

## Virchow Laboratories Limited

Instrument	Amount	Rating Action
	In Rs. crore	
Long term fund based limits	50.00	[ICRA]A+ (Stable) (reaffirmed)
Short Term Non Fund Based Limits	9.00	[ICRA]A1+ (reaffirmed)
Unallocated Limits	9.00	[ICRA]A+ (Stable)/[ICRA]A1+ (reaffirmed)

ICRA has reaffirmed the [ICRA]A+ (pronounced ICRA A plus) rating assigned to the Rs. 50.00 crore long term fund based limits and the [ICRA]A1+ (pronounced ICRA A one plus) rating assigned to the Rs 9.00 crore short term non fund based bank facilities of Virchow Laboratories Limited (VLL)<sup>†</sup>. ICRA has also reaffirmed the rating assigned to the Rs. 9.00 crore unallocated limits of VLL at [ICRA]A+/A1+. The outlook on the long term rating is Stable.

For arriving at the ratings, ICRA continues to take a consolidated view of Virchow Laboratories Limited and its subsidiary - Andhra Organics Limited (referred to as “The group” hereafter)

The rating reaffirmation factors in the strong financial profile characterized by robust cash accruals, comfortable capital structure and strong coverage indicators. With no major capital expansion plans in the near term, the operational surplus during the current year have been partly drawn down as dividends, the balance being used to fund the working capital requirements thereby reducing dependence on external borrowings. The ratings continue to draw comfort from the Virchow Group’s position as a leading producer of SMX with diversified geographic and customer base. Benefits from economies of scale coupled with backward integrated facility with in-house production of chemicals required for SMX and captive power plant results in better profitability. The ratings however, remain constrained on account of the limited growth prospects of SMX and CIS Lactum which comprises of a major portion of the group’s revenues, vulnerability of operating income and profitability to fluctuations in the exchange rate and raw material prices (which have been volatile over the years), particularly given the limited pricing flexibility. Further large capital expansion amounting to Rs. 106.00 crore (~27% of Gross Fixed assets as on 31st Dec 2015) over the last three years towards setting up of Acetyl Sulfonyl Chloride (ASC) unit and Trimethoprim (TMP) unit has resulted in depressed return indicators. Ramp up in sales of TMP has been slow on account of competition in the segment while ASC unit is currently not being operated. Further the company remains exposed to regulatory approvals risks including price control, anti dumping duties etc. However VLL along with AOL are not likely to be impacted by the recent ban on fixed dose combination drugs in India.

Going forward, ability of the group to diversify its revenue base while maintaining its profitability amidst fluctuations in foreign exchange rates and raw materials prices will be key rating sensitivities.

### Company Profile

Incorporated in 1982, Virchow Laboratories Limited is the flagship company of the Virchow Group, promoted by Dr. N Venkata Reddy, Mr. M Narayana Reddy, Mr. L V Subba Reddy, and Mr. Ravindra Reddy, and their families. VLL has three subsidiaries: Andhra Organics Limited, Virchow Healthcare Private Limited and Virchow Drugs Private Limited. VLL, along with Andhra Organics Limited, is a leading producer of Sulfamethoxazole (an API for antibiotic). Andhra Organics Limited is also involved in the manufacturing of CIS hydroxy lactum (an advanced intermediate used in the manufacture of Diltiazem(cardiovascular)) and Trimethoprim (used a synergic combination with SMX to make co-trimoxazole) besides Sulfamethoxazole; Virchow Drugs Private Limited is involved in the manufacturing of sulpha drugs (API); and Virchow Healthcare Private Limited is involved in the manufacturing and marketing of formulated products for export markets.

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<sup>†</sup> For complete rating scale and definitions please refer to ICRA's Website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications



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