June 04, 2024

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	3.00	3.00	[ICRA]BBB+ (Stable); reaffirmed
Short-term – Non-fund Based – Bank Guarantee	51.00	51.00	[ICRA]A2; reaffirmed
Total	**54.00**	**54.00**	

**Instrument details are provided in Annexure-I*

Rationale

While arriving at the ratings, ICRA has considered the consolidated operational and financial profiles 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 common management and operations in similar businesses.

The reaffirmation of ratings for CLPL considers its established market position as the largest distributor of United States Pharmacopeia (USP) and a major distributor of European, British and Indian Pharmacopeia in India and extensive experience of its promoters in the distribution of pharmaceutical reference standards in India. This coupled with long relationships with key clientele have resulted in repeat business offtake and stable demand prospects in the recent years. The same enabled the company to report a steady revenue growth in FY2024. Additionally, the ratings are supported by a comfortable capital structure and coverage metrics, characterised by the company's healthy liquidity position, sizeable net-worth base and negligible debt profile at a consolidated level.

The ratings are, however, constrained by product concentration risks as the company continues to derive 70-75% of its revenue from the distribution of USP reference standards. Moreover, CLPL's profitability continues to remain impacted by competition in the USP market, as reflected by further moderation of its operating margins in FY2024. The competition is expected to remain elevated over the medium term. Nonetheless, CLPL is expected to report a modest revenue growth while largely sustaining its operating profitability, going forward, supported by its established business position. The ratings also consider susceptibility of CLPL's profitability to forex risk (as most reference standards are imported) and moderately high working capital intensity of the business owing to high receivables and inventory cycle. ICRA also notes the continuous renewal of dealership agreement with USP Convention (valid until 2026). Also, the company's exposure to regulatory changes, primarily linked to enforcement of standards set by USFDA, will remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that CLPL will continue to benefit from its strong operational track record and established client base in the pharmaceutical reference standards market in India and will be able to sustain a comfortable capital structure and strong liquidity position.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the distribution of pharmaceutical reference standards – CLPL has been promoted by Mr. B.R.S Rao, who has more than two decades of experience in the distribution of various pharmaceutical reference standards. The company also provides chromatography separations products with technology support, including development and supply of custom designed columns to scale up process columns under the brand names, Puritas, and has a strong operational track record.

Authorised distributor of USP reference standards in India – CLPL has maintained an established market position for sale of reference standards in India, supported by its long association with its principal, USP Convention Inc., for over 20 years. The agreement with the USP convention was last renewed in June 2021 and is valid till June 2026. The company also distributes various other pharmacopoeia in India along with USP reference standards. Over the years, its strong track record as a major distributor for USP in India, coupled with accessibility to customers has supported its earnings profile.

Established relationship with key customers, which include reputed Indian pharmaceutical companies – The Group's established client portfolio of reputed pharmaceutical companies in India will continue to support CLPL in sustaining its scale of operations through repeat orders. Moreover, its customer concentration remains low with its top five customers accounting for ~19% of CLPL's total revenues in FY2024.

Comfortable capital structure and coverage metrics – CLPL's sizeable net worth position and negligible external debt (comprising only unsecured loans from promoters at a consolidated level) resulted in a healthy capital structure, reflected by a gearing of 0.1 times as on March 31, 2024 (provisional). Notwithstanding some moderation due to lower operating margins, the coverage metrics remained comfortable, as marked by an interest coverage of 5.3 times and Total Debt/OPBDITA of 1.5 times for FY2024.

Credit challenges

Pressure on operating margins and revenue growth due to intense competition – The company was the sole distributor of USP in India for the last ~20 years, however, the appointment of another authorised distributor by USP in India in 2022 moderated CLPL's growth momentum and profitability in the recent years. The company reported a modest revenue growth of 4% on a YoY basis in FY2024. However, CLPL's operating margins further declined to 3.7% in FY2024 against 5.0% in FY2023. Going forward, the company's revenue growth and profitability are expected to remain moderate owing to the elevated competition. However, its overall credit profile is expected to remain comfortable on account of a healthy capital structure and strong liquidity position.

High dependence on USP as 70-75% of revenues are derived from USP sales – Sales from USP continue to contribute 70-75% to CLPL's revenue in the past two years, given the long association of the company with USP Convention and dealership agreement for distribution of USP in India. 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 thus timely renewal of the same would be critical for maintaining revenue visibility. However, 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, which exposes its profitability to significant fluctuations in foreign exchange rates as it does not hedge its forex exposure. Also, revenue and profitability of CLPL are susceptible to regulatory changes as purchases are primarily linked to enforcement of standards set by USFDA. Any withdrawal of reference standards can also lead to write-off of inventory.

Moderately high working capital intensity – CLPL's working capital intensity remains moderately high. However, the same has improved to 24.3% in FY2024 (31.5% in FY2023) on account of decline in receivables and inventory levels. The company extends a credit period of 90 days to its customers while suppliers extend a credit period of 30 days (USP) and 60 days (British Pharmacopoeia and European Pharmacopoeia) to CLPL. The company maintains an inventory of 30-40 days on the back of confirmed order cycle.

Liquidity position: Strong

CLPL's liquidity remains strong, supported by unencumbered cash balances/fixed deposits of ~Rs. 140 crore as on March 31, 2024 at a consolidated level. This apart, its liquidity position is further supported by Rs. 3 crore of unutilised bank lines as on March 31, 2024. Going forward, the company does not have any major debt repayment liabilities and in the absence of significant capital expenditure plans, the company's cash flows and liquidity are expected to remain comfortable.

Rating sensitivities

Positive factors – ICRA could upgrade CLPL's ratings if the company is able to achieve a healthy revenue growth, aided through increased business diversity, while maintaining its healthy liquidity position and improving its profit margins on a sustained basis.

Negative factors – 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 weakens the liquidity position. Specific credit metric that could lead to a downgrade of the ratings 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 Pharmaceuticals
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 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 Indian Pharmacopoeia in India. It is headquartered in Bangalore.

Key financial indicators (audited)

CLPL – Consolidated	FY2022	FY2023	FY2024 (Prov)
Operating income	417.9	418.9	436.8
PAT	27.2	15.1	14.4
OPBDIT/OI	9.1%	5.0%	3.7%
PAT/OI	6.5%	3.6%	3.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.3
Total debt/OPBDIT (times)	0.6	1.2	1.5
Interest coverage (times)	11.7	6.6	5.3

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 February 22, 2024, has disclosed that ratings of Chromachemie Laboratory Private Limited continue to be CRISIL B/Stable/CRISIL A4 Issuer Not Cooperating.

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 04, 2024	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)	[ICRA]BBB+ (Stable)
2	**Non-fund Based – Bank Guarantee**	Short-term	51.00	-	**[ICRA]A2**	[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

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About ICRA Limited:

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