March 31, 2023

Lincoln Pharmaceuticals Ltd.: Ratings reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits	45.00	86.00	[ICRA]A(Stable); reaffirmed/ assigned
Long-term – Interchangeable Limit	(15.00)	(31.00)	[ICRA]A(Stable); reaffirmed/ assigned
Short-term – Non-fund Based Facilities	17.00	16.00	[ICRA]A1; reaffirmed
Short-term – Interchangeable Limits	-	(4.00)	[ICRA]A1; assigned
Long-term – Unallocated Limit	3.00	0.00	-
Total	**65.00**	**102.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation of Lincoln Pharmaceutical Limited (LPL) continues to consider the extensive track record of the promoters in the pharmaceutical formulations business along with its established relationships with customers, which has entailed repeat orders. The ratings also continue to draw comfort from the company's diversified product profile catering to several therapeutic areas, coupled with its growing geographical footprint across India and surging share of exports to unregulated and semi-regulated markets. The ratings continue to favourably take into account the company's comfortable capital structure aided by low reliance on external debt and the subsequent healthy coverage indicators, along with a sound liquidity profile backed by sizable cash and liquid investment with unutilised working capital limits.

The ratings, however, remain constrained by the susceptibility of LPL's profitability to movements in prices of active pharmaceutical ingredients (APIs; raw materials) and changes in Government policies mainly related to price control. Further, the risk is accentuated given its considerable product offering falling under the ambit of drug price control order (DPCO) by the regulators under the Essential Commodities Act, which limits its pricing flexibility. Further, the intense competition in the domestic generic formulations industry with both organised and unorganised players continues to keep revenues and margin under check. The ratings also remain constrained by the high working capital intensity of operations, owing to the long credit period extended to its customers, especially in export markets. ICRA also notes that the company has extended sizable intercorporate loans to unrelated parties, given the healthy cash generated from the business. Although there has not been any instance of bad debts in the past, their timely recovery will be critical from a liquidity as well as overall credit perspective and will remain a key rating monitorable.

The Stable outlook reflects ICRA's opinion that the LPL revenue profile will be backed by stable demand conditions, along with limited debt levels, given that no large debt-funded capital expenditure (capex) is envisaged, thereby maintaining its credit metrics in the near term.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established customer relationships – The promoters have extensive experience of more than three decades in the pharmaceutical formulation business. Over the years, LPL has developed established relationships with its customers, which has entailed repeat orders.

Diversified product profile catering to multiple therapeutic areas and expanding geographical presence – LPL manufactures pharmaceutical formulations in various forms such as tablets, capsules, ointments, syrups, dry powder and liquid injections. At present, the product portfolio remains diversified with more than 600 formulations, catering to various therapeutic segments such as antibiotics, analgesics, anti-cold drugs, gynaecology, anti-malarial, and multi-vitamins. LPL was predominately a domestic market player; however, it has been increasing its focus on exports to semi-regulated markets in the past few fiscals, owing to intense competition in the domestic generic formulation's industry. The export sales are concentrated, with African markets generating ~32-35% to the total export sales, while the company has a diversified presence in the domestic market in more than 26 states across India. The company's manufacturing facility in Khatraj, Gujarat, received clearance from Therapeutic Goods Administration (TGA) for all three departments—tablets, capsules and creams, and ointments—which will cover a wide range of its pharmaceutical formulations.

Comfortable capital structure and healthy debt protection metrics – Given the presence of minimal debt as on March 31, 2022, LPL's capital structure remains comfortable along with subsequent robust interest coverage of 65.9 times, total Debt/ OPBDITA of 0.02 time and TOL/TNW of 0.22 time as on March 31, 2022. LPL's reliance on external debt continues to remain controlled leading to favourable capital structure and sound debt protection metrics.

Healthy cash and liquid investments along with sparsely utilised working capital limits – LPL maintains a sound liquidity profile supported by sizable cash and liquid funds to the tune of Rs. 115.1 crore as on March 21, 2022, along with sparsely utilised working capital limits.

Credit challenges

Moderate scale of operations amid intense competition in generic formulations industry – LPL remains a mid-sized player in the generic formulations industry with an operating income of Rs. 472.1 crore in FY2022 at the consolidated level. For the nine months ending December 2022, the consolidated sales stood at Rs. 395.9 crore as against Rs. 369.5 crore in 9M FY2022. The domestic generic formulation industry faces stiff competition from numerous contract manufacturers, multi-national companies as well as established domestic brands, with some of these players also having a pan India presence. The intense competition in the industry keeps revenue growth and margins under check. In FY2022, the company had acquired a plant in Mehsana (Gujarat) for Cephalosporin products. The production from this plant started from September 2022, which is expected to aid to near term revenue growth and earnings.

Operations exposed to regulatory restrictions; considerable coverage under DPCO, which restricts pricing flexibility – The operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. Amid escalating raw material prices coupled with considerable product offering falling under the ambit of DPCO by the regulators under the Essential Commodities Act, which limits pricing flexibility. However, the impact of DPCO restricted pricing is severe in the initial year, later an annual price revision at regulator determined rates are allowed which provides some respite in the pricing flexibility. Going forward, 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.

Sizable amount lent as inter-corporate loan to individuals and entities, whose timely recovery remains critical from credit perspective – LPL has extended sizable inter-corporate loans to unrelated parties, which stood at ~Rs. 58.6 crore as on March 31, 2022. Although, there has not been any instance of bad debts in the past, their timely recovery will be critical from a liquidity profile as well as overall credit perspective and, hence, will remain a key rating monitorable, going forward.

High working capital intensity of operations – Although improved, the working capital intensity of LPL remains relatively high as depicted by NWC/OI of 29% in FY2022 owing to sizable share of its exports market, which has a higher credit period (up to ~120 days over ~60-90 days in the domestic market), coupled with moderate inventory requirement.

Environmental and Social Risks

Environmental considerations: LPL has installed and commissioned a 1-MW solar rooftop power plant at its manufacturing facility and two windmills at two different locations in Gujarat. These facilities generate power of ~60 lakh units per annum and saves nearly 65% of electricity cost. The manufacturing units are designed and constructed according to the concept of 'Green Buildings' with natural lighting and ventilation. These steps are likely to reduce the company's dependence on the grid and result in power savings. Also, the company recovers waste solvent through recovery system that is sold to external agencies (approved by state pollution control board) for reuse at their end, which is at par with the company's long-term plan to make its unit 'zero liquid discharge' from its manufacturing units. These steps ensure compliance to environmental norms and long-term business continuity.

Social considerations: LPL works actively to enhance the employability of youth among the local communities of its plant locations, leading to income generation and economic empowerment. Training and awareness programmes are conducted throughout the year to create sensitivity towards ensuring a respectable workplace.

Liquidity position - Strong

At a consolidated level, the liquidity position of LPL is strong, supported by healthy cash accruals of ~Rs. 72.44 crore in FY2022 along with free cash/liquid investments of Rs. 115.4 crore as on March 31, 2022. Further, there was no term debt outstanding as on December 31, 2022. The liquidity is also supported by cushion in working capital limits, given the limited utilisation levels in the last 12 months.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if LPL demonstrates healthy scaling up of operations, while improving its profitability and working capital cycle.

Negative factors – Negative pressure on LPL's ratings could arise if a substantial decline in the scale of operations and profitability results in material deterioration of coverage indicators; or a sizeable capex or increase in working capital cycle adversely impacts the liquidity profile and key credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –Pharmaceuticals Rating Approach – Consolidation
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidation for arriving at the ratings, ICRA has combined the business and financial risk profiles of LPL and its wholly-owned subsidiary, Zullinc Healthcare LLP, as the entity is owned and managed by the same promoters and is involved in related business segments.

About the company

Established as a partnership firm in 1979, Lincoln Pharmaceuticals Limited has been manufacturing pharmaceutical formulations in the domestic market as well as exporting formulations. LPL was reconstituted as a public limited company in 1995 and is listed on the BSE. Its manufacturing plant, at Kharjat in Gandhinagar district of Gujarat, has an installed manufacturing capacity of 200-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 EUGMP, WHO, cGMP, MHRA and TGA compliant. In FY2022, the company acquired a plant in Mehsana (Gujarat) and started production of Cephalosporin products at the facility from September 2022.

The company is a part of the Lincoln Group, which manufactures pharmaceuticals formulations in categories such as generics, anti-malarial, anti-diabetic, gynaecology products, vitamins, minerals and anti-oxidants. LPL's erstwhile subsidiary (98.58% holding) Lincoln Parenteral Limited (LPPL), incorporated in 1991, was involved in manufacturing formulations in dry powder, liquid injectables and syrup variants. On September 14, 2021, the Hon'ble National Company Law Tribunal, Ahmedabad Bench (NCLT), approved the scheme of amalgamation of Lincoln Parenteral Ltd. and Lincoln Pharmaceuticals Ltd.

Currently, LPL has a wholly-owned subsidiary, Zullinc Healthcare Limited, which trades and markets pharmaceutical products.

Key financial indicators

	FY2021	FY2022
Operating income	424.2	472.1
PAT	62.3	69.4
OPBDIT/OI	20.6%	20.3%
PAT/OI	14.7%	14.7%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	55.9	65.9

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

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 of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					March 31, 2023	Apr 07, 2022	-	Feb 11, 2021	Dec 26, 2019
1	**Fund-based Limit**	Long Term	86.00	-	**[ICRA]A (Stable)**	**[ICRA]A(Stable)**	-	**[ICRA]A(Stable)**	**[ICRA]A-(Positive)**
2	**Interchangeable Limit**	Long Term	(31.00)	-	**[ICRA]A (Stable)**	**[ICRA]A(Stable)**	-	**[ICRA]A(Stable)**	**[ICRA]A-(Positive)**
3	**Unallocated Limits**	Long Term	0.00	-	-	**[ICRA]A(Stable)**	-	**[ICRA]A(Stable)**	**[ICRA]A-(Positive)**
4	**Non-Fund based Facilities – Letter of Credit**	Short term	3.00	-	**[ICRA]A1**	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A2+**
5	**Non-Fund based Facilities – Bank Guarantee**	Short term	3.00	-	**[ICRA]A1**	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A2+**
6	**Non-Fund based Facilities**	Short term	5.00	-	**[ICRA]A1**	**[ICRA]A1**	-	**[ICRA]A1**	**[ICRA]A2+**

7	**Non-Fund based Facilities**	Short term	5.00		**[ICRA]A1**	-	-	-	
8	**Interchangeable**	Short term	(4.00)	-	**[ICRA]A1**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Interchangeable Limit	Simple
Non-Fund based Facilities – Letter of Credit	Very Simple
Non-Fund based Facilities – Bank Guarantee	Very Simple
Non-Fund based Facilities	Very Simple
Non-Fund based Facilities	Very Simple
Interchangeable	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based Limits**	NA	NA	NA	86.00	[ICRA]A(Stable)
NA	**Interchangeable Limits**	NA	NA	NA	(31.00)	[ICRA]A(Stable)
NA	**Non-Fund based Facilities – Letter of Credit**	NA	NA	NA	3.00	[ICRA]A1
NA	**Non-Fund based Facilities – Bank Guarantee**	NA	NA	NA	3.00	[ICRA]A1
NA	**Non-Fund based Facilities**	NA	NA	NA	5.00	[ICRA]A1
NA	**Non-Fund based Facilities**	NA	NA	NA	5.00	[ICRA]A1
NA	**Interchangeable Limits**	NA	NA	NA	(4.00)	[ICRA]A1

Source: company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Lincoln Pharmaceuticals Limited	Parent Company	Full Consolidation
Zullinc Healthcare LLP	100.00%	Full Consolidation

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About ICRA Limited:

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