March 15, 2021

Bal Pharma Limited: Ratings reaffirmed; Outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based facilities	50.00	50.00	[ICRA]BB reaffirmed; Outlook revised to Stable from Negative
Short term – Non-fund based facilities	30.00	30.00	[ICRA]A4; Reaffirmed
Long term – Term loan	15.02	15.02	[ICRA]BB reaffirmed; Outlook revised to Stable from Negative
Total	**95.02**	**95.02**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Bal Pharma Limited (BPL), which includes BPL and its subsidiaries (Lifezen Healthcare Private Limited, Balance Clinics LLP, Bal Research Foundation and Golden Drugs Private Limited), while assigning the credit ratings, given the common management and significant operational and financial linkages between them. Together, they are hereby referred to as BPL/the Group/the company.

The revision in the outlook to Stable from Negative factors in the sequential and YoY improvement in the operational and financial profile of the Group since Q1 FY2021, supported by healthy revenue growth aided by the execution of the healthy order book position. The improved product mix and better raw material availability boosted the operating profitability. The ratings continue to draw comfort from the extensive experience of the promoters in the pharmaceutical industry and the well-diversified customer base of the company across domestic as well export markets. The ratings also take into account BPL's manufacturing capabilities and its established position as a manufacturer of the anti-diabetic bulk drug, Gliclazide, for which it commands a healthy market share across geographies. The ratings also factor in the USFDA and EU GMP approved facilities in Bengaluru and Rudrapur, which are expected to drive revenue growth, primarily in regulated markets.

The ratings remain constrained by BPL's average financial risk profile characterised by a leveraged capital structure and moderate debt protection indicators in the backdrop of weak accruals in FY2020 and H1 FY2021. Further, the ratings factor in the high working capital intensity of operations due to the high inventory levels and elongated receivables cycles, which keep the company dependent on its working capital limits. The ratings also remain constrained by the intense competition in the domestic formulations business, the nascent stage of operations of the over-the-counter (OTC) business, and the limited pricing flexibility under the active pharmaceutical ingredients (API) division.

Key rating drivers and their description

Credit strengths

Experienced promoters with established position in pharmaceutical industry – The promoters have been involved in the pharmaceutical industry for over three decades and have established relationships with several of the company's suppliers and customers, thus supporting its operational profile. BPL also benefits from the support of Group entities for supplies and marketing services. It manufactures APIs, branded formulations, intravenous infusions and ayurvedic products. The company has a healthy market presence in domestic as well as export markets. BPL generates the majority of its revenues from the formulations vertical wherein it has a presence in generic and branded formulations in domestic and export markets.

Formulations have been the largest business segment for BPL and accounted for over 50% of its revenues. However, there has been a strong ramp-up in the API division over the last few years. Under the API division, BPL manufactures the anti-diabetic drug, Gliclazide, and exports it mainly to regulated markets. The company also manufactures bulk drugs covering other therapeutic areas such as neuropathic pain, anti-allergy, anti-inflammatory, acne treatment, etc.

Steady improvement in performance in 9M FY2021 after a weak FY2020 – BPL has shown a sequential and YoY improvement in its business and financial profile since Q1 FY2021, supported by healthy revenue growth aided by the execution of the healthy order book position. This led to an improvement in the OPBITDA margins on a QoQ and YoY basis. Aided by demand revival, BPL booked revenues of Rs. 179.7 crore in 9M FY2021 compared to Rs. 137.3 crore in 9M FY2020 indicating a YoY growth of 30.9%. The operating margins improved significantly to 10.1% in 9M FY2021 from 3.0% in 9M FY2020, primarily supported by an improvement in the gross margin, which was driven by the improved product mix and the timely availability of raw material after facing supply-side disruptions in the first half of 2020.

Expected equity infusion in the near term – BPL will issue 14,00,000 warrants to one of its promoters at a price of Rs. 50 per warrant (nominal value of Rs. 10 and premium of Rs. 40). Approximately Rs. 3.5 crore is expected to be received from the issuance of warrants on or before March 31, 2021 and the balance Rs. 4.0 crore is expected to be received in FY2022, leading to improved liquidity and capitalisation.

Credit challenges

Modest capitalisation and coverage indicators – BPL has relatively high debt levels for its scale of operations, with the debt gradually increasing over the years. From a total debt of Rs. 49.9 crore as on March 31, 2015, BPL's debt increased by 134% to Rs. 117.0 crore as on September 30, 2020. Its operating profits have remained in the range of Rs. 12-18 crore on a consolidated basis during the same period, which has resulted in the weakening of the coverage metrics over the years. With relatively modest profits/accruals compared to debt, BPL's capital structure and coverage metrics have deteriorated during this period. Total debt/OPBITDA stood at 23.7x as on March 31, 2020 and 2.4x for H1 FY2021. As on March 31, 2020, TOL/TNW was 4.3x, primarily on account of the loss reported in FY2020, and it remained at a similar level of 4.5x in H1 FY2021. The interest coverage stood at 0.4x for FY2020, 2.1x in H1 FY2021 and 2.0x in 9M FY2021. However, with the planned equity infusion and no major capex plans or scheduled repayment of the term loan, the debt coverage indicators are expected to improve going forward.

High working capital intensity – The company's inventory levels have remained high over the years on account of a large inventory under its domestic formulations division and wide product portfolio. On the debtors front, the high receivables period from government institutions leads to further strain on the working capital position of the company. The working capital intensity stood at 49.0% in FY2020.

Intense competition in domestic formulations business and API division – The pharmaceutical industry is highly competitive due to the presence of various reputed companies resulting in limited pricing power and profitability.

Liquidity position: Stretched

The Group's liquidity position is stretched, with negative fund flow from operations in FY2020, a relatively modest free cash and bank balance of Rs. 1.6 crore as on September 30, 2020, and high working capital utilisation of 97% against the sanctioned limits for the 12-month period ending December 2020. Further, the Group has debt repayment of Rs. 6-7 crore on its existing loans in FY2021 (taking into consideration the moratorium relief availed by the Group till August 2020 and the Covid-19-related loans availed) and repayments of Rs. 5-6 crore per annum in FY2022 and FY2023. The Group has no major capex plans for FY2021 and FY2022 and has also pruned its operating costs considerably. ICRA expects the Group to meet its near-and-medium-term commitments through internal sources of cash and debt and equity infusion through the issuance of warrants.

Rating sensitivities

Positive factors – ICRA could revise the ratings if there is a substantial growth in the company's profitability and equity infusion in the near term through the issuance of warrants, leading to an improvement in the liquidity position and the capitalisation and coverage indicators. A specific metric that could lead to an upgrade would be interest coverage of more than 2.0x on a sustained basis.

Negative factors – The ratings may be downgraded if the revenues decline or the cash accruals are lower than expected or if any major capital expenditure or BPL's inability to infuse funds through the issuance of warrants or improve its working capital cycle weakens the liquidity profile. A specific credit metric which could lead to a downgrade could be Total Debt/OPBDIT of 5.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the issuer

About the company

Bal Pharma Limited was incorporated as a private limited company in 1987 and is jointly promoted by Mr. Ghevarchand Surana of the Micro Labs Group, and the Siroya family. Micro Labs Limited holds a 9.3% stake in BPL and is one of the leading players in the Indian pharmaceutical industry. Apart from the holdings through Micro Labs Limited, the Surana family holds another 11.5% stake in the company. The Siroya family, holding a 23.5% stake in BPL, is a Dubai-based diversified group with business interests in jewellery, construction, garments, mining, umbrella manufacturing, pharmaceuticals and trading.

BPL manufactures active pharmaceutical ingredients (APIs), branded formulations, intravenous infusions and ayurvedic products. Its product offerings cover major therapeutic areas like diabetology, cardiology, mother and childcare, orthopaedics, neurology and post and pre-operative surgical medication. The company also carries out the contract manufacturing of bulk drugs and undertakes bulk manufacturing for supplying to government institutions. In the exports segment, BPL mainly caters to unregulated and semi-regulated markets in the formulations segment and regulated markets in the bulk drugs segment.

Key financial indicators

BPL Consolidated	FY2019 (Audited)	FY2020 (Audited)	9M FY2021 (Unaudited)
Operating Income (Rs. crore)	225.0	171.1	179.7
PAT (Rs. crore)	2.2	-12.9	1.2
OPBDIT/OI (%)	7.9%	2.9%	10.1%
PAT/OI (%)	1.0%	-7.5%	0.7%
Total Outside Liabilities/Tangible Net Worth (times)	3.3	4.3	-
Total Debt/OPBDIT (times)	7.2	23.7	-
Interest Coverage (times)	1.4	0.4	2.0

Source: *Company and ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2020 (Rs. crore)	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 15, 2021	Aug 10, 2020	Aug 23, 2019	Dec 06, 2018	Jul 18, 2017
1	Fund-based facilities	Long term	50.00	67.00	**[ICRA]BB (Stable)**	**[ICRA]BB (Negative)**	**[ICRA]BB (Negative)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	Non-fund based facilities	Short term	30.00	5.08	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A4**	**[ICRA]A3+**	**[ICRA]A3+**
3	Term loan	Long term	15.02	25.95	**[ICRA]BB (Stable)**	**[ICRA]BB (Negative)**	**[ICRA]BB (Negative)**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**

Source: *BPL quarterly results and ICRA research*

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 click here

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	Fund-based facilities	NA	NA	NA	50.00	[ICRA]BB (Stable)
NA	Non-fund based facilities	NA	NA	NA	30.00	[ICRA]A4
NA	Term loan	Mar 2020	10.75%	FY2026	15.02	[ICRA]BB (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BPL Ownership	Consolidation Approach
Golden Drugs Private Limited	100.00%	Full Consolidation
Balance Clinic LLP	80.00%	Full Consolidation
Lifezen Healthcare Private Limited	51.00%	Full Consolidation
Bal Research Foundation	80.00%	Full Consolidation

Source: *BPL annual report FY2020*

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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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