August 10, 2020

Bal Pharma Limited - Update on material event; Long term rating downgraded to [ICRA]BB and short-term rating downgraded to [ICRA]A4; outlook remains 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 (Negative); downgraded from [ICRA]BB+ (Negative);
Short Term - Non-fund based facilities	30.00	30.00	[ICRA]A4; downgraded from [ICRA]A4+
Long term- Term Loan	15.02	15.02	[ICRA]BB (Negative); downgraded from [ICRA]BB+ (Negative)
Total	**95.02**	**95.02**	

Material Event

Bal Pharma Limited (BPL) has announced its quarterly results on August 06, 2020. On a consolidated basis, the company reported an operating income of Rs 33.8 crore with an operating profit (OPBITDA) of Rs. 0.6 crore and a net loss of Rs. 4.7 crore in Q4FY2020 against an operating income of Rs. 43.2 crore with OPBITDA of Rs 0.7 crore and net loss of Rs 3.7 crore in Q3FY2020.

Impact of the material event

ICRA has downgraded the long-term and short-term ratings assigned to BPL's Rs 95.02 crore bank facilities to [ICRA]BB/A4 from [ICRA]BB+/A4+. The outlook on the long-term rating is Negative.

Rationale

The ratings downgrade considers the continued weak performance of the company over FY2020 as indicated by the q-o-q decline resulting in annual decline of 23% as compared to FY2019. Raw material supply disruptions during the year exacerbated by Covid outbreak in Q4FY2020 impacted the company's performance. The company posted a net loss of Rs 12.9 crore and cash loss of Rs 5.2 crore in FY2020. Moreover, elongated working capital cycle kept BPL's cash flows under pressure necessitating high bank limit utilisation and indicating stretched liquidity. BPL's leverage and debt coverage have thus significantly deteriorated in FY2020. The ratings also remain constrained by the intense competition in the domestic formulations business, nascent stage of operations of the over the counter (OTC) business and limited pricing flexibility under the API division.

The ratings, however, continues to take comfort from the extensive experience of the promoters in the pharmaceutical industry and well-diversified customer base of the company. The ratings also take into account BPL's established position as a manufacturer of the anti-diabetic bulk drug, Gliclazide, in which the company commands a healthy market share both in the domestic and export markets. The ratings also factor in BPL's manufacturing capabilities with a diversified product mix covering several therapeutic areas under formulations, bulk drugs and parenterals. ICRA also notes that the company has made efforts in improving cost structure and re-instating reliable supply chain particularly for key raw material.

The Negative outlook on the [ICRA]BB rating reflects ICRA's opinion that BPL's liquidity constraints will continue over the next six months given the net losses in FY2020, and high working capital requirements

Key rating drivers

Credit strengths

Established position as a leading manufacturer of the anti-diabetic drug Gliclazide (bulk drug) – BPL is a leading manufacturer of 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.

Diversified customer base in the formulations segment – The company derives a major portion of its formulations revenues from the export markets, where it has presence in over 45 countries predominantly in unregulated and semi-regulated markets across Africa, Latin America, Middle East, South East Asia etc.

Credit challenges

Modest scale of operations with cash losses – The scale of operations of the company, at a consolidated level, remain modest with 23% degrowth in revenues in FY2020 from the previous fiscal at Rs. 172.9 crore and a net worth of Rs. 52.40 crore as on March 31, 2020, resulting in limited operational and financial flexibility. The profitability at the operating level also declined significantly to 3.8% in FY2020 from 7.9% in FY2019. The company's net margins turned negative at 7.5% in FY2020 as compared to positive 1.0% in FY2019. The same was owing to supply disruptions during FY2020 exacerbated by covid outbreak which the impacted the company's performance.

Significant deterioration in capital structure and coverage indicators in FY2020 – The gearing levels of the company on a consolidated level deteriorated to 2.5 times as on March 31, 2020 as compared to 2.1 times as on March 31, 2019, primarily due to net losses resulting in decline in net worth of BPL. The coverage indicators such as Total Debt/OPBITDA and DSCR also deteriorated and remained weak at 17.1 times and 0.4 times, respectively in FY2020 as compared to 7.2 times and 0.9 times in FY2019.

High working capital intensity of operations – 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 debtor's 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 51.3% in FY2020, higher than 48.9% in FY2019.

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

Liquidity Position: Stretched

BPL's cash flows have remained under pressure given the high working capital intensive nature of its operations and losses incurred over last few quarters and regular capital expenditure as reflected by the consistently high utilisation of its working capital facilities. The company also has term loan repayments. The liquidity position is **stretched**, however is supported somewhat by the modest unutilised limits and moratorium availed under RBI's Covid-19 package on certain term loans.

Rating Sensitivities

Positive Triggers- Given the negative outlook, a rating upgrade is unlikely in the near term. The outlook maybe revised to Stable if there is sustainable revival in its scale of operations and profitability resulting in improved debt coverage.

Negative Triggers- The ratings maybe downgraded if there is continued decline in revenues and losses or if there is any further stretch in working capital cycle leading to weakening of liquidity position.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Pharmaceutical Industry
Parent/Group Support	NA
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. 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.

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

BPL has five manufacturing units (two located in Bangalore). The Unit-I is dedicated for producing formulations and the Unit-II is dedicated for manufacturing of bulk drugs and for carrying out various R&D activities. The Unit-III was into the production of intravenous fluids and is located in Pune. However, at present, the unit has been shut down. The company's Unit-IV in Excise Free Zone in Rudrapur (Uttarakhand) is targeted at regulated markets like Europe and Malaysia for formulations. The Unit-V manufactures intermediates for international customers. In FY2018, Bal Pharma Ltd. has acquired 100% stake and management control of Golden Drugs Private Limited, an Udaipur-based private limited company involved in manufacturing of bulk drugs and intermediaries (Unit-VI). Apart from this, the company has entered into a joint venture (JV) with Melbourne based Akaal Pharma. As part of this JV, the new venture will be funded by Bal Pharma to develop Akaal Pharma's Intellectual Property (IP) in the veterinary field.

In FY2020, at standalone level, the company reported a net loss of Rs. 9.5 crore on an operating income of Rs. 174.3 crore compared to a net profit of Rs. 6.5 crore on an operating income of Rs. 225.8 crore in the previous year.

Key Financial Indicators (Audited)

	Standalone FY2019	FY2020
Operating Income (Rs. crore)	225.8	174.3
PAT (Rs. crore)	6.5	-9.5
OPBDIT/ OI (%)	10.2	5.7
RoCE (%)	9.6	1.7
Total Outside Liabilities/ Tangible Net Worth (times)	2.3	2.7
Total Debt/ OPBDIT (times)	4.2	9.5
Interest coverage (times)	1.8	0.8
DSCR	1.3	0.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2020 (Rs Crore)	Date & Rating 10-Aug-2020	Date & Rating in FY2020 23-Aug 2019	Date & Rating in FY2019 06-Dec-2018	Date & Rating in FY2018 18-Jul-2017
1	Fund based facilities	Long Term	50.00	-	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund based facilities	Short Term	30.00	-	[ICRA]A4	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+
3	Term Loan	Long Term	15.02	-	[ICRA]BB (Negative)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

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	Fund based facilities	-	-	-	50.00	[ICRA]BB (Negative)
NA	Non-fund based facilities	-	-	-	30.00	[ICRA]A4
NA	Term Loan	March 2013	-	March 2022	15.02	[ICRA]BB (Negative)

Source: BPL

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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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