February 11, 2021

Lincoln Pharmaceuticals Ltd.: Ratings upgraded; outlook revised to 'Stable' from 'Positive'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund-based Working Capital	53.00	48.00	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive
Long-term– Interchangeable Limit	(35.00)	(30.00)	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive
Long-term–Unallocated Limit	7.70	5.00	[ICRA]A; upgraded from [ICRA]A-; outlook revised to Stable from Positive
Short -term – Letter of Credit (LC)	10.00	5.00	[ICRA]A1; upgraded from [ICRA]A2+
Short -term – Bank Guarantee (BG)	2.00	2.00	[ICRA]A1; upgraded from [ICRA]A2+
Short -term – LC/BG	5.00	5.00	[ICRA]A1; upgraded from [ICRA]A2+
Total	**77.70**	**65.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in ratings takes into account the improvement in the Group's financial risk profile in FY2020 and 9MFY2021, backed by steady growth in scale and margins. The Group's revenue witnessed a growth of 6% in FY2020 and 12% in 9MFY2021 on a YoY basis, while the operating margin stood healthy at 17.11% in FY2020 and improved further to 20.87% in 9MFY2021 as compared to 13.10% and 14.65%, reported in FY2017 and FY2018, respectively. The improvement was aided by successful product launches, increased contribution of higher value-added exports as well as manufacturing sales vs. trading sales to its revenue profile. Further, the Group has no long-term debt outstanding as on September 30, 2020 (except for car loans of Rs. 0.69 crore). Healthy profitability and limited capex outgo have improved the coverage indicators and liquidity, resulting in healthy built up of free cash/liquid investments of Rs. 46.45 crore as on March 31, 2020 and Rs. 103.20 crore as on September 30, 2020.

The ratings continue 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 strong liquidity. The ratings also factor in the Group's established relation with its customers, its geographical diversification with pan-India presence, and its continued growth in exports to semi-regulated markets.

The ratings are, however, constrained by the vulnerability 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. 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 Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the Group 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 to medium term. The revenue growth will be backed by stable demand conditions for its existing products in the domestic and semi regulated export market, planned venture into the regulated European market as well as the proposed launch of beta lactam products, for which the company proposes to set up a new unit.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and established customer relationships - The promoters have 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 500 formulations, catering to various therapeutic segments such as antibiotics, analgesics, anti-cold drugs, gynaecology, anti-malarial, and multi-vitamins. The Group was predominately a domestic market player; however, it has been increasing its focus on exports to semi-regulated markets in the past few fiscals owing to intense competition in the domestic generic formulations industry. The export sales are concentrated, with African regions contributing ~45-55% to 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 0.05 times as on September 30, 2020, strong net-worth base of Rs. 349.03 crore and healthy debt-protection metrics (Interest cover at 88.15 times, Total Debt/OPBDITA at 0.18 times as on September 30, 2020).

Improvement in operating profitability - The Group's operating profitability improved to 17.11% in FY2020 from 14.65% in FY2018 owing to successful product launches, increased sales of higher value-added products and increased contribution of higher value-added exports to semi regulated markets. The improvement in margins to 20.87% in 9MFY2021 is also because of lower employee costs as well as other fixed expenses due to the pandemic fuelled lockdown.

Credit challenges

High working capital intensity of operations - The working capital intensity of the Group is high and has witnessed an increase with surge in sales to the export market, which has higher credit period (up to ~120 days compared to ~60-90 days in the domestic market), coupled with moderate inventory requirement. The same is reflected by a NWC/OI of 45% in FY2019 and 41% in FY2020. The same has lowered to 34% in H1FY2021, with better inventory management and faster collection of receivables, nonetheless, continues to remain high.

Moderate scale of operations amid intense competition in generic formulations industry - The Group remains a moderate-sized player in the generic formulations industry and reported a modest growth in FY2019, with an operating income of Rs. 366.20 crore in FY2019 compared to Rs. 360.91 crore in FY2018. The domestic generic formulation industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some of these players also having a pan-India presence. The intense competition also restricts the Group's revenue growth (witnessed in FY2018 and FY2019) and pricing flexibility., However, with increased contribution of higher value-added exports, the operating income witnessed an improvement to Rs. 386.49 crore in FY2020 and further to Rs. 344.61 crore in 9MFY2021.

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.

Liquidity position: Strong

The liquidity position of the Group is strong, supported by healthy estimated cash accruals of ~Rs. 63.33 crore in FY2021 with no term debt outstanding as on date (except for car loans of Rs. 0.69 crore), free cash/liquid investments of Rs. 103.20 crore as on September 30, 2020 and minimal requirement of incremental working capital funding. The liquidity is also supported by cushion in working capital limits and absence of any major debt-funded capital expenditure.

Rating sensitivities

Positive factors –

ICRA could upgrade the ratings if the Group demonstrates healthy scaling up of operations, while improving its profitability and working capital cycle.

Negative factors –

Negative pressure on the Group's ratings could arise if a substantial decline in the scale of operations and profitability results in material deterioration of coverage indicators; or a sizeable capex or increase in working capital cycle adversely impacts the liquidity profile and key credit metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Pharmaceutical Industry Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	**Consolidation** For arriving at the ratings, ICRA has combined the business and financial risk profiles of Lincoln Pharmaceuticals Limited (LPL), its wholly owned subsidiaries Zullinc Healthcare LLP and Savebux Enterprise Private Limited and Lincoln Parenteral Limited (LPPL) (current holding 98.58%) as the 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 export market. LPL was reconstituted as a public limited company in 1995 and is listed on the BSE. The manufacturing plant, located at Kharjat in the Gandhinagar district of Gujarat, has an installed capacity of manufacturing 200-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 EU GMP, WHO, cGMP, MHRA and TGA compliant[1].

The company is a part of the Lincoln Group, which manufactures pharmaceuticals formulations in categories such as generics, anti-malarial, anti-diabetic, gynaecology products, vitamins, minerals and anti-oxidants. 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 other two wholly owned subsidiaries named Zullinc Healthcare Limited, which trades and markets pharmaceutical products, and Savebux Enterprises Pvt. Ltd. (erstwhile known as Savebux Finance & Investments Private Limited), which has limited trading operations and is currently under liquidation. The scheme of amalgamation between Lincoln Parenteral Limited ("Transferor company) and Lincoln Pharmaceuticals Limited (Transferee Company) is currently under process.

[1] EU GMP: European Union Good Manufacturing Practices; OHSAS: Occupational Health and Safety Management System; MHRA: Medicines and Healthcare products Regulatory Agency; TGA: Therapeutic Goods Administration

In 9MFY2021, the Group reported a net profit of Rs. 49.67 crore on an operating income of Rs. 344.61 crore compared to Rs. 51.47 crore and Rs. 386.49 crore, respectively, reported in FY2020.

Key financial indicators (audited)

LPL	Standalone			Consolidated		
	FY2019	FY2020	H1 FY2021*	FY2019	FY2020	H1 FY2021*
Operating Income (Rs. crore)	353.15	376.14	223.32	366.20	386.49	229.86
PAT (Rs. crore)	46.64	49.56	35.19	48.74	51.47	36.18
OPBDIT/OI (%)	17.19%	15.95%	21.60%	18.44%	17.11%	22.83%
RoCE (%)	21.43%	21.68%	28.91%	22.18%	22.05%	29.01%
Total Outside Liabilities/Tangible Net Worth (times)	0.32	0.21	0.26	0.35	0.24	0.28
Total Debt/OPBDIT (times)	0.55	0.08	0.19	0.50	0.08	0.18
Interest Coverage (times)	15.79	30.25	88.81	16.89	32.77	88.15
DSCR (times)	9.54	13.01	54.67	5.89	15.40	49.82

**Provisional numbers. All ratios as per ICRA calculations*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

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 Oct 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Feb 11, 2021	Dec 26, 2019	Jan 07, 2019	Feb 07, 2018
1	Cash Credit	Long-term	45.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Export Packing Credit-1	Long-term	8.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Export Packing Credit-2	Long-term	(30.00)*	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Unallocated Limits	Long-term	5.00	-	[ICRA]A (Stable)	[ICRA]A- (Positive)	-	-
5	Letter of Credit (LC)	Short-term	5.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
6	Bank Guarantee (BG)	Short-term	2.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
7	LC/BG	Short-term	5.00	-	[ICRA]A1	[ICRA]A2+	[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	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	(30.00)*	[ICRA]A (Stable)
NA	Unallocated Limits	NA	NA	NA	5.00	[ICRA]A (Stable)
NA	Letter of Credit (LC)	NA	NA	NA	5.00	[ICRA]A1
NA	Bank Guarantee (BG)	NA	NA	NA	2.00	[ICRA]A1
NA	LC/BG	NA	NA	NA	5.00	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Lincoln Pharmaceuticals Limited	100.00% (rated entity)	Full Consolidation
Lincoln Parenteral Limited	98.58%	Full Consolidation
Zullinc Healthcare LLP	100.00%	Full Consolidation
Savebux Enterprise Private Limited	100.00%	Full Consolidation

Source: *LPL annual report FY2020*

Note: *ICRA has taken a consolidated view of the parent (LPL), its subsidiaries and associates while assigning the ratings.*

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