August 26, 2022

Nosch Labs Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based/CC	8.00	8.00	[ICRA]A-(Stable) reaffirmed
Short Term – Non-Fund based	77.00	77.00	[ICRA]A2+ reaffirmed
Long Term - Unallocated	15.00	-	-
Total	**100.00**	**85.00**	

Instrument details are provided in Annexure-I

Rationale

The ratings consider Nosch Labs Private Limited's (Nosch) established track record in manufacturing active pharmaceutical ingredients (APIs), intermediates and semi-finished formulations/pellets in various therapeutic categories for the past two decades. The ratings also consider Nosch's strong relationship with Chemo group, an established group in South American and European markets, which holds 40% shareholding in Nosch. The ratings factor in the healthy operating margins supported by sales of value-additive products such as pellets, and the company's strong relationship with the Chemo Group, which helps the company command higher realisations. Revenue was relatively flat in FY2022 at Rs. 502.0 crore (3.4% growth YoY) due to subdued demand conditions particularly in markets like Russia. While operating margins moderated in FY2022 due to increase in raw material costs, they remained healthy at 35.8%. The rating action also consider its comfortable capital structure and debt metrics on the back of zero debt levels, healthy margins, and consistent growth in accruals. The company's manufacturing facilities have the necessary approvals for export to the European Union (EU-GMP), Russia (Russia-GMP), South Korea (KFDA), Mexico (COFEPRIS) and other markets, which supports revenue visibility.

The ratings, however, remain constrained by the high working capital intensity of the business on account of Nosch's high inventory holding. The company typically holds over six months of inventory as the same facilitates it in ensuring quick turnaround for its customers. However, most of the working capital requirements are met by internal accruals with low reliance on borrowings. Additionally, despite Nosch generating healthy cash accruals, high repatriation (in relation to profits) of funds to shareholders in the form of dividends in the past resulted in limited growth in free cash flows (FCF). Growth in cash flows in FY2023 is further expected to be constrained by share buyback of Rs. 72.4 crore in Q1 FY2023. Nosch is also exposed to regulatory developments that could impact the company's revenues and profitability. Further, over 50% of its revenues are derived from sales to Chemo Group which acts as distributor to key markets like South America and Russia though end customer base is diversified.

The Stable outlook reflects ICRA's opinion that Nosch will continue to benefit from the company's established partnership with the Chemo Group, and that it will maintain its credit profile, given the low debt levels and healthy cash flow generation.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing and strong relationship with Chemo Group which supports high operating margins – Nosch has been involved in manufacturing APIs, intermediates and semi-finished formulations/pellets in various therapeutic categories for the past two decades. Further, established relationship with the Chemo Group has supported the company's revenues over the years. The Chemo Group acts as a marketing partner for the company in the Russian and South American markets, where the Group has an established presence. It holds 40% shareholding of Nosch through Alkmaar Export BV. The Chemo Group acts as a marketing partner, while the day-to-day operations are overseen by Nosch's management. Company's healthy operating margins of 30%-40% over the last 5 years are primarily supported by high product realisations arising from established relationship with the Chemo Group and the value-added nature of pelletized products.

Healthy financial risk profile with nil debt and comfortable coverage and capital structure metrics - The company had nil debt as on March 31, 2022. It has no long-term borrowings. It has working capital limits of Rs. 8 crore but they remained unutilized. The company's entire funding requirement was supported by strong accruals over the years resulting in healthy TNW levels of Rs. 460.7 crore as on March 31, 2022. The company's coverage indicators are strong with DSCR and ICR at 153.7 times and 186.8 times respectively. Revenue was relatively flat in FY2022 at Rs. 502.0 crore (3.4% growth YoY) due to subdued demand conditions particularly in markets like Russia. While operating margins moderated in FY2022 due to increase in raw material costs, they remained healthy at 35.8%.

Credit challenges

High working capital intensity driven by inventory levels – The company's working capital intensity remained high at ~44% in FY2022 on account of high inventory days, which comprises work-in-progress as well as finished goods. However, high inventory holding levels (inventory days of 201 in FY2022) aid in quick delivery of products enabling Nosch to get higher pricing. Additionally, its working capital requirements are primarily funded through internal accruals with negligible dependence on debt.

Sizeable dependence on Chemo group; exposure to regulatory risk – Nosch derives most (~90%) of its revenues from exports, with markets such as South America and Russia accounting for significant part of the company's sales. Nosch has an exclusive agreement with Chemo group for distribution in South America and over 50% of Nosch's sales are routed through Chemo group. ICRA has limited information on operational and financial profile of Chemo Group. However, ICRA notes that the end customer base is diversified as Chemo group acts as distributor for these markets. Moreover, given that Nosch exports to regulated and semi-regulated markets such as Europe, Russia, Mexico, Korea and Brazil, etc., it is exposed to regulatory risks. The regulatory approvals for the manufacturing facilities are reviewed on a periodic basis by the respective regulatory agencies. Any adverse developments during regulatory audits leading to suspensions or delays in renewals could impact its revenues and margins.

Sizeable dividend payout and share buyback over the years – The company's dividend payout to shareholders remains large (in relation to profits) at an average of Rs. 59.4 crore over the last 5 years (53% of net profit). Despite generating healthy cash accruals over the years, high dividend pay outs have historically limited growth in free cash flows. Growth in cash flows in FY2023 is further expected to be constrained by share buyback of Rs. 72.4 crore in Q1 FY2023.

Liquidity position: Adequate

The company's liquidity position is adequate. Nosch had healthy cash balance of Rs. 81.9 crore as on March 31, 2022 against ~20-30 crore capex for FY2023; however, it bought back 4% of the shares at a consideration of Rs. 72.4 crore in Q1 FY2023. While the company has been generating healthy cash flows from operations and does not have any repayment obligations, higher dividend payout / share buyback has limited the improvement in the company's liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade Nosch's ratings if there is significant improvement in the company's scale of operations along with diversification of client and product profile. Besides strengthening of business profile, improvement in working capital intensity of the business, especially marked by reduction in inventory days would also support a rating upgrade.

Negative factors – Negative pressure on Nosch's ratings could arise if there is significant sustained deterioration in the company's relatively healthy profitability metrics, which coupled with higher dividend payouts (in relation to profits) result in lower cash flow generation. Deterioration in working capital cycle impacting the company's liquidity position could also be a trigger for a rating change. The ratings could also be downgraded if there are any adverse developments related to regulatory inspection of its manufacturing units, which has a material bearing on its financial performance.

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 standalone financial profile of the company

About the company

Nosch Labs Private Limited (Nosch), incorporated in 2001, is involved in manufacturing APIs, intermediates and semi-formulations. The company has four manufacturing facilities located in Telangana and has received necessary approvals such as EU-GMP, Russia-GMP, KFDA, COFEPRIS for its facilities. It manufactures APIs and intermediates in various segments such as anti-bacterial, anti-ulcer, anti-depressant, anti-psychotic, etc. Alkmaar Export B.V., with 40% of NLPL's shareholding, has been a strategic partner since 2006, primarily for the South American market. Chemo Espania S.L., the 100% holding company of Alkmaar Export B.V., is a part of the renowned Insud Pharma (Spain-based multi-national company involved in manufacturing and marketing of APIs and formulations), a division belonging to Grupo Insud.

Key financial indicators (audited)

NLPL (Standalone)	FY2021	FY2022Prov
Operating income	485.7	502.0
PAT	140.0	132.9
OPBDIT/OI	40.2%	35.8%
PAT/OI	28.8%	26.5%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	54.5	186.8

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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 26, 2022	May 21, 2021	-	Nov 05, 2019
1	Long Term - Fund based/CC	Long-term	8.0	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	**[ICRA]BBB+ (Stable)**
2	Short Term – Non-Fund based	Short term	77.0	--	**[ICRA]A2+**	**[ICRA]A2+**	-	**[ICRA]A2+**
3	Long-Term Unallocated	Long Term	-	-	-	**[ICRA]A- (Stable)**	-	**[ICRA]BBB+ (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term– Fund Based/CC	Simple
Short Term Non - Fund Based	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term - Fund based/CC	NA	NA	NA	8.00	[ICRA]A- (Stable)
NA	Short Term – Non-Fund based	NA	NA	NA	77.00	[ICRA]A2+

Source: *Company*

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Nithya Debbadi
+91 40 4067 6515
Nithya.Debbadi@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Srihari Venugopalan
+91 99107 47794
Srihari.venugopalan@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches