Laborate Pharmaceuticals India Limited

January 31, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based	42.00	60.00	Upgraded to [ICRA]A(Stable) from [ICRA]A-(Stable)
Short term fund-based	33.00	35.00	Upgraded to [ICRA]A1 from [ICRA]A2+
Short term non-fund based	5.00	5.00	Upgraded to [ICRA]A1 from [ICRA]A2+
Total	**80.00**	**100.00**	

Rating action

ICRA has upgraded the long-term rating to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus) outstanding on the long-term fund-based facilities of Rs. 60.00 crore (enhanced from Rs. 42.00 crore) of Laborate Pharmaceuticals India Limited (LPIL or the company). ICRA has also upgraded the short-term rating to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus) outstanding on the Rs. 40 crore fund-based and non-fund based facilities (enhanced from Rs. 38 crore). The outlook on the long-term rating is 'Stable'.

Rationale

The ratings upgrade factors in the strong growth across multiple divisions and improvement in LPIL's profitability indicators aided by operating leverage and operational efficiencies. LPIL's operating income grew 21% in to Rs. 667.4 crore FY2017 supported by a 17.5% growth in company's domestic branded formulations business and a growth of 34% in exports driven by recovery in key markets as well as foray into territories. LPIL's several pharmaceutical products have achieved significant scale in the recent past which has helped the company establish its brand as a pure play generics pharmaceutical company. The company has also developed new formulations because of which the share of revenues from products under the National List of Essential Medicines (NLEM) has declined from 29.5% in FY2017 to 24.8% in H1 FY2018. The company's personal care division (launched in FY2015) which manufactures and markets a range of products including talcum powder, face wash, body lotions, etc. under the 'Labolia' and 'Shree Ayu-veda' brand and has recorded strong growth in FY2017 with some of its products gaining market share in tier 2 and tier 3 cities in India. The company's export divisions registered significant growth in FY2017 and H1 FY2018 supported by its long association with local distributors and improvement in the economic conditions in its export markets. The rating also factors in favourably LPIL's diversified product portfolio and therapeutic segments.

The increase in scale and operating leverage helped the company marginally improve its operating profit margin in FY2017 to 8.2% from 8.0% in FY 2016. The company's operating income grew 11% in H1 FY2018 to Rs. 413 crore despite the contraction in the Indian pharmaceutical industry during this period because of GST related de-stocking. The further scale up of business, operational efficiencies and availability of input tax credit at plant level and on Integrated GST (IGST) levied on transfer of goods from its Paonta Sahib plants to its mother warehouse in Panipat helped the company further improve its operating profit margin to 10.4% in H1 FY2018.

However, the company's business profile as a non-prescription driven branded generics pharmaceutical company limits its presence in tier 1 markets in India and leads to lower operating profit margins as compared to branded generic pharmaceutical companies. The company's business profile is also characterised by negligible investments in R&D, which limits its scope to develop novel drug delivery-based formulations and also expand its presence in regulated markets that offer superior profitability. Furthermore, LPIL's export markets are mostly semi-regulated and unregulated markets with significant share of revenues coming from politically uncertain countries in Africa and Middle East. This exposes the company to credit risk during periods of macro-economic headwinds and geopolitical uncertainties. This risk is however, it is mitigated partially by ~7% sales being backed by letter of credit (LC). With respect to foreign exchange cover, the company's export sales are denominated primarily in US$ and to some extent in Euros. This shields LPIL from the forex risk related to local currencies, but the partial hedging exposes the company to forex risk related to US$ and EUR.

Outlook: Stable

ICRA expects LPIL to register healthy growth across divisions in the near term supported by steady growth in export business and ramp up in personal care division. The outlook may be revised to 'Positive' if the company is able to significantly scale up its business, add new export markets and improve its working capital cycle. The outlook maybe revised to 'Negative' if there is a deterioration in its working capital cycle or if there is a significant decline in its revenues and/or operating margins.

Key rating drivers

Credit strengths

Well diversified domestic sales with a wide therapeutic segment coverage – Top 10 products account for 29% for the total revenues and the top five therapeutic segment accounts for 66% of revenues.

Emerging as one of the leading non-prescription driven branded generics pharmaceutical companies – LPIL has positioned itself as a leading pure play generics pharmaceutical company in India with significant presence in the tier 2 and tier 3 markets.

Strong recovery in export business with long established distribution network – LPIL's export sales grew 34% in FY2017 and ~23% in H1 FY2018 aided by its long association with domestic distributors and improvement in economic conditions in its target markets.

Healthy scale-up of the personal care division – The personal care division, launched in FY2015, has scaled up significantly in FY2017 because of successful brand launches and has gained market share in the tier 2 and tier 3 markets in India.

Financial risk profile reflected by comfortable capital structure and strong debt protection metrics – The company has maintained strong credit indicators supported by no long-term debt and low capital expenditure.

Credit challenges

Limited brand presence in Metros and Tier 1 cities - The company has little presence in metros and tier 1 cities in India owing to its product portfolio being limited to pure generics and high competition from established pharmaceutical majors.

Relatively weak operating margins due to sale of only pure generics - The company's pharmaceutical product portfolio is limited to pure generic drugs because of which its margins are lower than branded generic companies.

Geographical exposure to politically unstable countries – Some politically uncertain markets such as Iraq, Yemen, etc. are key export destinations for LPIL

Partial hedging of export sales exposes the company to forex risk – The company hedges 30-40% of its total foreign currency exposure because of which it has significant forex risk.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Pharmaceutical Industry

About the company:

Established in 1985, LPIL is engaged in the manufacturing and marketing of pharmaceutical formulation, both in the domestic and exports markets. It was founded by the Panipat-based Bhatia family, who head the specific functions of the operations as on date. The company manufactures pharmaceuticals and cosmetics at its plants located at Panipat (Haryana) and Paonta Sahib (Himachal Pradesh). After exporting its products for a decade, LPIL commenced selling its products in the domestic market under its own brand name. The company's domestic business can be divided into three verticals, the Elite division, GPP division and Personal Care division. While the Elite division has 500 products, the Personal Care division has 60 cosmetic & ayurvedic preparations and the GPP division has 200 products. LPIL has a healthy mix of both domestic and international branded generic sales. Apart from using its own established marketing network to sell its products, the company also participates in tenders floated by various international government bodies from time to time.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	551.4	667.4
PAT (Rs. crore)	23.8	29.3
OPBDIT/ OI (%)	8.0%	8.2%
RoCE (%)	21.2%	23.1%
Total Debt/ TNW (times)	0.4	0.4
Total Debt/ OPBDIT (times)	1.3	1.3
Interest coverage (times)	5.6	6.9
NWC/ OI (%)	25.8%	26.4%

Source:

Status of non-cooperation with previous CRA:

CRISIL had suspended its ratings for LPIL in Jul 2016 due to lack of information.

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Jan 2018	Date & Rating in FY2017 Jan 2017	Date & Rating in FY2016 Sep 2015	Date & Rating in FY2015 -
1	Cash Credit	Long Term	60.00		**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-
2	Packing Credit	Short Term	35.00		**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**	-
3	Buyer's Credit Facility/ Letter of Credit	Short Term	5.00		**[ICRA]A1**	**[ICRA]A2+**	**[ICRA]A2+**	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	60.00	[ICRA]A (Stable)
NA	Packing Credit	NA	NA	NA	35.00	[ICRA]A1
NA	Buyer's Credit Facility/ Letter of Credit	NA	NA	NA	5.00	[ICRA]A1

Source: LPIL

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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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