

Chromachemie Laboratory Private Limited

November 05, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. Crore)	Rating Action
Long term - Fund based - Cash Credit facility	15.0	[ICRA]BBB (Stable); assigned
Short Term - Non-fund based - Bank Guarantee	45.0	[ICRA]A3+; assigned
Total	60.0	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 15.0-crore cash-credit facilities and short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 45.0-crore¹ bank guarantee limits of Chromachemie Laboratory Private Limited (CLPL). The outlook on the long-term rating is Stable.

Rationale

While arriving at the ratings, ICRA has considered the consolidated operational and financial profile of CLPL and its group concern, Kaustubha Scientific Research Laboratory Private Limited (KSRLPL), together referred to as the Group as they are under the same management and into the similar line of business.

The assigned ratings take comfort from the extensive experience of CLPL's promoters in the distribution of reference standards wherein it is an authorised distributor of United States Pharmacopeial (USP) and other pharmacopeial reference standards (European, British and Indian) in India. The company has a reputed customer profile that includes Torrent Pharmaceuticals Ltd, Mylan Laboratories Ltd, Dr. Reddy's Laboratories Ltd among others. The ratings also factor in improvement in Group revenues over the years with a CAGR of 22.7% between FY2016 and FY2018 on account of improving demand from key customers, and comfortable financial risk profile with gearing of 0.2 times, Debt/OPBDIT at 0.5 times and interest coverage of 20.2 times for FY2018. The ratings also consider the favourable demand for USP reference standards from its key customers with stricter implementation of USFDA norms.

The ratings, are, however constrained by high revenue concentration on USP reference standards, which accounted for 85% of CLPL's revenues in FY2018; susceptibility of revenues and profitability to currency fluctuations and regulatory changes and moderate profitability margins due to trading nature of business. The ratings are also constrained by the moderate working capital intensity owing to high debtor days. However, there has been nil utilisation of working capital limits and the company has a sizeable cash balance that support the working capital requirements. Going forward, the ability of the Group to increase its revenues, while maintaining its profitability will be the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that CLPL will continue to benefit from the extensive experience of its promoter in the distribution of pharmaceutical reference standards and established relationship with its customers. The outlook may be revised to Positive if the company is able to demonstrate substantial growth in revenues and profitability, resulting in improvement in liquidity profile. The outlook may be revised to Negative if the company reports decline in revenues or profitability, or if any stretch in working capital cycle weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Extensive experience of the promoter in the distribution of pharmaceutical reference standards: The promoter, Mr. B.R.S Rao, has more than two decades of experience in the distribution of various pharmaceutical reference standards. The company also provides chromatography separations products with technology support including development and supply of custom designed columns to scale up process columns under the brand names, Puritas.

Largest distributor of USP reference standards in India: The Group is the largest distributor of USP reference standards in India and has an established relationship with its principal USP convention, Inc for over 20 years. The agreement with USP was last renewed in July 2016 and is valid till July 2021, providing revenue visibility in the medium term.

Improvement in revenues due to established relationship with key customers: The operating income of the Group increased at a CAGR of ~22.7% over FY2016 to FY2018, supported by repeat orders from reputed pharma companies in India. The customer concentration remained moderate with the top-five customers accounting for ~53% of CLPL's total revenues in the last two fiscals.

Comfortable financial risk profile: The Group's gearing was healthy at 0.2 times as on March 31, 2018 with minimal external debt, strong net worth position due to healthy accruals over the years. The Group's net worth stood at Rs. 147.3 crore as on March 31, 2018. The coverage indicators were comfortable with interest coverage of 20.2 times and Total Debt/OPBDITA of 0.5 times as on March 31, 2018 due to low interest expense and moderate margins.

Credit challenges

High product concentration as USP reference standards contributed to more than 80% of CLPL's turnover: Being the leading distributor of USP reference standards in India, sales from USP standards contributed to more than 80% of CLPL's revenues in FY2018. Sales from European Pharmacopeial (EP) reference standards contributed to around 10% of total sales in FY2018. The company also manufactures high precision columns, vials, inserts, syringes etc, which contribute to less than 1% of the total revenues. Revenue contribution from the manufacturing has been stagnant at around ~Rs. 10 crore over the last three fiscals.

Profitability susceptible to foreign exchange fluctuations and regulatory changes: The company's profitability is susceptible to forex risk as most of the reference standards are imported. However, the forex risks are partly mitigated as the company has entered into forward contracts. The revenues and profitability of CLPL is also susceptible to regulatory changes as purchases are primarily linked to enforcement of standards set by the USFDA.

Moderate working capital intensity: The Group's working capital intensity was moderate at 22.9% in FY2018 owing to high receivables position. The company extends around 90 days of credit to its customers. The working capital requirements are met by debt from the Group company, KSRLPL, in addition to working capital limits from bank and sizeable cash balances.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Corporate Credit Rating- Trading Companies](#)

About the company:

Established in 2012, Chromachemie Laboratory Private Limited (CLPL) distributes various Pharmaceutical Reference Standards and manufactures chromatography consumables. It is the largest distributor for the United States Pharmacopeia Convention (USP) and one of the major distributors for European Directorate of Quality Medicines (EDQM), British Pharmacopeia (MHRA) and Daiso Chemical (Thailand) in India. It manufactures high precision columns, vials, closures and inserts and syringes under the brand name, Puritas. The promoter of the company, Mr. B.R.S. Rao has extensive experience in the distribution of reference standards in India.

In FY2018, the company reported a net profit of Rs. 21.8 crore on an operating income of Rs. 339.8 crore compared to a net profit of Rs. 8.4 crore on an operating income of Rs. 151.9 crore in the previous year.

Key Financial Indicators (Audited)

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	151.9	339.8	348.8	370.1
PAT (Rs. crore)	8.4	21.8	24.2	51.1
OPBDIT/ OI (%)	9.6%	10.4%	7.0%	13.8%
RoCE (%)	49.0%	49.9%	19.1%	30.0%
Total Debt/ TNW (times)	4.3	1.8	0.5	0.2
Total Debt/ OPBDIT (times)	3.1	1.6	2.4	0.5
Interest coverage (times)	11.3	6.4	48.8	20.2

Status of non-cooperation with previous CRA: Not applicable
Any other information: None
Rating history for last three years:

	Current Rating (FY2019)			Chronology of Rating History for the past 3 years				
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2018 (Rs Crore)	Date & Rating November 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Cash Credit	Long Term	15.0	-	[ICRA]BBB (Stable)	-	-	-
2	Bank Guarantee	Short Term	45.0	-	[ICRA]A3+	-	-	-

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	-	-	-	15.0	[ICRA]BBB (Stable)
NA	Bank Guarantee	-	-	-	45.0	[ICRA]A3+

Source: CLPL

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