January 31, 2024

Brawn Laboratories Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit**	40.00	60.00	[ICRA]A- (Stable); reaffirmed, assigned for enhanced amount
Long-term – Fund-based – Term loan	50.00	49.06	[ICRA]A- (Stable); reaffirmed
Short-term – Non-fund based	-	41.74	[ICRA]A2+; assigned
Long-term/Short-term – Unallocated	10.00	0.20	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed
Total	**100.00**	**151.00**	

**Instrument details are provided in Annexure-I, **PCFC is the sublimit*

Rationale

The reaffirmed ratings of Brawn Laboratories Limited (BLL) reflect ICRA's opinion that the company will continue to maintain a comfortable credit profile led by continued low reliance on debt. The ratings continue to factor in the extensive experience of BLL's promoters in the pharmaceutical formulation business and its established relationships with its customers and suppliers.

However, the ratings are constrained by the vulnerability of BLL's profitability to raw material price fluctuations amid stiff competition in the pharmaceutical business, resulting in fluctuations in operating profit margins (OPM). In line with expectations, BLL's OPM recovered in FY2023 pursuant to moderation in raw material prices as well as normalisation in freight costs. The company's revenues are also concentrated over certain markets, any major revenue loss could impact its operational profile. The same was witnessed during March 2023 and August 2023, owing to the time taken in securing product approvals/renewals from the two key markets. The growth is expected to revive from the next fiscal, which is also supported by the company's foray into new regions. In addition, the ratings factor in the project execution and approval-related risks for BLL's capex plans in Halol, Gujarat. BLL is setting up one unit each for formulations and active pharmaceutical ingredients (APIs) operations, out of which the formulation unit will be commissioned first.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that BLL will continue to benefit from the extensive experience of its promoters, established relationships with its customers and long track record in the pharmaceutical business. Moreover, new capacities and planned foray into regulated markets augur well for the long-term growth prospects of the company.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established track record in pharmaceutical business – The promoters have been in the pharmaceutical business for more than five decades. Though BLL was established in 1990, the company's current promoters have been involved in the pharmaceutical business in various capacities since 1970. The company has diversified revenue segments, i.e. tablets, capsules, syrups, injections and ointments. Further, the company has a presence across several therapeutic segments, leading to revenue diversification. The company has been deriving ~90-95% of its revenue from the export market, out of which Vietnam and Iraq have been the key contributors. While the company witnessed some slowdown in revenue due to product renewals in these markets, the same has stabilised. Additionally, the company keeps applying for registrations in new markets.

Healthy credit metrics – BLL's dependence on debt has been low, which along with range-bound profitability has kept credit metrics at comfortable levels. The company has a negligible gearing historically, healthy TOL/TNW of 0.6 times and debt/OPBDIT of 0.1 times in FY2023. The earnings are expected to be lower than expected in the current fiscal owing to lower revenues from the company's key markets. However, the growth is expected to revive going forward and the company is expected to use limited debt for its ongoing capex. Therefore, ICRA expects BLL's credit metrics to be comfortable in the near to medium term.

Credit challenges

Profitability vulnerable to volatility in raw material prices and currency fluctuations – BLL does not have fixed-price agreements with its suppliers or customers and, hence, faces the risk of margin fluctuation in case of wide variation in raw material prices. The company incurred high freight costs due to issues related to container availability and elevated input costs, leading to a moderation in OPM in FY2022. However, the OPM revived in FY2023 led by a decline in raw material prices along with the resolution of the container issue. This trend in OPM is expected to continue for FY2024 as well. However, the import of some of the raw materials exposes the company to adverse foreign currency movements.

Intense competition in industry limits pricing power – The pharmaceutical industry is characterised by stiff competition from various reputed companies. This limits its pricing power and keeps BLL's profitability under check. The company also has a modest scale of operations in the intensely competitive formulation business. Further, as is prevalent in the sector, BLL remains exposed to regulatory risks in the end-user markets.

Execution and approval risks for ongoing capex – BLL is setting up two manufacturing units, one in Halol (Gujarat) for formulations and the other in Dahej (Gujarat) for APIs. There has been some delay in the Halol manufacturing plant due to the change in civil contractor, but it is expected to be commissioned by April 2025. The company intends to undertake the API capex after completing the formulations' capex. While the capex size is large considering the existing scale of operations, its timely execution within the budgeted cost and the successful commissioning after securing key approvals would remain key for the future growth prospects of the company.

Liquidity position: Adequate

BLL's liquidity position is adequate due to adequate cash generation from its business, with healthy cash and cash equivalents of ~Rs. 13 crore as of December 2023. In addition, the company has ~Rs. 39 crore of buffer in cash credit limits as of November 2023. The fund-based working capital limit utilisation has been low at ~14% in the past 15 months, ending in November 2023. The company also has a sanctioned term loan of Rs. 50 crore, which will be partly used to fund the capex plans. The company has capex plans of Rs. ~75 crore over FY2024 and FY2025. The company is expected to have modest repayment obligations from FY2025. The cash generated from the business and the unutilised cash credit limit are expected to be sufficient to manage any additional working capital requirements of the company.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in its revenues while maintaining its healthy operating profit margin and strong financial profile.

Negative factors – ICRA could downgrade the ratings if there is a major decline in the company's revenues and profitability. Any major debt-funded capex, which weakens its financial profile, would be a downgrade trigger for the company. In terms of specific credit metrics, TOL/TNW higher than 1.5 times on a sustained basis will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on BLL's standalone financial profile.

About the company

Incorporated in 1990, BLL is operated and managed by the Gupta family. The company is involved in the pharmaceutical formulation business, catering to markets in India and abroad. Its manufacturing plant in Faridabad (Haryana) produces tablets, capsules, ointments, syrups and injectables. BLL is also establishing two new manufacturing units in Gujarat, one for formulations and one for API, out of which the formulations plant will commence commercial production by FY2026. The company has also entered into an arrangement with a leading medical equipment company to act as its commission agent. In 8M FY2024, on a provisional basis, the company achieved revenues of Rs. 201 crore, compared to Rs. 232 crore in 8M FY2023.

Key financial indicators (audited)

BLL standalone	FY2022	FY2023
Operating income	252.2	316.2
PAT	19.1	35.6
OPBDIT/OI	10.3%	12.4%
PAT/OI	7.6%	11.3%
Total outside liabilities/Tangible net worth (times)	0.7x	0.6x
Total debt/OPBDIT (times)	0.1x	0.1x
Interest coverage (times)	13.5x	24.4x

Source: Company, 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) *	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 31, 2024	Oct 31, 2022	Oct 25, 2021	Jan 27, 2021
1	**Cash credit****	Long-term	60.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
2	**Interchangeable**	Long-term	-	-	-	-	-	[ICRA]BBB+ (Positive)
3	**Term loan**	Long-term	49.06	0.65	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Positive)
4	**Letter of Credit**	Short-term	-	-	-	-	-	[ICRA]A2
5	**Letter of Credit/ Bank guarantee**	Short-term	41.74	-	[ICRA]A2+	-	-	-
6	**Interchangeable LC**	Short-term	-	-	-	-	-	[ICRA]A2
7	**Bank guarantee**	Short-term	-	-	-	-	-	[ICRA]A2
8	**Unallocated**	Long-term/ Short-term	0.20	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Positive)/ [ICRA]A2

*Source: Company, *outstanding as on December 31, 2023, balance is pending disbursement, **PCFC is the sublimit*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Cash credit	Simple
Long-term – Term loan	Simple
Short-term – Letter of credit/Bank guarantee	Very simple
Long-term and Short-term – Unallocated	Not applicable

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	**Cash credit***	NA	NA	NA	60.00	[ICRA]A- (Stable)
NA	**Term loan**	Sep 2021	NA	Sep 2028	49.06	[ICRA]A- (Stable)
NA	**Letter of Credit/ Bank guarantee**	NA	NA	NA	41.74	[ICRA]A2+
NA	**Unallocated**	NA	NA	NA	0.20	[ICRA]A- (Stable)/ [ICRA]A2+

*Source: Company, *PCFC is the sublimit*

Please click here to view details of lender-wise facilities rated by ICRA

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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