April 23, 2024

Orbit Lifescience Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	11.50	13.50	[ICRA]BB (Stable); Reaffirmed/ assigned for enhanced amount
Short-term Non-fund based – Others	9.00	16.50	[ICRA] A4+; Reaffirmed/assigned for enhanced amount
Long-term/ Short-term – Unallocated	-	0.50	[ICRA]BB (Stable)/ [ICRA] A4+; assigned
Total	**20.50**	**30.50**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings for Orbit Lifescience Private Limited (OLPL) continues to factor in the proven experience of its promoters and its established track record in the trading/contract manufacturing business. The ratings also consider the steady growth in OLPL's top line since the last three fiscals and expectation of the same in the near to medium term, driven by the new multi-year export orders in the formulation trading space.

The ratings, however, continue to remain constrained by the moderate scale of operations, low profitability levels due to the trading nature of the business and subdued coverage indicators due to elevated borrowing levels related to working capital requirements. The capital structure also remains leveraged, given the limited net worth base, driven by weak cash accruals from the inherent low profitability due to the trading nature of the business and large, bad debt write-offs in the last three fiscals. The business also remains working capital intensive, due to the elongated receivable cycle.

The Stable outlook on the [ICRA]BB rating reflects ICRA's opinion that OLPL will continue to leverage on the promoters' resourcefulness and experience to grow the business through new customer additions in newer geographies, aided by the absence of any debt-funded capex in the near to medium term.

Key rating drivers and their description

Credit strengths

Vast experience of promoters and established track record in trading/contract manufacturing operations – Mr. Arvind Sheth is the promoter of OLPL and has more than four decades of experience. He mentors the team in new business initiatives and business planning. His sons, Mr. Amit Sheth and Mr. Ashish Sheth, serving as directors of OLPL, also have vast experience and manage the company's overall operations. The management team's resourcefulness, coupled with their industry connect, have led to addition of orders as reflected by the steady growth in OLPL's top line over the years.

Diversified product portfolio and established relationships with reputed pharma players in domestic and international markets – The company trades in a diversified product profile, comprising tablets/capsules, oral liquid syrups, dry powder injections and syrups, dental rotary files, inhalers, etc. OLPL's products remain diversified with around 400 finished formulation products and Active Pharmaceutical Ingredients (APIs) catering to various segments such as antibiotics, antidiabetic, vitamins, analgesics, female hygiene, cosmetics, gastro, respiratory and non-steroidal anti-inflammatory drugs (NSAIDS). OLPL has 11 licensed plants for contract manufacturing of formulations in India. It has established relationships with reputed pharmaceutical players in the domestic and international markets (Mexico, Vietnam, China, the UAE, and some European countries) with a diversified geographical presence.

Steady growth in top line – The company has reported revenue of ~Rs. 144 crore in FY2023 reflecting a growth of ~18% over FY2022. Further, it is estimated to report revenues of Rs. 180-190 crore in FY2024, on a provisional basis. The growth momentum is expected to continue in the near term on account of anticipated higher sales from the addition of key exports customer in its formulation trading business.

Credit challenges

Moderate scale of operations and thin profit margins due to trading nature of operations – Despite the YoY growth by around 18% in the company's scale of operations in FY2023, and expected rise of 30% in FY2024, the scale of operations continues to remain moderate. Further, due to the trading nature of its operations, the profit margins remained thin, marked by operating profit margin remaining range-bound at 1-4%. The operating margins have also been recently impacted by large, bad debt write-offs against two of its old orders. However, the quantum has gradually come down, remaining marginal in FY2024.

Leveraged capital structure and subdued coverage indicators – The capital structure has remained leveraged, as reflected by gearing of 2.5–2.7 times over the last two fiscals that ended in FY2023, on the back of a low net worth base and high debt levels to support working capital requirements. Though the debt protection metrics have improved in FY2023, on an absolute basis it continues to be at subdued levels with TD/OPBDITA of 7.51 times (PY: 24.6 times), interest coverage of 1.93 time (PY: 0.6 times) and NCA/TD of 6.3% (PY: 3.1%). The debt protection metrics are expected to improve only over the medium term with traction in top line and commensurate impact on margins.

Working capital-intensive nature of operations – The company's operations remained working capital intensive with NWC/OI at around 28% as on March 31, 2023, because of an elongated receivables cycle, which stood at 139 days as of FY2023.

Presence in competitive and regulated industry – The domestic API and formulations industry typically faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some of them enjoying a pan-India presence. The intense competition restricts OLPL's revenue growth and pricing flexibility. However, its presence in export markets mitigates these constraints to some extent. Further, the products the company trades in remain exposed to regulatory restrictions in terms of pricing caps in domestic markets, product/facility approvals and socio-political environments in their export destinations.

Liquidity position: Adequate

OLPL's liquidity position is expected to remain adequate, supported by a cushion in working capital facilities (average working capital utilisation of 39% during the 12 months ending in February 2024), with buffer available to the extent of Rs. 25 crore as of the end of February 2024, limited scheduled debt repayments and the absence of any major capex in the medium term.

Rating sensitivities

Positive factors – ICRA could upgrade OLPL's rating if there is a significant and sustained increase in scale and profitability, which leads to healthy cash accruals, thereby strengthening of the net worth base. Better management of working capital, restricting borrowing levels and improvement in overall liquidity profile, will also be positive for the rating. Specific credit metrics that could lead to an upgrade will be interest coverage of more than 2.5 times on a sustained basis.

Negative factors – Negative pressure on OLPL's rating could arise if a substantial decline in scale and profitability leading to lower than-expected cash accruals, or further deterioration in the working capital cycle impacting its overall liquidity profile. Any significant write-offs that further impact the financial profile/net worth base materially will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments

Applicable rating methodologies	[Corporate Credit Rating Methodology] [Entities in the Pharmaceutical Industry]
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Orbit Lifescience Pvt. Ltd., a business unit of the Orbit Group, was incorporated in 2003. The company is currently engaged in the trading of APIs and contract manufacturing of formulations. It has recently ventured into in-licensing of formulation products for its customers. The company sells its products to customers in the Mexico, Vietnam, China, the UAE, and some European countries. OLPL's contract manufacturers are spread across several states in India. The company also has a presence in cosmeceuticals products (~30-40 products), specifically developed and customised for its pharma clients. Further, it enjoys in-licensing arrangements for products (V wash, Evarise) of innovators from Italy & Israel. Also, the company has registered certain APIs in some Middle East countries, Mexico as well as in some European countries, and has entered into exclusive agreements with manufacturers there to export these APIs to them.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	121.5	143.9
PAT	0.2	1.3
OPBDIT/OI	1.2%	3.4%
PAT/OI	0.2%	0.9%
Total outside liabilities/Tangible net worth (times)	5.41	4.72
Total debt/OPBDIT (times)	24.62	7.51
Interest coverage (times)	0.64	1.93

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 (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Apr 23, 2024	Feb 10, 2023	Jul 26, 2022	Apr 12, 2021	-
1	Cash Credit	Long term	13.50	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB (Stable)	-
2	Term Loan	Long term	-	-	-	-	-	[ICRA]BB (Stable)	-
3	Non-fund based	short term	16.50	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	-
4	Fund-based	short term	-	-	-	-	-	[ICRA]A4+	-

5	**Unallocated**	Long term/ Short term	0.50	-	**[ICRA]BB (Stable)/ [ICRA]A4+**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short-term – Non-fund based - Others	Very Simple
Long term/ Short term - Unallocated	NA

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	13.50	[ICRA]BB (Stable)
NA	**Non-Fund based**	NA	NA	NA	16.50	[ICRA]A4+
NA	**Unallocated**	NA	NA	NA	0.50	[ICRA]BB (Stable)/ [ICRA]A4+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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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.

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