

April 03, 2024

Lincoln Pharmaceuticals Ltd.: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--|--------------------------------------|-------------------------------------|------------------------------|
| Long-term – Fund-based Limits | 86.00 | 66.00 | [ICRA]A (Stable); Reaffirmed |
| Long-term – Interchangeable Limit | (31.00) | (16.00) | [ICRA]A (Stable); Reaffirmed |
| Short-term – Non-fund Based Facilities | 16.00 | 11.00 | [ICRA]A1; Reaffirmed |
| Short-term – Interchangeable Limits | (4.00) | 0.00 | - |
| Total | 102.00 | 77.00 | |

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of Lincoln Pharmaceuticals Limited (LPL) continues to consider the company's comfortable capital structure aided by low reliance on external debt and the subsequent strong coverage indicators, along with a sound liquidity profile backed by sizable cash and liquid investment with unutilised working capital limits. The debt metrics are expected to remain at comfortable levels backed by absence of any debt-funded capex and healthy margin levels. 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 rating also factors in 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, 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, since a part of its product offerings fall 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 from 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 key export destinations. The debtor cycle in FY2024 has elongated over March 2023 levels and is expected to remain at elevated levels in the near term. 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 LPL's 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 has evolved over time as a dominant export player, with its share of exports rising to 57% as of FY2023, compared to 35% in FY2018, with its focus on semi-regulated markets owing to intense competition in the domestic generic formulation's industry. Its export sales are concentrated, with African markets generating more than 25% of its total export sales. Meanwhile, in the domestic market, the company has a diversified presence in more than 26 states. LPL'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, 2023, LPL's capital structure remains comfortable along with subsequent robust interest coverage of 49.5 times, total Debt/OPBDITA of 0.02 time and TOL/TNW of 0.17 time as on March 31, 2023. 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. 171 crore, as on September 30, 2023, 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. 521.2 crore in FY2023 at the consolidated level. For the nine months ending in December 2023, the consolidated sales stood at Rs. 441.9 crore against Rs. 409.4 crore in 9M FY2023. 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. This intense competition 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 FY2023, which is expected to aid near-term revenue growth and earnings.

Operations exposed to regulatory restrictions; 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 some of its products falling under the ambit of DPCO by the regulators under the Essential Commodities Act, its pricing flexibility is limited. However, the impact of DPCO-restricted pricing is typically severe in the initial year and thereafter an annual price revision at regulator determined rates are allowed, which provides some respite in 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 LPL's export business.

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. 76.6 crore as on

December 31, 2023. 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 – The working capital intensity of LPL remains relatively high as depicted by NWC/OI of 30% in FY2023 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. The working capital intensity is expected to further increase in FY2024 as the debtor days are expected to remain at elevated levels in the near term, in the range of 120-130 days, as of the end of FY2024 over 99 days in FY2023. The ability of the company to timely recover dues from its key export destinations will remain a key rating monitorable.

Environmental and Social Risks

Environmental considerations – LPL does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations for breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation. Further, the regulatory environment across the globe is becoming increasingly stringent, making entry into new geographies more challenging. However, the manufacturing units are designed and constructed according to the concept of 'Green Buildings' with natural lighting and ventilation. 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. Further, the company also installed 4MW at Randhanpur and a rooftop solar plant at Mehsana unit in FY2024 and the unit generation has also started. 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 a recovery system, which is then sold to external agencies (approved by state pollution control board) for re-use at their end, which is at par with the company's long-term plan of making its facilities 'zero liquid discharge' manufacturing units. These steps ensure compliance with environmental norms and long-term business continuity.

Social considerations: The industry faces social risks related to product safety and associated litigation risk, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. However, 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. 76.4 crore in FY2023 along with free cash/liquid investments of Rs. 171 crore, as on September 30, 2023. Further, there was no term debt outstanding as on September 30, 2023, and the company has no major capex plan in FY2025. 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. Specific negative trigger that can lead to a rating downgrade will be Total debt/ OPBITDA remaining over 2.0 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals |
| Parent/Group support | Not Applicable |
| Consolidation/Standalone | 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 the 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 FY2023.

The company is 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 (NCLT), Ahmedabad Bench, 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 (audited)

| | FY2022 | FY2023 | 9M FY2024* |
|--|--------|--------|------------|
| Operating income | 473.2 | 521.2 | 441.9 |
| PAT | 69.4 | 72.9 | 74.7 |
| OPBDIT/OI | 20.4% | 19.3% | 19.3% |
| PAT/OI | 14.7% | 14.0% | 16.9% |
| Total outside liabilities/Tangible net worth (times) | 0.2 | 0.2 | - |
| Total debt/OPBDIT (times) | 0.0 | 0.0 | - |
| Interest coverage (times) | 66.7 | 49.5 | 88.4 |

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 | Type | Current rating (FY2025) | | Chronology of rating history for the past 3 years | | | | |
|--|------------|--------------------------|--|---|-------------------------|-------------------------|------------------|-------------------------|
| | | Amount rated (Rs. crore) | Amount outstanding as of Sept 30, 2023 (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | Date & rating in FY2023 | | Date & rating in FY2022 |
| | | | | Apr 03, 2024 | - | Mar 31, 2023 | Apr 07, 2022 | - |
| 1 Fund-based Limit | Long Term | 66.00 | - | [ICRA]A (Stable) | - | [ICRA]A (Stable) | [ICRA]A (Stable) | - |
| 2 Interchangeable Limit | Long Term | (16.00) | - | [ICRA]A (Stable) | - | [ICRA]A (Stable) | [ICRA]A (Stable) | - |
| 3 Unallocated Limits | Long Term | - | - | - | - | - | [ICRA]A (Stable) | - |
| 4 Non-Fund based Facilities – Letter of Credit | Short Term | 3.00 | - | [ICRA]A1 | - | [ICRA]A1 | [ICRA]A1 | - |
| 5 Non-Fund based Facilities – Bank Guarantee | Short Term | 3.00 | - | [ICRA]A1 | - | [ICRA]A1 | [ICRA]A1 | - |
| 6 Non-Fund based Facilities | Short Term | 5.00 | - | [ICRA]A1 | - | [ICRA]A1 | [ICRA]A1 | - |
| 7 Non-Fund based Facilities | Short Term | 0.00 | - | - | - | [ICRA]A1 | - | - |
| 8 Interchangeable | Short Term | 0.00 | - | - | - | [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 |

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 | 66.00 | [ICRA]A(Stable) |
| NA | Interchangeable Limits | NA | NA | NA | (16.00) | [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 |

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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