July 26, 2022

Orbit Lifescience Private Limited: Ratings reaffirmed; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	11.60	8.50	[ICRA]BB reaffirmed; Outlook revised to Negative from Stable
Term Loans	1.40	0.00	-
Non-fund Based Facilities	7.00	14.00	[ICRA]A4+; Reaffirmed
Fund-based Limits	10.00	0.00	-
Total	**30.00**	**22.50**	

Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Negative on the long-term rating for Orbit Lifescience Private Limited (OLPL or the company) reflects the pressure on the company's profitability as evidenced by the sharp decline in profit margins in FY2022. The profit margins dropped due to rise in input costs, primarily freight and other costs related to registration that were not passed on to end-customers. The freight costs are expected to continue at elevated levels in the near term, reflecting the continuing pressure on margins, given OLPL's limited ability to pass them on as per recent trends. Further, significant write-off of bad debts in the last two fiscals impacted the margins and, subsequently, the coverage indicators. The trend in movement of bad debts, going forward, will remain a key monitorable; although they are mainly related to two customers whose debts were written off in the last two fiscals. In addition, the ratings continue to remain constrained by the leveraged capital structure, working capital intensive operations and the exposure of the company's operations to regulatory restrictions in terms of pricing caps in domestic markets and product/ facility approvals/ socio-political environments in export destinations. ICRA also notes the intense competition in the contract manufacturing industry, which limits OLPL's pricing flexibility.

The ratings, however, continues to favourably consider the vast experience of OLPL's promoters and its established track record in the contract manufacturing operations. The ratings also derive comfort from the company's diversified product profile and established relationships with reputed pharmaceutical players in domestic and international markets.

Key rating drivers and their description

Credit strengths

Vast experience of the promoters and established track record in contract manufacturing operations – Mr. Arvind Sheth, OLPL's promoter, has more than four decades of experience and mentors the team in new business initiatives and business planning. Mr. Amit Sheth and Mr. Ashish Sheth, sons of Mr. Arvind Sheth and directors of the company, also have extensive experience and manage the company's overall operations. The company has an established track record in the pharmaceutical contract manufacturing industry, spanning more than 15 years.

Diversified product portfolio and established relationships with reputed pharma players in domestic and international markets – The company's product profile is diversified, comprising tablets/capsules, oral liquid syrups, dry powder injections and syrups, dental rotary files, inhalers, etc. The product portfolio remains 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, hypertensive, gastro, respiratory and non-steroidal anti-inflammatory drugs (NSAIDS). The company has twelve licensed plants for contract manufacturing of formulations and four for APIs in India. The company has established relationships with reputed pharmaceutical players in domestic and international markets (Mexico, Vietnam, China, the UAE, and Europe) with a diversified geographical presence.

Credit challenges

Moderate financial risk profile marked by leveraged capital structure and weak coverage indicators – Despite the YoY growth by ~19% in the company's scale of operations in FY2022 (provisional), it continues to remain moderate at around Rs.123 crore. Further, with the low net worth base and high debt levels to support working capital requirements, the capital structure has remained leveraged, as reflected by gearing of 2.5–2.7 times in the last two fiscals ended FY2022. The company's debt coverage indicators deteriorated in FY2022 (provisional) due to sharp decline in profitability during the year as marked by TD/OPBDITA of 25.3 times (PY: 12.1 times), interest coverage of 0.6 time (PY: 1.3 times), TOL/TNW of 5.4 times (PY: 4.6 times) and NCA/TD of 2.7% (PY: 3.6).

Significant write-offs in the recent past impacted margins as well as growth in net worth base – The operating profit margins declined sharply to 2.6% in FY2021 and 1.2% in FY2022 primarily on account of writing off bad debts of Rs. 8.9 crore and Rs. 3.6 crore in FY2021 and FY2022, respectively. Another reason was the sharp increase in freight costs during the year, which OLPL could not pass on to its customers. The bad debts are mainly related to two major manufacturing partners, which went under National Company Law Tribunal (NCLT). Due to low operating profit margins, the net profit margins continued to remain thin at ~0.1–0.3% in the last two fiscals ended FY2022.

High working capital intensive nature of operations – The company's operations remained working capital intensive with NWC/OI at around 22% as on March 31, 2022, because of stretched receivables of 138 days in FY2022. The working capital cycle is supported by elongated supplier credit of 125 days in FY2022.

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 also enjoying a pan India presence. The intense competition also restricts OLPL's revenue growth and pricing flexibility; however, its presence in export markets mitigates these constraints to some extent. Further, the company's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals and socio-political environments in export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/renewal, in various semi-regulated markets, along with a stable socio-political environment, remains critical for the growth of exports, going forward.

Liquidity position: Adequate

OLPL's liquidity position is expected to remain **adequate**, supported by a cushion of working capital facilities (average working capital utilisation of 37% during the 12 months ended May 2022), limited scheduled debt repayments and the absence of any large major capex in the medium term.

Rating sensitivities

Positive factors – Any near-term upgrade in rating is unlikely, given the Negative outlook. The outlook will be revised to stable in case there is a significant and sustained increase in scale and profitability, which will lead to higher-than-expected cash accruals or strengthening of the net worth base. Also, the rating could be upgraded in case of a better working capital management, improvement in the capital structure and overall liquidity profile of the company. 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 significant decline in scale and profitability lead 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. Specific credit metrics that can lead to a downgrade will be interest coverage of below 2.0 times on a sustained basis.

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 rating is based on the standalone financial profile of the company.

About the company

Incorporated in 2003 by the Sheth family, OLPL is a contract manufacturing company with a product portfolio of more than 300 products in the API and formulations segments. The company contract manufactures for segments such as antibiotics, antidiabetic, vitamins, analgesics, female hygiene, cosmetics, hypertensive, gastro, respiratory and nonsteroidal anti-inflammatory drugs (NSAIDS). The company is a part of the Orbit Group, which also has interests in investment banking, personal care products, cosmetic formulations, trading and indenting of pharma products, etc.

Key financial indicators (Audited/ Provisional)

	FY2021	FY2022*
Operating Income (Rs. crore)	103.1	122.5
PAT (Rs. crore)	0.3	0.1
OPBDIT/OI (%)	2.6%	1.2%
PAT/OI (%)	0.3%	0.1%
Total Outside Liabilities/Tangible Net Worth (times)	4.6	5.4
Total Debt/OPBDIT (times)	12.1	25.3
Interest Coverage (times)	1.3	0.6

**Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, All ratios as per ICRA calculations*

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 as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 26, 2022	April 12, 2021	-	-
1	Cash Credit	Long-term	8.50	-	[ICRA]BB (Negative)	[ICRA]BB (Stable)	-	-
2	Term Loan	Long-term	0.00	-	-	[ICRA]BB (Stable)	-	-
3	Short Term- Non Fund based	Short-term	14.00	-	[ICRA]A4+	[ICRA]A4+	-	-
4	Short Term- Fund Based	Short-term	0.00	-	-	[ICRA]A4+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Non Fund-Based Facilities	Very 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: www.icra.in

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	8.50	[ICRA]BB (Negative)
NA	Short term non fund based	NA	NA	NA	14.00	[ICRA]A4+

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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