January 16, 2023

Laborate Pharmaceuticals India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based limits – Cash Credit	80.00	80.00	[ICRA]A+ (Stable); reaffirmed
Short-term – Fund-based limits – Packing Credit	40.00	40.00	[ICRA] A1; reaffirmed
Short-term – Non-fund based – Buyer's Credit Facility/ Letter of Credit	5.00	5.00	[ICRA] A1; reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in ICRA's expectation that Laborate Pharmaceuticals India Limited (LPIL) will continue to expand its product portfolio, resulting in revenue diversity and growth in the medium term. LPIL is a leading player in the domestic trade generics segment with a diversified presence in the acute category primarily in tier-II and III cities of the country. The ratings factor in ICRA's opinion that the company's financial risk profile is expected to be healthy in FY2023 owing to low dependence on debt and strong debt coverage indicators.

However, the rating continues to be constrained by LPIL's presence being limited to the trade generics segment, which is exposed to high competition and, hence, constrains its margin profile. Limited presence in chronic therapy segments such as anti-diabetics, cardiovascular (CVS), central nervous systems (CNS), constrains LPIL's scope to develop novel drug delivery-based formulations (in the domestic market) as well as to diversify its portfolio and foray into regulated markets with superior profitability. Furthermore, LPIL exports its products mostly to semi-regulated and unregulated markets with significant share of revenues coming from Africa and West Asia, which exposes it to forex risks and credit risk during macro-economic headwinds and geopolitical uncertainties. As is prevalent in the industry, the company remains exposed to regulatory risks. The ratings also factor in the working capital-intensive nature of LPIL's business, led by a long receivable period and high inventory levels.

The Stable outlook on the long-term rating reflects ICRA's belief that LPIL will maintain its domestic market presence supported by new product launches across segments, including personal care products. In addition, continued scale-up of its export business should enable it to gradually achieve geographical diversification. Planned capex in the beta-lactam segment should drive volume-based revenue growth. ICRA expects LPIL to maintain its healthy return indicators with comfortable credit metrics and a healthy liquidity profile.

Key rating drivers and their description

Credit strengths

Track record as leading company in India's trade generics sector – LPIL has positioned itself among the leading companies in the Indian trade generics sector with significant presence in tier-II and III markets and an increasing presence in tier-I markets. The company is primarily present in the trade generics segment and drives its business by promoting products directly through trade channels rather than by promoting them through doctors' prescriptions. Its domestic formulations business has ~1,500 products, supported by an extensive, pan India network of 6,000 stockists and ~1,300 marketing representatives. The company has built a track record of more than 30 years in the domestic space.

Well-diversified domestic sales with wide therapeutic segment coverage in acute category; personal care division aids diversification – LPIL has a well-diversified domestic formulations business in acute therapeutic segments with the top 10 products typically driving only 24-26% of its total revenues. The leading acute segments include anti-biotic, non-steroidal anti-inflammatory Drugs (NSAIDs) and eye/ear/nasal drops. The company witnessed a healthy revenue growth of around 36% in FY2022 owing to demand spike for anti-biotics and anti-inflammatory products. In FY2023, the revenues are being driven by new product launches under the new division (AquaLab) and demand recovery in its existing product portfolio; although H1 FY2023 was weaker on a YoY basis due to a high base during the pandemic. The personal care division has scaled up significantly in India's tier-II and III markets, providing some revenue diversification with around 4-6% share of total revenues. The company's OPM witnessed improvement in H1 FY2023 to 17% on a provisional basis, from 15% in FY2022, with the softening of raw material prices.

Robust financial risk profile reflected by healthy profitability and strong debt protection metrics – As on March 31, 2022, the company's total debt stood at a modest Rs. 2.1 crore, which are primarily unsecured promoter loans. The company's net worth was lower than expected in FY2022 due to share buy back of Rs. 33 crore to facilitate the ongoing exit of a faction of the promoter's family. Further reduction due to similar payout cannot be ruled out. Nevertheless, LPIL's debt dependence remains minimal. ICRA expects the company to maintain its comfortable credit indicators in the near to medium term, supported by expectations of healthy cash accruals and moderate capex plans with limited debt raising plans.

Credit challenges

Presence limited to low, value-added branded generics, negligible presence in fast-growing, lifestyle-related, chronic therapeutic segment – LPIL's sales are primarily concentrated in low value-added branded generics, which is characterised by stiff competition over the fast-growing chronic therapy segments. The company's R&D spend is also relatively lower than industry peers, thus limiting its capability to develop complex pharmaceutical products. The company plans to widen its reach in generics in the medium to long-term and has been launching products in this space through various divisions. It has marginal presence in lifestyle-related chronic therapeutic segments, such as anti-diabetics, CVS, and CNS. In H1 FY2023, the company's revenues were lower by 7% on a YoY basis, in the absence of high, Covid-19 related drug sales. Its ability to sustain its scale up is a key rating monitorable. However, ICRA notes that LIPL is taking initiatives to add new products across segments; particularly in the chronic segment, which would improve product and revenue diversity.

Moderately high working capital intensity – The company has moderately high working capital intensity at 31% in FY2022 owing to high collection periods from domestic distributers as well as export customers. Due to seasonality in sales, the inventory levels also remain high to meet the market demand. ICRA notes that the company has around Rs. 125 crore of working capital limits, which remains almost unutilised owing to healthy accruals.

Exports limited to semi-regulated markets – The company's exports are mostly limited to semi or unregulated markets, which include countries in Africa and West Asia, such as Nigeria, Iraq, Zambia and Burundi, many of which have witnessed political instability. However, LPIL transacts on LC-backed or advance payment basis, besides enjoying established associations with local distributors in these export markets; thus moderating its credit risks. The company would continue to explore export growth opportunities in semi-regulated markets in African and West Asian markets.

Exposure to regulatory risks and competitive environment –LIPL's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. Also, since the company exports mainly to Rest of the World (RoW) markets, many of which are politically unstable, they pose a regulatory risk to the company's export business. In the trade generics business, LPIL competes with leading pharmaceutical companies.

Liquidity position: Adequate

LPIL's liquidity is adequate, evidenced by cash balances and liquid investments of Rs. 33 crore, and unutilised working capital facilities of Rs. 125 crore, as of November 30, 2022. ICRA notes that LPIL's working capital intensity continues to be moderately high due to high debtor days. However, the fund flow from operations is expected to be sufficient to meet its growth funding requirements. The company has moderate capex of around Rs. 10-15 crore and negligible debt repayments.

Rating sensitivities

Positive factors – The company's ability to strengthen its business profile by increasing its reach, especially to fast growing, lifestyle-related therapy segments, improving its product mix or geographical presence by foraying into regulated markets, would be considered favourably for a rating upgrade. In addition, significant scaling up of operations, while maintaining healthy profitability indicators, along with sustenance of comfortable credit metrics could lead to a rating upgrade.

Negative factors – The ratings could be downgraded if the company's operational and financial performance weakens significantly due to reasons such as increase in competition in the domestic market or any large debt-fund capex/acquisitions. Any regulatory changes either in the domestic or export markets regarding uncertainty governing rationalisation of trade margins and drug pricing remain a monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

About the company

Established in 1985, LPIL is one of the leading pharmaceutical companies in branded trade generics segment in India. The company was founded by the Panipat-based Bhatia family, whose members head different functions of the company at present. The company manufactures pharmaceuticals and cosmetics from its plants in Panipat (Haryana) and Paonta Sahib (Himachal Pradesh). The company's domestic business can be divided into four verticals—the Elite division, the GPP (brand name) division, Aqua Labs and the personal care division—which contributed 54%, 13%, 3% and 4%, respectively, to its turnover in FY2022. Antibiotics, ear/nose/eye drops, and NSAIDs are its key therapeutic segments with the top 10 brands contributing 24% to its turnover. The pharma divisions have ~1,500 products, while the personal care division has 60-70 cosmetic and Ayurvedic preparations. LPIL enjoys a healthy mix of both domestic (70%) and international (30%) branded generic sales. The company primarily markets its branded formulations in semi-regulated markets with the major ones being Nigeria, Yemen, and Iraq.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	1,057.9	1,439.1
PAT	147.8	152.7
OPBDIT/OI	19.4%	15.2%
PAT/OI	14.0%	10.6%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	0.1	0.0
Interest coverage (times)	48.7	46.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 16, 2023	Oct 07, 2021	Sep 28, 2020	Jun 12, 2019
1	Cash Credit	Long term	80.0	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	Packing Credit	short term	40.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Buyer's Credit Facility/ Letter of Credit	short term	5.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based limits – Cash Credit	Simple
Short-term - Fund-based limits - Packing Credit	Simple
Short-term - Non-fund based - Buyer's Credit Facility/ Letter of Credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	80.0	[ICRA]A+ (Stable)
NA	**Packing Credit**	NA	NA	NA	40.0	[ICRA]A1
NA	**Buyer's Credit Facility/ Letter of Credit**	NA	NA	NA	5.0	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@icraindia.com

Sheetal Sharad
+91 124 4545374
sheetal.sharad@icraindia.com

Dishant Mahajan
+91 9971013432
dishant.mahajan@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches