

June 05, 2023

Chromachemie Laboratory 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 – Cash Credit	15.00	3.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund Based – Bank Guarantee	45.00	51.00	[ICRA]A2; reaffirmed
Total	60.00	54.00	

*Instrument details are provided in Annexure-I

Rationale

While arriving at the ratings, ICRA has considered the consolidated operational and financial profile of Chromachemie Laboratory Private Limited (CLPL) and its group company, Kaustubha Scientific Research Laboratory Private Limited (KSRLPL), (together referred to as the company/Group) owing to the strong financial and operational linkages between them, as well as a shared management and operations in similar businesses.

The reaffirmation of the ratings for CLPL factor in the extensive experience of the promoters in the distribution of reference standards in the industry, which coupled with its established market position as the authorised distributor of United States Pharmacopoeia (USP) reference standards, as well as a major distributor of European, British and Indian Pharmacopoeia in India, have resulted in repeat orders and stable demand prospects for the company. The ratings are further supported by CLPL's established customer base, which includes leading pharmaceutical companies of India. Moreover, the company's healthy liquidity position, sizeable net-worth base and negligible debt profile have led to a comfortable capital structure and coverage position in FY2023 at a consolidated level.

The ratings, however, remain constrained by product concentration risks as the company derived ~70-75% of its revenues from the distribution of USP reference standards in the past two years. CLPL's profitability also remains exposed to forex risk as most of the reference standards are imported. In FY2023, its revenues and profitability were impacted by increased competition in the USP market, which led to moderation in revenue growth and operating margins. While competitive pressures are likely to remain elevated, ICRA expects CLPL to largely sustain its scale of operations supported by established operational track record and established relationships with its key customers. Despite the moderation in accrual generation in FY2023 as well as the near term (against historical levels), CLPL's credit profile will be supported by its comfortable capital structure and liquidity profile. Further, the ratings also consider the high working capital intensity of CLPL owing to its high receivable cycle and inventory. ICRA also notes the susceptibility of CLPL's revenues and profitability to regulatory changes in the industry and renewal of the contract with USP Convention (pending for June 2026) as one of the key rating monitorables.

The Stable outlook on the long-term rating reflects ICRA's expectation that CLPL will benefit from stable demand for reference standards and its established relationships with various governing bodies, enabling it to report steady accrual generation and maintain a healthy liquidity profile and coverage metrics.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoter in the distribution of pharmaceutical reference standards – Incorporated in 2012, the company has been promoted by Mr. BRS Rao, who has an extensive experience of more than two decades in the distribution of various pharmaceutical reference standards. The company has a healthy track record in distributing reference standards and also provides chromatography separations products with technology support, including development and supply of custom designed columns to scale up process columns under the brand name, Puritas.

Authorised distributor of USP reference standards in India – CLPL has maintained a well-established market position for sale of reference standards in India, supported by its long association and position as an authorised distributor for USP Convention Inc. CLPL distributes USP and reference standards, along with various other pharmacopoeia in India. The agreement with the USP Convention was last renewed in June 2021 and is valid till June 2026. The company's strong experience in the industry and track record in distribution of USP and other reference standards, coupled with accessibility for customers, support its business prospects.

Established relationships with key customers – The Group shares an established client portfolio of reputed pharmaceutical companies in India, which has supported its revenue growth over the years through repeat orders. Moreover, its customer concentration remains low with its top five customers accounting for ~13% of CLPL's total revenues in FY2023.

Comfortable capital structure and coverage metrics – CLPL's capital structure continues to remain healthy with a sizeable net-worth position and debt comprising only unsecured loans from promoters at a consolidated level, with limited reliance on external borrowing, which has resulted in a gearing of 0.1 time as on March 31, 2023. Coverage indicators were impacted in FY2023 on the back of lower operating profits that, however, remained comfortable marked by interest coverage of 6.6 times and Total Debt/OPBDITA of 1.1 times for FY2023, against 11.7 times and 0.6 time for FY2022, respectively.

Credit challenges

Pressure on operating margins and revenue growth due to elevated competitive intensity – The company has been the sole distributor of USP in India since the past ~20 years, however, the appointment of another authorised distributor by USP in India since 2022 has resulted in moderation in CLPL's revenue growth in FY2023. Coupled with some provisioning against doubtful receivables led to a decline in CLPL's operating margins to 5.1% in FY2023 against 9.1% in FY2022. Going forward, the company's revenue growth and profitability are expected to remain moderate owing to the elevated competitive intensity; however, its overall credit profile is expected to remain comfortable on account of a healthy capital structure and liquidity position.

High dependence on USP as ~70-75% of revenues come from USP sales – Given the long association of the company with USP Convention and dealership agreement for distribution of USP in India, its sales have largely remained concentrated by USP, which contributed to ~70-75% of CLPL's revenues in the past two years. Despite the entry of a new competitor since 2022, it has maintained its revenue share of USP in the industry. The current distribution agreement expires in June 2026 and, hence, CLPL is exposed to renewal risks for maintaining revenue visibility; however, the established relationship with the dealer mitigates this to an extent.

Profitability susceptible to foreign exchange fluctuations and regulatory changes – The company imports the reference standards globally, which exposes its profitability to significant fluctuations in foreign exchange rates. However, the company does not require hedging of its forex exposure. The revenues and profitability of CLPL are also susceptible to regulatory changes as purchases are primarily linked to enforcement of standards set by the USFDA. Any withdrawal of reference standards can also lead to write-off of inventory.

High working capital intensity – The company had high working capital intensity of 31.1% in FY2023 driven by high receivable levels as well as inventory of reference standards that it maintains. However, the incremental funding requirements of the business are largely being met by internal accrual generation, resulting in limited reliance on working capital debt from the bank.

Liquidity position: Strong

The liquidity position of CLPL is **strong** supported by steady accrual generation and free cash and liquid investments of ~Rs. 68 crore as on March 31, 2023, at a standalone level. Over and above this, KSRLPL had free cash and fixed deposits of ~Rs. 38 crore as on March 31, 2023, at a standalone level. In addition, CLPL has undrawn working capital limits of Rs. 3.0 crore, which further support its liquidity profile. Going forward, the company does not have any debt repayment obligations and in the absence of any significant capex plans, its cash flows and liquidity position is expected to remain comfortable.

Rating sensitivities

Positive factors – ICRA could upgrade CLPL's ratings if the company achieves healthy revenue growth aided by increased business diversity, while maintaining a healthy liquidity position and an improvement in its profit margins on a sustained basis.

Negative factors – Negative pressure on the ratings may arise if there is a sustained decline in revenues adversely impacting the company's profitability and return indicators and/or any increase in working capital intensity weakening the liquidity position. Specific credit metric that could lead to a rating downgrade include Total Debt/OPBDITA of more than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of CLPL and its group company, KSRLPL.

About the company

Established in 2012, CLPL is engaged in the distribution of pharmaceutical reference standards and manufacturing of chromatography consumables. It distributes USP reference standards through its authorised dealership with USP Convention Inc., along with distribution of British Pharmacopoeia, European Pharmacopoeia and India Pharmacopoeia in India, Bangladesh and Pakistan. The company was promoted by Mr. BRS Rao who has extensive experience in the sales and distribution of reference standards in the industry. CLPL's group company, KSRLPL, is engaged in the distribution of British Pharmacopoeia, European Pharmacopoeia and India Pharmacopoeia in India. It is headquartered in Bangalore, India.

Key financial indicators (audited)

CLPL – Consolidated	FY2021	FY2022	FY2023 (Prov.)
Operating income	422.6	417.9	413.7
PAT	28.9	27.2	14.8
OPBDITA/OI	9.5%	9.1%	5.1%
PAT/OI	6.8%	6.5%	3.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	0.2
Total debt/OPBDITA (times)	0.6	0.6	1.1
Interest coverage (times)	13.0	11.7	6.6

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: CRISIL Limited, vide its press release dated December 08, 2022, has disclosed that ratings of Chromachemie Laboratory Private Limited continues to be CRISIL B/Stable/CRISIL A4 Issuer not cooperating.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 05, 2023	Jun 20, 2022	May 03, 2021	-
1 Fund-based – Cash Credit	Long-term	3.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-
2 Non-fund Based – Bank Guarantee	Short-term	51.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash Credit	Simple
Short-term – Non-fund based – Bank Guarantee	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	Long-term – Fund-based – Cash Credit	-	-	-	3.00	[ICRA]BBB+ (Stable)
NA	Short-term – Non-fund Based – Bank Guarantee	-	-	-	51.00	[ICRA]A2

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	CLPL Ownership	Consolidation Approach
Kaustubha Scientific Research Laboratory Private Limited	-	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 022 6114 3442

kinjal.shah@icraindia.com

Deepak Jotwani

+91 124 4545 870

deepak.jotwani@icraindia.com

Charvi Sagar

+91 124 4545 373

charvi.sagar@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

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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



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