

## Dhanuka Laboratories Limited

Instrument	Amount	Rating Action
	Rs. Crore	October 2016
Fund Based Facilities	39.0 (enhanced from 26.3)	[ICRA]BBB+ (Stable)/ [ICRA]A2 reaffirmed
Non Fund Based Facilities	41.5 (reduced from 54.2)	[ICRA]A2 reaffirmed
<b>Total</b>	<b>80.5</b>	

ICRA has reaffirmed ratings of **[ICRA]BBB+/[ICRA]A2** (pronounced ICRA triple B plus/ ICRA A two) for the Rs. 39.0<sup>1</sup> Crore (enhanced from Rs. 26.3 Crore)<sup>2</sup> fund based facilities of Dhanuka Laboratories Limited (DLL). The outlook on the long-term rating is “stable”<sup>†</sup>. ICRA has also reaffirmed a short term rating of **[ICRA]A2** (pronounced ICRA A two) for the Rs. 41.5 Crore (reduced from Rs. 54.2 Crore) non fund based facilities of DLL<sup>†</sup>.

In arriving at the ratings, ICRA has taken a consolidated view of DLL along with Synmedic Laboratories (partnership firm wherein DLL holds a 98% stake).

The rating re-affirmation takes into the account the continued healthy operating performance of DLL, wherein the company’s established relationships with its customers and its diversified product profile in the Cephalosporin segment has helped it withstand demand fluctuations for certain products, recording stable revenues and profits. While the contribution margins for two of DLL’s key products—Cefpodoxime Proxetyl and Cefuroxime Axetyl—reduced significantly in FY2016, owing to increase in prices of the key raw material, its ability to cater to demand for specialised products that entail higher contribution margins aided in profits being maintained.

To diversify its product portfolio, the company is in the process of setting up a unit to manufacture non-Cephalosporin APIs and intermediates in Rajasthan, which is expected to commence production from March–April 2017. While debt undertaken to fund the capex would lead to moderation in the company’s financial risk profile over the short to medium term, its entry into the manufacturing of non-Cephalosporin antibiotic intermediates would lead to enhancement in its product profile, and is likely to help record healthy growth in revenues over the medium term.

DLL had acquired a 98% stake in Synmedic Laboratories, a firm engaged in manufacturing formulations, in 2013, which had led to an improvement in DLL’s operational and financial profile. In FY2016, a decline in scale of operations of Synmedic Laboratories, led to a lower share of profits for Dhanuka Laboratories. The former is also in the process of setting up a new plant in Rajasthan, which would help it increase in production capacity and thereby cater to a larger market; although debt for the capex would lead to increased debt on DLL’s books on a consolidated level, the return indicators are expected to remain at comfortable levels.

The ratings assigned to DLL continue to be constrained by the company’s heavy reliance on a single product segment—Cephalosporins—at a standalone level, which is expected to continue to constitute a bulk of its revenues over the medium term. Additionally, although the company has successfully introduced high realisation products to withstand the high competitive intensity in the industry, its profitability indicators continue to remain weak vis-à-vis its competitors. Moreover, the API industry remains exposed to price erosion risks as the products become commoditised. The company also remains exposed to significant fluctuations in foreign currency exchange rates, with the management not following a definite hedging policy.

Going forward, the timely completion of the ongoing capex plans for setting up new facilities and the ramp up in operations of the same would remain critical. The company’s ability to maintain its financial risk profile in the

<sup>1</sup> Facilities amounting to Rs. 39.0 crore are interchangeable between long-term and short-term facilities and have been rated on both the scales

<sup>2</sup> 100 Lakhs=1 Crore=10 million

<sup>†</sup> For detailed rating scales and definitions refer the ICRA website [www.icra.in](http://www.icra.in) or other ICRA publications



context of these significant capex plans as well as its ability to maintain its profitability, while continuing to record healthy growth in revenues, would remain the key rating sensitivities.

### **Company Profile**

Dhanuka Laboratories Limited (DLL) has been engaged in the manufacturing and marketing of Active Pharmaceutical Ingredients (APIs) and Advanced Intermediates of Cephalosporin antibiotics, since the commencement of its commercial operations in 1998. The company is promoted by the Dhanuka Group, whose flagship company, Dhanuka Agritech Limited (DAL), is rated [ICRA]A+ (Stable)/[ICRA]A1+. DLL is supplier to various pharmaceutical companies in India and overseas through its manufacturing facility in Gurgaon, Haryana.

Apart from operating in the API segment, the company also has a presence in the formulation segments through Synmedic Laboratories, which was acquired by DLL in 2013. Synmedic Laboratories operates out of a manufacturing facility in Faridabad, Haryana.

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