# Lincoln Pharmaceuticals Ltd.

January 07, 2019

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Fund-based Term Loan | 7.70 | 7.70 | [ICRA]A- (Stable); Reaffirmed |
| Fund-based Working Capital Facilities | 53.00 | 53.00 | [ICRA]A- (Stable); Reaffirmed |
| Interchangeable Limit | (35.00) | (35.00) | [ICRA]A- (Stable); Reaffirmed |
| Non-fund Based Letter of Credit (LC) | 10.00 | 10.00 | [ICRA]A2+; Reaffirmed |
| Non-fund Based Bank Guarantee (BG) | 2.00 | 2.00 | [ICRA]A2+; Reaffirmed |
| Non-fund Based LC/BG | 5.00 | 5.00 | [ICRA]A2+; Reaffirmed |
| **Total** | **77.70** | **77.70** | |

*Instrument details are provided in Annexure-1

## Rationale

The ratings reaffirmation continues to reflect the extensive experience of the promoters, the established track record of the Lincoln Group in the pharmaceutical formulations industry spanning more than three decades and the comfortable financial profile of the Group characterised by sound profitability levels, healthy debt-protection indicators and adequate liquidity. The ratings also factor in the Group's established relations with its customers, its geographical diversification with pan -India presence and continued growth in exports to semi-regulated markets.

The ratings are, however, constrained by the vulnerability of LPL's operations to changes in Government policies related to price control as well as the intense competition in the domestic generic formulations industry, which limits the Group's revenue growth in the domestic market and constraints its pricing flexibility. Its profitability has however improved over the past two years and in the current fiscal, owing to successful product launches, increased sales of higher value-added products and better profitability commanded on exports. The ratings also consider the high working capital intensity of the Group owing to the long credit period extended to its customers especially in the export markets. ICRA notes that timely product and facility approval/renewal in various semi-regulated markets, in which the Lincoln Group operates, remains critical for growth of exports and retention of profit margins going forward. The group plans to carry out a large capex of ~Rs. 80.00 crore spread over the next two fiscals, timely commissioning and returns from it would remain critical from a credit perspective.

## Outlook: Stable

ICRA believes LPL will continue to benefit from the extensive experience of its promoters in the pharmaceutical formulations industry and is likely to witness revenue growth in the near term, backed by improved order inflow from its customers in the export market. The outlook may be revised to Positive if sustained growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, if there is any material deterioration in profit margins or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

## Key rating drivers

## Credit strengths

**Extensive experience of the promoters with established customer relationships -** The promoters have an extensive experience and the Group has an established track record in the pharmaceutical formulation industry spanning more than three decades. Over the period, the Group has developed an established relationship with its customers ensuring repeat business.

**Diversified product profile and geographical presence -** The Group manufactures formulations in various forms such as tablets, capsules, ointments, syrups, dry powder and liquid injections. The product portfolio remains diversified with more than 250 formulations catering to various therapeutic segments such as antibiotics, analgesics, anti-cold drugs, gynaecology, anti-malarial, multi-vitamins etc. The Group was predominately a domestic market player, however has been increasing its focus on exports to semi-regulated markets owing to intense competition in the domestic generic formulations industry which restricts the revenue growth and profitability. The export sales are concentrated, with African regions contributing ~40% of the total export sales, whereas in the domestic market the company has a diversified presence in more than 20 states.

**Comfortable capital structure and healthy debt protection metrics -** The financial risk profile of the Group remains healthy marked by a comfortable capital structure, as reflected in a low gearing of 0.27 times as on March 31, 2018, strong net-worth base of Rs. 224.22 crore and healthy debt-protection metrics (Interest cover at 9.77 times, Total Debt/OPBDITA at 1.16 times as on March 31, 2018).

**Improvement in operating profitability –** The group's profitability has improved from 10.27% in FY2016 to 13.10% in FY2017, 14.65% in FY2018 and further to 23.48% in H1FY2019 owing to successful product launches, increased sales of higher value-added products and increased contribution of higher value-added exports. Exports as a % of total sales have increased from 26% in FY2015 to 34% in FY2018 and further to 51% in Q1FY2019.

## Credit challenges

**Moderate scale of operations, with flat growth in FY2018, amid intense competition in the generic formulations industry -** The Group remains a moderate-sized player in the generic formulations industry and reported flat growth in FY2018 with operating income of Rs. 360.91 crore in FY2018 as compared to Rs. 360.38 crore reported in FY2017. The domestic generic formulation industry faces stiff competition with the presence of numerous contract manufacturers, MNCs as well as established domestic brands with some of these players also having a pan-India presence leading to intense competition, which restricts the group's revenue growth and pricing flexibility. The same constrained the revenue growth in FY2018, although, with increased contribution of higher value-added exports, the operating income and profitability witnessed an improvement in H1FY2019.

**Operations exposed to regulatory restrictions -** The operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/renewal, in various semi-regulated markets, remains critical for the growth of exports going forward.

**High working capital intensity of operations -** The working capital intensity of the group remains high as reflected by the NWC/OI of 44% in FY2018 owing to high credit period extended to its customers, of ~90-120 days in the export market and ~60-90 days in domestic market, coupled with its moderate inventory holding requirements.

## Liquidity Position:

The overall liquidity position remained comfortable, as reflected from its healthy accruals against corresponding debt obligations, cushion on working capital limits, with average utilisation of ~58% for the past 12 months (September 2017 – August 2018) and satisfactory unencumbered cash balance and liquid investments as on September 30, 2018.

## Analytical approach:

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for entities in the Pharmaceutical Industry |
| Parent/Group Support | Not Applicable |
| Consolidation / Standalone | **Consolidation**<br>For arriving at the ratings, ICRA has combined the business and financial risk profiles of Lincoln Pharmaceuticals Limited (LPL) and Lincoln Parenteral Limited (LPPL) as LPPL is a subsidiary of LPL (current holding 98.58%) and both entities are owned and managed by the same promoters and are involved in related lines of business. |

## About the company:

Established as a partnership firm in 1979, LPL has been involved in manufacturing and trading of pharmaceutical formulations in the domestic market as well as exports of formulations. LPL was reconstituted as a public limited company in 1995 and is listed on the BSE. The manufacturing plant located in Kharjat in Gandhinagar district of Gujarat has an installed capacity of manufacturing 100-crore tablets, 45-crore capsules and 90-lakh packs of ointments per annum; the unit is ISO 9001, ISO 14001 and OHSAS 18001 certified and WHO, cGMP, MHRA and TGA compliant[1].

The company is a part of the Lincoln Group which is involved in manufacturing pharmaceuticals formulations in categories such as generics, anti-malarial, anti-diabetic, gynaecology products, vitamins, minerals and anti-oxidants etc. LPL's subsidiary Lincoln Parenteral Limited (LPPL) was incorporated in 1991 and is involved in manufacturing formulations in dry powder, liquid injectibles, and syrup variants; LPL has a 98.58% holding in LPPL. LPL has another subsidiary named Zullinc Healthcare Limited, which is in trading and marketing of pharmaceutical products.

## Key financial indicators (Audited)

| | FY2017 | FY2018 | FY2017 | FY2018 |
|---|---|---|---|---|
| | Standalone | | Consolidated | |
| Operating Income (Rs. crore) | 304.38 | 325.04 | 360.38 | 360.91 |
| PAT (Rs. crore) | 27.40 | 32.76 | 28.13 | 34.65 |
| OPBDIT/ OI (%) | 14.12% | 14.28% | 13.10% | 14.65% |
| | | | | |
| Total Debt/ TNW (times) | 0.28 | 0.26 | 0.33 | 0.27 |
| Total Debt/ OPBDIT (times) | 1.23 | 1.21 | 1.37 | 1.16 |
| Interest Coverage (times) | 7.94 | 10.89 | 7.09 | 9.77 |

[1] OHSAS: Occupational Health and Safety Management System; MHRA: Medicines and Healthcare products

Regulatory Agency; TGA: Therapeutic Goods Administration

**Status of non-cooperation with previous CRA:** CRISIL, in its rationale published on August 30, 2018 stated that Lincoln Pharmaceuticals Limited continues to remain non co-operative and did not provide adequate information for review process and the ratings have been reaffirmed at BBB+ (Negative)/A3+ on the basis of best available information.

## 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 (Rs. crore) | Date & Rating January 2019 | Date & Rating in FY2018 February 2018 | Date & Rating in FY2017 January 2017 | Date & Rating in FY2016 March 2016 |
| 1 | Term Loan | Long Term | 7.70 | 6.44^ | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Negative)** |
| 2 | Cash Credit | Long Term | 45.00 | - | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Negative)** |
| 3 | Export Packing Credit-1 | Long Term | 8.00 | - | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Negative)** |
| 4 | Export Packing Credit-2 | Long Term | (35.00)* | - | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Stable)** | **[ICRA]A- (Negative)** |
| 5 | Letter of Credit (LC) | Short Term | 10.00 | - | **[ICRA]A2+** | **[ICRA]A2+** | **[ICRA]A2+** | **[ICRA]A2+** |
| 6 | Bank Guarantee (BG) | Short Term | 2.00 | - | **[ICRA]A2+** | **[ICRA]A2+** | **[ICRA]A2+** | **[ICRA]A2+** |
| 7 | LC/BG | Short Term | 5.00 | - | **[ICRA]A2+** | **[ICRA]A2+** | - | - |

**Sub-limit of Cash Credit ^As on September 30, 2018*

## 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 | Term Loan | FY2016 | NA | FY2023 | 7.70 | [ICRA]A- (Stable) |
| NA | Cash Credit | NA | NA | NA | 45.00 | [ICRA]A- (Stable) |
| NA | Export Packing Credit-1 | NA | NA | NA | 8.00 | [ICRA]A- (Stable) |
| NA | Export Packing Credit-2 | NA | NA | NA | (35.00)* | [ICRA]A- (Stable) |
| NA | Letter of Credit (LC) | NA | NA | NA | 10.00 | [ICRA]A2+ |
| NA | Bank Guarantee (BG) | NA | NA | NA | 2.00 | [ICRA]A2+ |
| NA | LC/BG | NA | NA | NA | 5.00 | [ICRA]A2+ |

*Sub-limit of Cash Credit

Source: Lincoln Pharmaceuticals Ltd.

## ANALYST CONTACTS

**K Ravichandran**
+91 44 4596 4301
ravichandran@icraindia.com

**Suprio Banerjee**
+91 22 6114 3443
supriob@icraindia.com

**Sanket Thakkar**
+91 79 4027 1528
sanket.thakkar@icraindia.com

**Anuja Shah**
+91 79 4027 1530
anuja.shah@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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.

For more information, visit www.icra.in

## ICRA Limited

**Corporate Office**
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

**Registered Office**
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

**Branches**

| | |
|---|---|
| Mumbai | + (91 22) 24331046/53/62/74/86/87 |
| Chennai | + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, |
| Kolkata | + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, |
| Bangalore | + (91 80) 2559 7401/4049 |
| Ahmedabad | + (91 79) 2658 4924/5049/2008 |
| Hyderabad | + (91 40) 2373 5061/7251 |
| Pune | + (91 20) 2556 0194/ 6606 9999 |