November 30, 2023

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 – Cash Credit	8.00	8.00	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based	77.00	77.00	[ICRA]A2+ reaffirmed
Total	**85.00**	**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, which resulted in a strong customer base. It also benefits from the strong distribution network of the Chemo Group, which is Nosch's major customer and holds 40% shareholding in South American and European markets, which helps the company command healthy realisations. The company recorded 13.7% revenue growth in FY2023 on the back of higher demand from its global clients; however, revenue growth is expected to be muted in FY2024 owing to subdued demand from its European and South American clients. While operating margins moderated in FY2023 due to increase in raw material costs, logistic costs and sales promotion expenses, they remained healthy at 31.6%. Margins are expected to remain healthy going forward as well. The ratings also consider its comfortable capital structure and debt metrics on the back of zero debt levels and healthy margins. The company's manufacturing facilities have the necessary approvals for exporting to the European Union (EU-GMP), Russia (Russia-GMP), South Korea (KFDA), Mexico (COFEPRIS) and other markets.

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 earnings, high repatriation (in relation to profits) of funds to shareholders in the form of dividends and share buybacks in the past resulted in limited growth in free cash flows (FCF). 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 the Chemo Group, which acts as distributor to key markets like South America and Russia; however, the end-customer base is diversified.

The Stable outlook on Nosch's ratings reflects ICRA's opinion that the company's revenue and profit growth would be supported by the demand for its products, and it will continue to maintain healthy debt metrics.

Key rating drivers and their description

Credit strengths

Established track record in manufacturing and strong distribution network across different countries 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, its strong distribution network to cater different export markets through 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. The company's healthy operating margins of 30-40% over the last five years are primarily supported by high product realisations arising from a healthy distribution network and the value-added nature of pelletised products.

Healthy financial risk profile with nil debt and comfortable coverage and capital structure metrics – The company had nil debt as on March 31, 2023. It has no long-term borrowings. It avails working capital limits of Rs. 8.0 crore, but the same remained unutilised. The company's entire funding requirement was supported by strong accruals over the years resulting in healthy TNW levels and strong coverage indicators. The company recorded 13.7% revenue growth in FY2023 on the back of higher demand from its global clients; however, revenue growth is expected to be muted in FY2024 owing to subdued demand from its European and South American clients.

Credit challenges

High working capital intensity driven by inventory levels – The company's working capital intensity remains high at 40-45% on account of high inventory days, which comprises work-in-progress as well as finished goods. However, high inventory holding levels (inventory days of 180 in FY2023) 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 a significant part of its sales. Nosch has an exclusive agreement with the Chemo Group for distribution in South America and over 50% of Nosch's sales are routed through the Group. ICRA has limited information on the operational and financial profile of the Chemo Group. However, ICRA notes that the end-customer base is diversified as the Chemo Group acts as distributor for these markets. Moreover, given that Nosch exports to regulated and semi-regulated markets such as Europe, Russia, Mexico, South Korea and Brazil, 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 and repatriation of funds through share buybacks remains large (in relation to profits), at an average of Rs. 52.9 crore over the last five years (43% of net profit). Growth in cash flows in FY2023 was constrained by share buyback of ~Rs. 89.0 crore. Despite generating healthy cash accruals over the years, high dividend payouts have historically limited growth in free cash flows.

Liquidity position: Adequate

The company's liquidity position is adequate with healthy cash and bank balance of Rs. 57.5 crore as on March 31, 2023, against ~Rs. 10-20.0 crore of capex for FY2024. The company has been generating healthy cash flows from operations and does not have any repayment obligations; higher dividend payout has limited the improvement in its 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 its client and product profiles. Besides strengthening its 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 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 downgrade. 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 Pharmaceutical Industry Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Nosch Labs Private Limited, incorporated in 2001, is involved in manufacturing APIs, intermediates and semi-formulations. The company has four manufacturing facilities in Telangana, which have been certified for exports by the EU-GMP, Russia-GMP, KFDA and COFEPRIS. It manufactures APIs and intermediates in various segments such as anti-bacterial, anti-ulcer, anti-depressant, anti-psychotic, among others. Alkmaar Export BV, with 40% of Nosch's shareholding, has been a strategic partner since 2006, primarily for the South American market. Chemo Espania SL, the 100% holding company of Alkmaar Export BV, is a part of the renowned Insud Pharma (Spanish multi-national company involved in manufacturing and marketing APIs and formulations), a division of Grupo Insud.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	502.0	570.7
PAT	137.0	127.1
OPBDIT/OI	35.8%	31.6%
PAT/OI	27.3%	22.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.3
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	186.8	265.4

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on Mar 31, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	Aug 26, 2022	May 21, 2021	-
1	Long Term - Fund based – Cash Credit	Long-term	8.0	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (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)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term– Fund Based – Cash Credit	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: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	**Long Term - Fund based – Cash Credit**	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

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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.

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