October 07, 2021

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	80.00	80.00	[ICRA]A+ (Stable); reaffirmed
Short-term: Fund-based limits	40.00	40.00	[ICRA]A1; reaffirmed
Short-term: Non-fund based limits	5.00	5.00	[ICRA]A1; reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in Laborate Pharmaceuticals India Limited's (LPIL's) sizeable product portfolio across diverse therapeutic segments, healthy revenue growth across domestic and export markets. The ratings also take comfort from the healthy financial risk profile owing to low gearing and strong debt coverage indicators.

The ratings are constrained by LPIL's presence being limited to the trade generics segment. Its domestic formulations business is characterised by its limited presence in the chronic therapy segments such as anti-diabetics, cardiovascular (CVS), central nervous systems (CNS), etc, and low research and development (R&D) spend. This limits its scope to develop novel drug delivery-based formulations (in the domestic market) as well as to foray into regulated markets that offer superior profitability besides diversification. Furthermore, LPIL exports its products mostly to semi-regulated and unregulated markets with significant share of revenues coming from countries in Africa and West Asia. This exposes the company to credit risk during periods of macro-economic headwinds and geopolitical uncertainties. This risk is, however, partially mitigated by a portion of its sales being backed by letter of credit (LC) or advance payments in some cases. With respect to foreign exchange exposure, the company's export sales are denominated primarily in USD. This limits the foreign exchange (forex) fluctuation risk related to local currencies. As is prevalent in the industry, the company remains exposed to regulatory risks and competitive pressures.

The Stable outlook on the long-term rating reflects ICRA's belief that LPIL will maintain its domestic market presence supported by launch of new products across therapy segments, scale-up in export business and ramp-up in the personal care division. It is also expected to maintain its healthy profitability indicators, comfortable credit metrics and strong liquidity profile.

Key rating drivers and their description

Credit strengths

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 branded generics segment and drives its business by promoting products directly through trade channels rather than promoting them through doctors' prescriptions. Its domestic formulations business has ~1,300 products and is supported by a network of ~650 marketing representatives.

Well-diversified domestic sales with wide therapeutic segment coverage; scale-up of personal care division aids diversification – LPIL has a well-diversified domestic formulations business with the top 10 products typically driving only 25-30% of its total revenues and the top five therapeutic segments accounting for 70-80% of its revenues. The personal care division, launched in FY2015, has scaled up significantly during the last two to three years because of successful brand launches and has gained market traction in the tier-II and III markets in India. Revenues from this division has scaled up to Rs. 54.3 crore in FY2021 from Rs. 19.5 crore in FY2015 (19.0% CAGR), driven by increasing brand recognition in its target markets. This division has a separate team of marketing representatives and promotes some of its products via television advertisements. LIPL's revenue grew by 18% in FY2021 led by 11% growth in domestic and 39% growth in the export segment. In 5M FY2022, the company achieved Rs. 575 crore on a provisional basis. The launch of a new AquaLab division along with continued expansion in the domestic product portfolio is expected to drive growth in FY2022.

Robust financial risk profile reflected by healthy profitability and strong debt protection metrics – As on March 31, 2021, the company's total debt stood at a modest Rs. 12.9 crore. The company's net worth, however, was lower than expected in FY2021 due to share buyback transaction worth Rs. 100 crore to facilitate the exit of a faction of the promoter's family. The gearing remains minimal due to the company's low indebtedness. With better working capital management, limited capital expenditure and increasing cash accruals, the company's working capital borrowings have remained low. Low debt levels combined with improvement in OPM led to decline in TD/OPBDIT to 0.04x in FY2021 from 0.06x in FY2020 and improvement in interest cover to 44.1x from 24.3x in FY2020. ICRA expects the company to maintain its comfortable credit indicators in the near-term supported by expectations of scale up in operations, healthy cash accruals and moderate capital expenditure plans.

Credit challenges

Presence limited to low, value-added branded generics segments – LPIL's sales are primarily concentrated in low-value added branded generics, which is characterised by stiff competition compared to fast-growing chronic therapy segments. The company's R&D spend is only 3-4% of the net sales, which is lower than the leading pharmaceutical companies in India (averaging 6-10%), thus limiting its capability to develop complex pharmaceutical products.

Limited presence in fast-growing lifestyle-related chronic therapeutic segment – The company has limited presence in lifestyle-related chronic therapeutic segments, such as anti-diabetics, CVS, and CNS. Chronic drugs are consumed by patients over a long time, which creates a strong brand recall. LPIL is present only in acute segments, such as anti-biotics and NSAIDs, where it faces strong competition from several companies. As a result, it has limited presence in tier-I cities in India.

Exports limited to semi-regulated markets including politically unstable ones – The company's exports are mostly limited to semi or unregulated markets, which include countries in Africa and Asia, such as Nigeria, Iraq, Zambia and Burundi. However, this risk is mitigated by LC-backed or advance payments, with most exports being denominated in USD and LPIL's established association with local distributors in the export markets.

Exposure to regulatory risks and competitive environment –The operations also 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 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. 87 crore, and unutilised working capital facilities of Rs. 125 crore, as of August 31, 2021. ICRA notes that LPIL's working capital intensity continues to be moderately high due to high debtor days. However, the fund flow from operations would be sufficient to meet the growth funding requirements.

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 the export markets with respect to 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

Incorporated in 1985, LPIL is a medium-sized pharmaceutical company, which manufactures and markets pure generic formulations, both in domestic and export markets. The company was founded by the Panipat-based Bhatia family, whose various 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 three verticals—the elite division, the GPP (brand name) division and the personal care division—which contributed 53%, 10% and 5%, respectively, to the company's turnover in FY2021. A major portion of the company's domestic sales are generated by the elite division, which sells generic formulation products under the 'Laborate' brand. Antibiotics, ear/nose/eye drops, and NSAIDs are its key therapeutic segments with the top 10 brands contributing 26% to its turnover. In terms of the geographical split, North India accounted for 48% of the domestic revenues in FY2020, followed by East (20%), South (17%) and West India (15%). 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)

LPIL	FY2020	FY2021*
Operating Income (Rs. crore)	898.0	1,058.8
PAT (Rs. crore)	86.2	136.1
OPBDIT/OI (%)	14.6%	17.6%
PAT/OI (%)	9.6%	12.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.0
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	24.3	44.1

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *provisional estimates*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2021	FY2020	FY2019	FY2018
					07-Oct-2021	28-Sep-2020	12-Jun-2019	-	31-Jan-2018
1	Cash Credit	Long Term	80.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2	Packing Credit	Short Term	40.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	[ICRA]A1
3	Buyer's Credit Facility/ Letter of Credit	Short Term	5.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-	[ICRA]A1

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term: Fund-based limits	Simple
Short-term: Fund-based limits	Simple
Short-term: Non-fund based limits	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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	80.00	[ICRA]A+ (Stable)
NA	Packing Credit	NA	NA	NA	40.00	[ICRA]A1
NA	Buyer's Credit Facility/ Letter of Credit	NA	NA	NA	5.00	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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