October 31, 2022

Brawn Laboratories Limited: Ratings upgraded; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital	30.00	40.00	[ICRA]A- (Stable); upgraded with change in outlook from [ICRA]BBB+ (Positive), assigned for enhanced amount
Fund-based – Term Loan	28.42	50.00	[ICRA]A- (Stable); upgraded with change in outlook from [ICRA]BBB+ (Positive), assigned for enhanced amount
Unallocated	11.58	10.00	[ICRA]A- (Stable)/ [ICRA]A2+ upgraded with change in outlook from [ICRA]BBB+ (Positive)/ [ICRA]A2
Total	**70.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA's rating upgrade considers Brawn Laboratories Limited's (BLL) sustained improvement in revenues during FY2022 and H1 FY2023 by ~18% and ~76% YoY, respectively, led by its foray into new export markets and growing sales of higher value products. The company is expected to register healthy growth in the current fiscal and maintain a comfortable credit metrics owing to its healthy cash accruals and continued low reliance on debt. Moreover, the ratings continue to factor in the extensive experience of BLL's promoters in the pharmaceutical formulation business and its established relationships with its customers and suppliers, which has also been a key factor for the continuous growth.

However, the ratings are constrained by the vulnerability of BLL's profitability to raw material price fluctuations amid stiff competition in the pharmaceutical business, resulting in fluctuations in operating margins. There has been a recovery in the company's operating profit margin (OPM) in H1 FY2023, which was moderately impacted in FY2022 owing to increased freight costs consequent to container availability issues for a temporary period and higher raw material expenses that have normalised subsequently. In addition, the ratings factor in the project execution and approval related risks for BLL's capex plans in Gujarat. BLL is setting up one unit each for formulations and active pharmaceuticals ingredients (APIs) operations.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that BLL will continue to benefit from the extensive experience of its promoters, established relationship with its customers and long track record in the pharmaceutical business. Moreover, new capacities and planned foray into regulated markets augur well for long-term growth prospects.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in pharmaceutical business – The promoters have been in the pharmaceutical business for more than five decades. Though BLL was established in 1990, the company's current promoters have been involved in the pharmaceutical business in various capacities since 1970. The company has diversified revenue segments, i.e., tablets, capsules, syrups, injections and ointments. The revenue diversification has reduced its dependence on the performance of any single segment. Moreover, BLL's clientele includes reputed names from export markets. The company has been deriving ~95% of its revenue from the export market. Vietnam constituted 32% and Iraq accounted for 23% of its revenues in FY2022. Going forward, the company plans to increase the revenue share from the domestic market, apart from targeting more semi-regulated as well as regulated markets like the European Union (EU) and the US in the medium to long-term, post capacity expansion.

Sustained improvement in scale, expected to continue – The company has reported Rs. 252.2 crore and Rs. 184.8 crore operating income in FY2022 and H1 FY2023, respectively, a YoY growth of ~18% and ~76%, respectively. The scale improvement is led by its entry into new export markets like Bolivia, healthy orders from existing markets and improved sales of high value products.

Healthy credit metrics – BLL's dependence on debt has been low, which along with healthy operating profitability over FY2019-FY2022 (~10-14%) has kept credit metrics at comfortable levels. The company has been funding its working capital requirements through internal accruals. Its ongoing capex is also expected to be primarily funded through existing liquidity and cash accruals, even though it has taken a sanction of Rs. 50-crore term loans for its project. BLL's credit metrics are expected to be comfortable in the near to medium term.

Credit challenges

Profitability vulnerable to volatility in raw material prices and currency fluctuations – BLL does not always have fixed-price agreements with its suppliers or customers and, hence, faces the risk of margin fluctuation in case of wide variation in prices. In FY2022, BLL faced high freight costs for a temporary period owing to container availability issues. Along with high input prices, this led to a moderation in margins. However, in H1 FY2023, the same has witnessed revival and is expected to continue for the balance fiscal. Further, the import of some of the raw materials exposes the company to adverse movements in foreign currency.

Intense competition in industry limits pricing power – The pharmaceutical industry is characterised by stiff competition from various reputed companies. This limits its pricing power and keeps BLL's profitability under check. The company also has a modest scale of operations in the intensely competitive formulation business.

Execution and approval risks – BLL is setting up two manufacturing units in Halol, Gujarat, for formulations and in Dahej (Guajarat) for APIs. BLL has planned a total capital expenditure of ~Rs. 100-105 crore, of which the balance ~Rs. 80-85 crore is planned in the next 18 months. While the capex size is large considering the existing scale of operations; the timely execution and approvals within the budgeted cost and its successful commissioning would remain key for future growth prospects.

Liquidity position: Adequate

BLL's liquidity position is **adequate** due to the comfortable cash generation from its business and healthy cash and liquid investments of ~Rs. 28 crore as of September 2022. In addition, the company has Rs. 40 crore of cash credit limits, for which utilisation has been modest at ~25-30% in the past 12-18 months. However, the cash and liquid investment is largely set aside for the ongoing capex. The company also has a sanctioned term loan of Rs. 50 crore, which can be utilised if needed. The company does not have any term debt repayment obligations as of now. Cash generation from the business and the unutilised cash credit limit are sufficient to manage additional working capital requirements, if any.

Rating sensitivities

Positive factors - ICRA could upgrade the ratings if the company demonstrates a sustained improvement in its revenues, while maintaining its healthy operating profit margin and strong financial profile.

Negative factors - ICRA could downgrade the ratings if there is a major decline in the company's revenues and profitability. Any major debt-funded capex, which weakens its financial profile, would be a downgrade trigger for the company. In terms of specific credit metrics, TOL/TNW higher than 1.5 times on a sustained basis will be a negative trigger.

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	The ratings are based on BLL's standalone financial profile.

About the company

Incorporated in 1990, BLL is operated and managed by the Gupta family. The company is involved in the pharmaceutical formulation business, catering to markets in India and abroad. Its manufacturing plant in Faridabad (Haryana) produces tablets, capsules, ointments, syrups and injectables. BLL is also establishing two new manufacturing units in Gujarat at a project cost of ~Rs. 100-105 crore, which would become commence the commercial production by FY2025.

Key financial indicators (audited)

JCBL India standalone	FY2021	FY2022
Operating income	214.3	252.2
PAT	20.7	19.1
OPBDIT/OI	14.6%	10.3%
PAT/OI	9.6%	7.6%
Total outside liabilities/Tangible net worth (times)	0.8x	0.7x
Total debt/OPBDIT (times)	0.0x	0.1x
Interest coverage (times)	21.7x	13.5x

*Source: Company, *net debt= total debt less free cash*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts 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 (Rs. crore) *	Date & rating in FY2023	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2020
					Oct 31, 2022	Oct 25, 2021	Jan 27, 2021	Jan 3, 2020
1	**Cash Credit**	Long Term	40.00	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	**Interchangeable**	Long Term	-	-	-	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	**Term Loan**	Long term	50.00	0.54	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)	-
4	**Letter of Credit**	Short Term	-	-	-	-	[ICRA]A2	[ICRA]A2
5	**Interchangeable LC**	Short term	-	-	-	-	[ICRA]A2	-
6	**Bank Guarantee**	Short term	-	-	-	-	[ICRA]A2	[ICRA]A2
7	**Unallocated**	Long/Short Term	10.00		[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2	-

*Source: Company, *outstanding as on Sep 30, 2022, balance is pending disbursement.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Cash Credit	Simple
Long Term – Term Loan	Simple
Long and Short Term – Unallocated	Not applicable

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	40.00	[ICRA]A- (Stable)
NA	**Term Loan**	Sep 2021	NA	Sep 2028	50.00	[ICRA]A- (Stable)
NA	**Unallocated**	NA	NA	NA	10.00	[ICRA]A- (Stable)/ [ICRA]A2+

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.

For more information, visit www.icra.in

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