Lincoln Pharmaceuticals Limited

February 07, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	10.00	7.70	[ICRA]A- (Stable); Reaffirmed
Fund-based Working Capital Facilities	48.00	53.00	[ICRA]A- (Stable); Reaffirmed
Interchangeable Limit	(32.00)	(35.00)	[ICRA]A- (Stable); Reaffirmed
Fund-based Standby Line of Credit	3.00	-	-
Non-fund Based Letter of Credit (LC)	10.00	10.00	[ICRA]A2+; Reaffirmed
Non-fund Based Bank Guarantee (BG)	2.00	2.00	[ICRA]A2+; Reaffirmed
Non-fund Based LC/BG	-	5.00	[ICRA]A2+; Reaffirmed
Non-fund Based Standby Line of Credit	2.00	-	-
Total	**75.00**	**77.70**	

Rating action

ICRA has reaffirmed the long-term rating to [ICRA]A- (pronounced ICRA A minus) assigned to the Rs. 53.00-crore[1] working capital limits (enhanced from Rs. 48.00 crore) and Rs. 7.70-crore (reduced from Rs. 10.00 crore) term loans of Lincoln Pharmaceuticals Limited (LPL). ICRA has also reaffirmed the short-term rating to [ICRA]A2+ (pronounced ICRA two plus) assigned to the Rs. 17.00-crore fund-based/non-fund based limits of LPL. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation continues to reflect the extensive experience of the promoters, the established track record of the Lincoln Group in the pharmaceutical formulations industry spanning more than three decades and the comfortable financial profile of the Group characterised by low gearing, healthy debt-protection indicators and adequate liquidity. The ratings also factor in the Group's established relations with its customers, its geographical diversification with presence in more than 20 states in the domestic market and continued growth in exports to semi-regulated markets.

The ratings are, however, constrained by the vulnerability of LPL's operations to changes in Government policies related to price control as well as the intense competition in the domestic generic formulations industry, which limits the Group's pricing flexibility although its profitability has improved over the last five years, owing to successful product launches. The ratings also consider the high working capital intensity of the Group owing to the long credit period extended to its customers especially in the export markets. ICRA notes that timely product and facility approval/renewal in various semi-regulated markets, in which the Lincoln Group operates, remains critical for growth of exports going forward.

[1] 100 lakh = 1 crore = 10 million

Outlook: Stable

ICRA believes LPL will continue to benefit from the extensive experience of its promoters in the pharmaceutical formulations industry and is likely to witness a healthy revenue growth in the near term, backed by improved order inflow from its customers in the export market. The outlook may be revised to Positive if sustained growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, if there is any material deterioration in profit margins or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of the promoters with established customer relationships - The promoters have an extensive experience and the Group has an established track record in the pharmaceutical formulation industry spanning more than three decades. Over the period, the Group has developed an established relationship with its customers ensuring repeat business.

Diversified product profile and geographical presence - The Group manufactures formulations in various forms such as tablets, capsules, ointments, syrups, dry powder and liquid injections. The product portfolio remains diversified with more than 250 formulations catering to various therapeutic segments such as antibiotics, analgesics, anti-cold drugs, gynaecology, anti-malarial, multi-vitamins etc. The Group is predominately a domestic market player with increasing focus on exports to semi-regulated markets and the contribution of exports has increased from 26% of revenues in FY2015 to 30% in FY2016 and further to 34% in FY2017. In the domestic market, the company has a diversified presence in more than 20 states.

Healthy financial risk profile - The financial risk profile of the Group remains healthy marked by a comfortable capital structure, as reflected in a low gearing of 0.24 times as on September 31, 2017, strong net-worth base of Rs. 211.64 crore and healthy debt-protection metrics (Interest cover at 9.11 times, Total Debt/OPBDITA at 1.78 times as on September 30, 2017).

Adequate liquidity - The overall liquidity position remained comfortable, as reflected from its healthy accruals against corresponding debt obligations, cushion on working capital limits, with average utilisation of ~66% for the past 14 months (July, 2016 – August, 2017) and moderate unencumbered cash balance and liquid investments as on September 30, 2017.

Credit challenges

Moderate scale of operations amid intense competition in the generic formulations industry - The Group remains a modest-sized player in the generic formulations industry with revenues of Rs. 360.78 crore in FY2017 and Rs. 245.72 crore in H1 FY2018 at a consolidated level. The domestic generic formulation industry faces stiff competition with the presence of numerous contract manufacturers, MNCs as well as established domestic brands with some of these players also having a pan-India presence leading to intense competition, which restricts the company's pricing flexibility.

Operations exposed to regulatory restrictions - The operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/renewal, in various semi-regulated markets, remains critical for the growth of exports going forward.

High working capital intensity of operations - The working capital intensity of the company remains high as reflected by the NWC/OI of 37% in FY2017 owing to high credit period of ~90 days extended to its customers coupled with its moderate inventory holding requirements.

Analytical approach:

For arriving at the ratings, ICRA has combined the business and financial risk profiles of Lincoln Pharmaceuticals Limited (LPL) and Lincoln Parenteral Limited (LPPL) as LPPL is a subsidiary of LPL (current holding 98.58%) and both entities are owned and managed by the same promoters and are involved in related lines of business.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for entities in the Pharmaceutical Industry

About the company:

Established as a partnership firm in 1979, LPL has been involved in manufacturing and trading of pharmaceutical formulations in the domestic market as well as exports of formulations. LPL was reconstituted as a public limited company in 1995 and is listed on the BSE. The manufacturing plant located in Kharjat in Gandhinagar district of Gujarat has an installed capacity of manufacturing 100-crore tablets, 45-crore capsules and 90-lakh packs of ointments per annum; the unit is ISO 9001, ISO 14001 and OHSAS 18001 certified and WHO, cGMP, MHRA and TGA compliant[2].

The company is a part of the Lincoln Group which is involved in manufacturing pharmaceuticals formulations in categories such as generics, anti-malarial, anti-diabetic, gynaecology products, vitamins, minerals and anti-oxidants etc. LPL's subsidiary Lincoln Parenteral Limited (LPPL) was incorporated in 1991 and is involved in manufacturing formulations in dry powder, liquid injectibles, and syrup variants; LPL has a 98.58% holding in LPPL. LPL has another subsidiary named Zullinc Healthcare Limited, which is in trading and marketing of pharmaceutical products.

Key financial indicators (Audited)

	FY2016	FY2017	FY2016	FY2017
	Standalone		Consolidated	
Operating Income (Rs. crore)	310.94	304.76	400.76	360.78
PAT (Rs. crore)	21.75	25.28	23.80	27.09
OPBDIT/ OI (%)	10.50%	13.89%	10.27%	12.92%
Total Debt/ TNW (times)	0.44	0.29	0.56	0.34
Total Debt/ OPBDIT (times)	1.85	1.27	1.90	1.41
Interest Coverage (times)	5.90	7.82	4.13	6.66
NWC/ OI (%)	38%	45%	29%	37%

[2] OHSAS: Occupational Health and Safety Management System; MHRA: Medicines and Healthcare products

Regulatory Agency; TGA: Therapeutic Goods Administration

Status of non-cooperation with previous CRA: CRISIL, in its rationale published on September 27, 2017 stated that Lincoln Pharmaceuticals Limited has been non co-operative and did not provide adequate information for the review process and the ratings have been reaffirmed at BBB+ (Negative)/A3+ on the basis of last available information.

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating February 2018	Date & Rating in FY2017 January 2017	Date & Rating in FY2016 March 2016	Date & Rating in FY2016 September 2015
1	Term Loan	Long Term	7.70	6.45^	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
2	Cash Credit	Long Term	45.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
3	Export Packing Credit-1	Long Term	8.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
4	Export Packing Credit-2	Long Term	(35.00)*	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A- (Stable)
5	Letter of Credit (LC)	Short Term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
6	Bank Guarantee (BG)	Short Term	2.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
7	LC/BG	Short Term	5.00	-	ICRA]A2+	-	-	-

*Sub-limit of Cash Credit ^As on September 30, 2017

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2016	NA	FY2023	7.70	[ICRA]A- (Stable)
NA	Cash Credit	NA	NA	NA	45.00	[ICRA]A- (Stable)
NA	Export Packing Credit-1	NA	NA	NA	8.00	[ICRA]A- (Stable)
NA	Export Packing Credit-2	NA	NA	NA	(35.00)*	[ICRA]A- (Stable)
NA	Letter of Credit (LC)	NA	NA	NA	10.00	[ICRA]A2+
NA	Bank Guarantee (BG)	NA	NA	NA	2.00	[ICRA]A2+
NA	LC/BG	NA	NA	NA	5.00	[ICRA]A2+

*Sub-limit of Cash Credit

Source: Lincoln Pharmaceuticals Limited

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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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