrant held by the warrant holder. The subscribers have brought in around ~Rs.409 Cr as on June 2022 and the balance Rs.703 Cr. was received by the company in January 2023 against conversion of warrants. With the same the entire proceed of the preferential issue stands received. Further, SPARC has obtained approval in Aug 2023 AGM for raising a sum upto Rs.1800 Cr. by way of fresh issuance.

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 currently has 2 USFDA approved products and also have a robust R&D pipeline with 5 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 under development. SPARC currently looks at developing NCE (New Chemical Entities) and New Biological Entities (NBEs). The company has completely transitioned into NCE and NBEs from NDDS (New Drug Delivery Systems) and started commercializing them at various location such as US, India and RoW as 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.

Furthermore, 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. Also, one more product of SPARC's NDA i.e Sezaby was approved by the USFDA and it licensed the US commercialization rights of Sezaby to Sun Pharmaceutical Industries Inc. Under the terms of the license agreement, Sun Pharma paid SPARC an upfront payment of $10 Mn. SPARC will also be eligible to receive milestone payments contingent upon the achievement of regulatory and sales milestones, as well as tiered royalties on sales.

SPIL is one of the leading listed Pharmaceutical companies in India with consolidated revenues of was Rs.43885.68 Cr. on which it posted a net profit of Rs.8,512.94 Cr. for FY23. 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. Its investor base includes leading domestic and foreign institutional investors. The Promoter Group hold ~54.48 per cent as on September 30, 2023. 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.238.78 Cr and Rs.214.05 Cr in FY23 as against Rs.137.25 Cr and Rs.186.75 Cr in FY22 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 the company
Completion of product development without significant time overruns or regulatory setbacks

All Covenants

Not Applicable

Liquidity Position

Strong

SPARC's operations have of long gestation periods. The company has to make significant investments in R&D before returns can be generated from the products. The company has sanctioned bank limits towards funding these requirements to the tune of Rs.175 Cr. Also, the has line of credit facilities from its parent company i.e. SFPL to the tune of Rs.250 Cr as on September 30, 2023. However, these facilities remained unutilised as on date by the company. The cash and bank balance of the company stood at Rs.261.57 Cr in FY23. Furthermore, 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. Acuité believes that the liquidity of the SPARC's will continue to remain strong as the company have 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

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	238.78	137.25
PAT	Rs. Cr.	(222.58)	(203.40)
PAT Margin	(%)	(93.22)	(148.20)
Total Debt/Tangible Net Worth	Times	0.00	2.44
PBDIT/Interest	Times	(26.61)	(13.50)

Status of non-cooperation with previous CRA (if applicable)
Not Applicable

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
• Group And Parent Support: https://www.acuite.in/view-rating-criteria-47.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. Acuite' 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
07 Sep 2022	Working Capital Demand Loan	Long Term	150.00	ACUITE AA | Stable (Reaffirmed)
	Term Loan	Long Term	50.00	ACUITE AA | Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE AA | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE AA | Stable | Reaffirmed
Kotak Mahindra Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	150.00	ACUITE AA | Stable | Reaffirmed

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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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