

January 16, 2017

Lincoln Pharmaceuticals Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long Term Fund Based Limits	58.00	Reaffirmed at [ICRA]A- (Stable); Outlook revised to 'Stable' from 'Negative'
Short Term Fund Based Limits	3.00	Reaffirmed at [ICRA]A2+
Short Term Non Fund Limits	14.00	Reaffirmed at [ICRA]A2+
Total	75.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the [ICRA]A- (pronounced ICRA A minus)¹ long-term rating outstanding on the Rs. 58.00 crore fund based facilities of Lincoln Pharmaceuticals Limited(LPL)². ICRA has also re-affirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs.3.00 crore fund based facilities and the Rs. 14.00 crore non-fund based facilities of LPL. The outlook on the long-term has been revised from 'Negative' to 'Stable'.

Rationale

The revision in outlook takes into account the robust growth in the group's revenues during FY2016 as well as healthy profitability margins reported in H1 FY2017 backed by stable demand, successful product launches and increasing presence of the group in export markets. Further, the group's capital structure and coverage indicators remain comfortable owing to healthy accruals during the past few fiscals.

The re-affirmation in ratings, reflect the long standing experience of the promoters and established track record of Lincoln Group in the pharmaceutical formulations industry spanning more than three decades, their established business relations with customers and the healthy growth in operating income over the last four fiscals (FY 2013 to FY 2016) owing to regular launches of new products/variants as well as its extensive marketing network. The ratings continue to favourably factor in the continued growth in exports especially to semi-regulated markets and the geographic diversification of operations with the group's presence in more than 20 states in domestic markets. ICRA also notes the comfortable financial profile of the group characterized by low gearing and healthy debt protection indicators.

The assigned ratings continue to be constrained by the vulnerability of operations to changes in the Government policies related to price control as well as the highly competitive domestic generic formulations industry which limits the group's pricing flexibility although ICRA notes that the group's profitability has improved over the last five years owing to successful product launches. The ratings also consider the high working capital intensity of the group owing to the long credit period extended to customers especially in the export markets.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Long standing experience of the promoters and established track record of operations of Lincoln group in the pharmaceutical industry spanning more than three decades
- Healthy growth in operating income since FY 2013 owing to regular launches of new products/variants; the group has also benefitted from its extensive marketing network and established business relations with customers
- Healthy growth in exports to growing generics markets; geographical diversification with presence in more than 20 states in domestic markets
- Comfortable financial profile characterized by low gearing and healthy debt protection indicators

Credit Weakness

- Domestic formulations industry remains vulnerable to changes in Government policies related to price control
- Margins remain limited as pricing is dependent on regulations and heavy competition in the fragmented generic formulations industry; however, the profitability has improved over the last five years owing to successful product launches
- Timely product and facility approval/renewal in various semi-regulated markets in which Lincoln Group operates remain critical for growth of exports going forward
- High working capital intensity owing to long credit period extended to customers especially in export markets

Description of key rating drivers highlighted above:

The company is the flagship company of Lincoln group and is primarily engaged in the manufacturing of manufacturing, trading and marketing of pharmaceutical formulations various therapeutic categories such as anti-cold, anti-allergic, analgesics, anti-bacterial/anti-viral/anti-fungal, anti-malarial, gynaecology products, vitamins etc. The promoters of Lincoln group have more than five decades of experience in the pharmaceutical industry and established business relations which has resulted in repeat orders and robust revenue growth in the last three fiscals. The company is primarily focussed on domestic markets and has established presence in 20 states of the country, although increasing presence in export markets has also supported revenue growth. The profitability of the company remains exposed to the volatility in prices of major raw materials given the limited pricing flexibility owing to the competitive business environment. The working capital intensity of the group remains high owing to the long credit period extended to customers, although the same has moderated in FY2016.

The financial profile LPL remains stable with a favourable capital structure as reflected by comfortable gearing levels of 0.44 time and comfortable coverage indicators as on 31st March 2016. Meanwhile, the adequate existing capacity would eliminate any immediate requirement of debt-funded capex, which would aid LPL in maintaining its operating margins at historic levels, and keep the capital structure comfortable.

Links to applicable Criteria

<http://www.icra.in/Files/Articles/Pharma-Methodology-Finalised.pdf>

Analytical approach

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 engaged in related lines of business.

About the Company:

Established as a partnership firm in 1979, Lincoln Pharmaceuticals Limited (LPL) has been engaged 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 1991 and is listed on BSE. The manufacturing plant located in Kharjat in Gandhinagar district of Gujarat has 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 compliant³.

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

LPL recorded a net profit of Rs. 21.8 crore on an operating income of Rs. 311.0 crore for the year ending March 31, 2016. On a consolidated basis, Lincoln group recorded a net profit of Rs. 23.8 crore on an operating income of Rs. 400.3 crore for the year ending March 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

³ OHSAS: Occupational Health and Safety Management System; MHRA: Medicines and Healthcare products Regulatory Agency; TGA: Therapeutic Goods Administration

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2016	Month- year & Rating in FY2015	
					January 2017	March 2016	September 2015	Not rated by ICRA
1	Cash Credit	Long Term	40.00	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)		
2	EPC/PCFC	Long Term	8.00	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)		
3	EPC/FBD/BD/PCFC	Long Term	(32.00)*	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)		
4	Term Loan	Long Term	10.00	[ICRA]A-(Stable)	[ICRA]A-(Negative)	[ICRA]A-(Stable)		
5	SLC-Fund Based	Short Term	3.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		
6	Letter of Credit	Short Term	10.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		
7	Bank Guarantee	Short Term	2.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		
8	SLC-Fund Based	Short Term	2.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+		

*Sublimit of cash credit facility

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	40.00	[ICRA]A- (Stable)
EPC/PCFC	-	-	-	8.00	[ICRA]A- (Stable)
EPC/FBD/BD/PCFC	-	-	Aug- 2020	(32.00)*	[ICRA]A- (Stable)
Term Loan	-	-	-	10.00	[ICRA]A- (Stable)
SLC-Fund Based	-	-	-	3.00	[ICRA]A2+
Letter of Credit	-	-	-	10.00	[ICRA]A2+
Bank Guarantee	-	-	-	2.00	[ICRA]A2+
SLC-Fund Based	-	-	-	2.00	[ICRA]A2+

Source: Lincoln Pharmaceuticals Limited

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