January 24, 2025

Nosch Labs Private Limited: Long-term rating upgraded to [ICRA]A (Stable) and short-term rating 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); upgraded from [ICRA]A-(Stable)
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 action considers the likely improvement in Nosch Labs Private Limited's (Nosch) credit profile on the back of expected sustained growth in the scale of operations while maintaining healthy margins. The company clocked revenue growth of 6.4% in FY2024, aided by steady demand for its products (active pharmaceutical ingredients [APIs], and semi-finished formulations/pellets). Continued demand from its key markets such as South America, Turkey, South Korea, etc. is expected to support its revenues, going forward. The company's operating margin improved to ~37% in FY2024 from ~32% in FY2023 on the back of better product mix and healthy realisations amid stable raw material prices. Its margins are expected to remain healthy, going forward. The ratings consider Nosch's established track record in manufacturing APIs 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, Nosch's major customer and shareholder with a 40% stake, which helps the company command healthy realisations. The ratings also consider its comfortable capital structure and debt metrics on the back of negligible debt levels and healthy margins. The company's manufacturing facilities have the necessary approvals for exporting to European Union (EU-GMP), Russia (Russia-GMP), South Korea (KFDA), Mexico (COFEPRIS), Brazil (ANVISA) and other markets. ICRA notes that one of its API facilities has been approved by USFDA in December 2024.

The ratings, however, remain constrained by the high working capital intensity of the business on account of Nosch's high inventory holding. The company 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. Though Nosch has been 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. Besides, over 50% of its revenues are derived from sales to the Chemo Group, which acts as a distributor to key markets like South America and Russia, however, the end-customer base is diversified.

The Stable outlook on Nosch's long-term rating 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 support high operating margins – Nosch has been involved in manufacturing APIs and semi-finished formulations/pellets in various therapeutic categories for the past two decades. Further, its strong distribution network to cater to 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 a 40% stake in 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 margin 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.

Strong financial risk profile with negligible debt level and comfortable coverage and capital structure metrics – The company had negligible debt as on March 31, 2024. It has no long-term borrowing. It avails working capital limits of Rs. 8.0 crore, but the same remained unutilised. The company's entire funding requirement is supported by strong accruals over the years, resulting in healthy TNW levels and strong coverage indicators. The capital structure and debt coverage indicators are expected to remain healthy in the absence of major debt-funded capex plans in the near-to-medium term.

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 183 in FY2024) aid in quick delivery of products, enabling Nosch to get better 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 Turkey accounting for a significant part of its sales. Nosch has an exclusive agreement with the Chemo Group for distribution in South America and 45-50% 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 development 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. 70.5 crore over the last five years (53% of average net profit of five years). 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, supported by healthy cash/liquid investments of Rs. 40-50 crore, as on December 31, 2024, and sufficient cushion in working capital limits, given the limited utilisation in the last 12 months. The company is likely to generate healthy retained cash flows in FY2025 and FY2026, despite anticipated dividend payout. While capex is expected to remain low in FY2025, it is likely to incur Rs. 50-70 crore capex in FY2026 towards expansion of Hyderabad facility and maintenance. The same is likely to be funded by internal cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade NLPL's ratings if there is a healthy improvement in the company's scale of operations along with diversification of its client and product profiles while maintaining healthy margins.

Negative factors – Pressure on NLPL's ratings could arise with material deterioration in its credit metrics owing to a sustained reduction in its earnings or sizeable debt-funded capex. Any material deterioration in the company's liquidity position owing to a stretch in the working capital cycle or high dividend payouts would also impact the ratings. The ratings could also be downgraded if there are adverse regulatory developments, impacting its financial performance.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Nosch Labs Private Limited, incorporated in 2001, is involved in manufacturing APIs and semi-formulations. The company has four manufacturing facilities in Telangana, which have been certified for exports by the USFDA, EU-GMP, Russia-GMP, KFDA, ANVISA 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, holding a 40% stake in Nosch, 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 multinational company involved in manufacturing and marketing APIs and formulations), a division of Grupo Insud.

Key financial indicators (audited)

	FY2023	FY2024
Operating income (Rs. crore)	570.7	607.4
PAT (Rs. crore)	127.1	159.3
OPBDIT/OI (%)	31.6%	37.1%
PAT/OI (%)	22.3%	26.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.1
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	265.4	212.8

Source: Company data, ICRA Research; 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

	Current year (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Jan 24, 2025	Date	Rating	Date	Rating	Date	Rating
Long term-cash credit-fund based	Long Term	8.00	[ICRA]A (Stable)	Nov 30, 2023	[ICRA]A- (Stable)	Aug 26, 2022	[ICRA]A- (Stable)	May 21, 2021	[ICRA]A- (Stable)
Short term-others-non fund based	Short Term	77.00	[ICRA]A2+	Nov 30, 2023	[ICRA]A2+	Aug 26, 2022	[ICRA]A2+	May 21, 2021	[ICRA]A2+
Long-Term Unallocated	Long Term	-	-	-	-	-	-	May 21, 2021	[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	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

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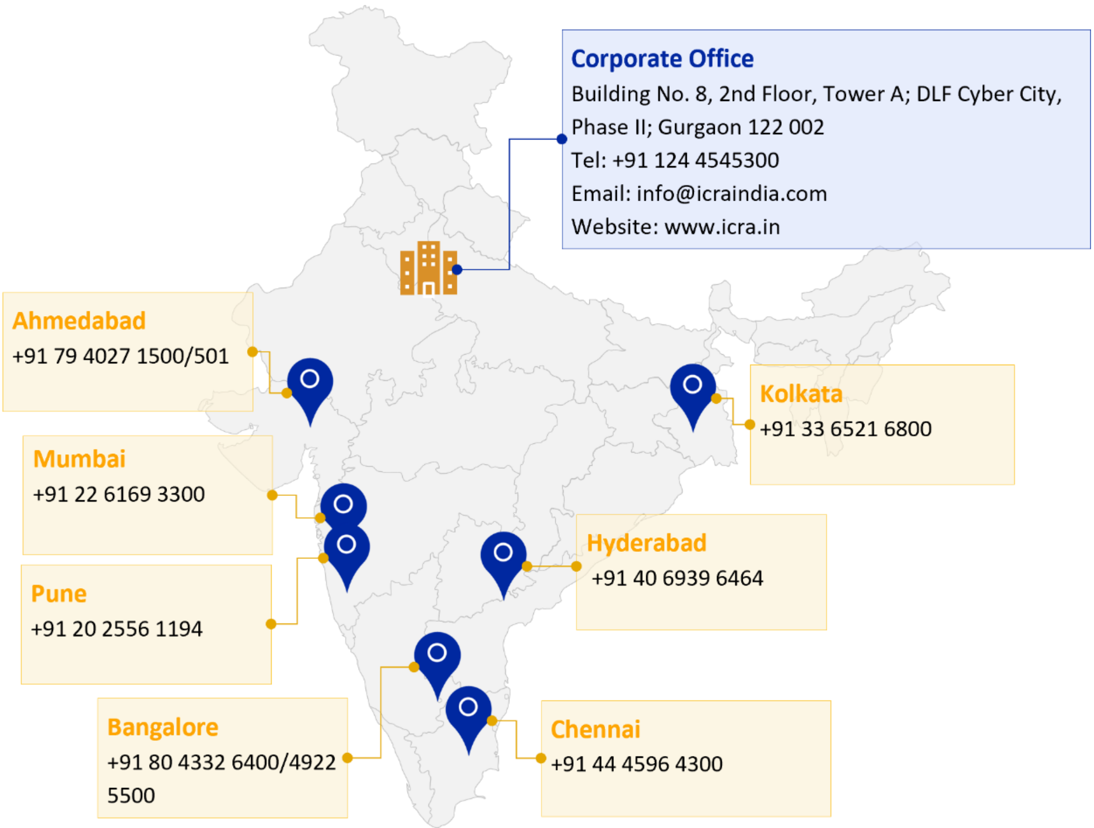

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