December 10, 2019

Chromachemie Laboratory Private Limited: Ratings upgraded to [ICRA]BBB+(Stable)/ [ICRA]A2

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Long term - Fund based - Cash Credit facility	15.0	15.0	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Short Term - Non-fund based - Bank Guarantee	45.0	45.0	[ICRA]A2; upgraded from [ICRA]A3+
Total	**60.0**	**60.0**	

Rationale

While arriving at the ratings, ICRA has considered the consolidated operational and financial profile of Chromachemie Laboratory Private Limited (CLPL) and its sister concern, Kaustubha Scientific Research Laboratory Private Limited (KSRLPL), (together referred to as the Company) owing to the strong financial and operational linkages between them and also as they are under the same management and operate similar businesses.

The rating upgrade considers the strong market position of the company as the sole distributor of United States Pharmacopeia (USP) and leading distributor of European, British and Indian pharmacopeial reference standards in India, resulting in stable demand prospects. The upgrade also factors in the improvement in the net worth position aided by sustained accretion to reserves. The ratings also take into account the extensive experience of the promoters in the distribution of reference standards and the established relationship with its clientele that includes leading pharmaceutical companies. The ratings also derive comfort from the healthy financial risk profile marked by healthy capital structure and coverage indicators, and strong liquidity position. The ratings, are, however constrained by the high dependence on USP as the company derived 80% of its revenues from USP reference standards in FY2019. The ratings are also constrained by the susceptibility of revenues and profitability to currency fluctuations and regulatory changes. The ratings also take into account the increase in working capital intensity in FY2019 owing to high inventory holdings.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's expectation that CLPL will continue to benefit from the strong market position of the company in the pharmaceutical reference standards market in India.

Key rating drivers

Credit strengths

Extensive experience of the promoter in the distribution of pharmaceutical reference standards – The promoter, Mr. B.R.S Rao, has more than two decades of experience in the distribution of various pharmaceutical reference standards. The company also provides chromatography separations products with technology support including development and supply of custom designed columns to scale up process columns under the brand names, Puritas.

Sole distributor of USP reference standards in India – CLPL is the sole distributor of USP reference standards in India and has an established relationship with its principal USP convention, Inc for over 20 years. The agreement with USP was last renewed in July 2016 and is valid till July 2021, providing revenue visibility in the medium term. The company also has healthy market share of 60-70% in the distribution of European pharmacopeial reference standards in India. The strong market position of the company supports its revenues and margins.

Established relationship with key customers – The group's revenues are supported by established relationships with reputed pharmaceutical companies in India and repeat orders from them. The customer concentration remained moderate with the top-ten customers accounting for ~47% of CLPL's total revenues in FY2019.

Comfortable financial risk profile – The gearing was healthy at 0.1 times as on March 31, 2019 aided by the strong net worth position due to healthy accruals over the years. Also, the entire debt is in the form of unsecured loans from promoters. The coverage indicators were comfortable with interest coverage of 10.7 times and Total Debt/OPBDITA of 0.6 times in FY2019. The other coverage indicators such as NCA/Total Debt and TOL/TNW were also comfortable at 104.2% and 0.4 times respectively, as on March 31, 2019. This apart, the liquidity position remained comfortable aided by healthy cash and bank balances and undrawn working capital limits.

Credit challenges

High dependence on USP as ~80% of the revenues are derived from USP sales – Sales from USP standards contributed to ~80% of CLPL's revenues in FY2019. While the company is the sole distributor for USP in India at present, addition of any vendor to the Indian distribution channel can impact the company's revenues and margins significantly. The current distribution agreement with USP is valid till July 2021, and hence, timely renewal of the same would be critical for maintaining the revenue visibility. However, the established relationship of the company with USP convention Inc for over 20 years, offers comfort.

Profitability susceptible to foreign exchange fluctuations and regulatory changes – The company's profitability is susceptible to forex risk as most of the reference standards are imported. The revenues and profitability of CLPL is also susceptible to regulatory changes as purchases are primarily linked to enforcement of standards set by the USFDA. Any withdrawal of reference standards can also lead to write off of inventory.

High working capital intensity – The company extends around 90 days of credit to its customers and the receivables remained high at 103 days in FY2019. The inventory levels increased from 17 days in FY2018 to 57 days in FY2019. This has resulted in increase in working capital intensity to 30.3% in FY2019 from 22.9% in FY2018.

Liquidity position: Strong

The liquidity profile of CLPL is **strong** supported by unencumbered cash and fixed deposits of Rs. 22.5 crore as on March 31, 2019. This apart, CLPL has undrawn working capital limits of Rs. 20.0 crore from Citi Bank. Going forward, the company does not have any debt repayment obligations and in the absence of any significant capital expenditure plans, the company's cash flows and liquidity position is expected to remain healthy.

Rating sensitivities

Positive triggers – ICRA could upgrade CLPL's ratings if the company is able to achieve healthy revenue growth on a sustained basis while maintaining its healthy profitability.

Negative triggers – Negative pressure on the ratings could arise if the return on capital employed (ROCE) declines below 15%, or any increase in working capital intensity weakens the liquidity position. The ratings could also be downgraded if the competitive position weakens with the entry of any new player in the domestic market, or if the dealership agreement with United States Pharmacopeia does not get renewed after its expiry in July 2021.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	The ratings are based on the consolidated financials of Chromachemie Laboratory Private Limited and its sister concern, Kaustubha Scientific Research Laboratory Private Limited

About the company:

Established in 2012, Chromachemie Laboratory Private Limited distributes various Pharmaceutical Reference Standards and manufactures chromatography consumables. It is the largest distributor for the United States Pharmacopeia Convention (USP) and one of the major distributors for European Directorate of Quality Medicines (EDQM), British Pharmacopeia (MHRA) and Daiso Chemical (Thailand) in India. It manufactures high precision columns, vials, closures and inserts and syringes under the brand name, Puritas. The promoter of the company, Mr. B.R.S. Rao has extensive experience in the distribution of reference standards in India. KSRLPL, which is under the same management as CLPL, provides pharmaceutical services like scientific and technology support in analytical chemistry, impurities profiling and analytical method development. It also distributes European pharmacopeia reference standards.

In FY2019, the company reported a net profit of Rs. 39.9 crore on an operating income of Rs. 370.9 crore compared to a net profit of Rs. 51.1 crore on an operating income of Rs. 370.1 crore in the previous year.

Key Financial Indicators (Audited)

	Standalone		Consolidated	
	FY2018	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	339.8	366.2	370.1	370.9
PAT (Rs. crore)	21.8	24.0	51.1	39.9
OPBDIT/ OI (%)	10.4%	10.8%	13.8%	10.8%
RoCE (%)	49.9%	40.0%	30.0%	22.0%
Total Outside Liabilities/ Tangible Net Worth (times)	1.8	1.0	0.2	0.1
Total Debt/ OPBDIT (times)	1.6	1.4	0.5	0.6
Interest coverage (times)	6.4	6.0	20.2	10.7
DSCR	4.9	4.6	14.7	8.2

Status of non-cooperation with previous CRA: CRISIL had moved the BBB- (Stable)/A3 ratings of the company to Issuer Not Cooperating category on June 27, 2019, as CRISIL did not receive any information for surveillance before due date.

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as of September 2019 (Rs Crore)	Date & Rating 10-Dec-2019	Date & Rating in FY2019 05-Nov-2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Cash Credit	Long Term	15.0	-	**[ICRA]BBB+ (Stable)**	[ICRA]BBB (Stable)	-	-
2	Bank Guarantee	Short Term	45.0	-	**[ICRA]A2**	[ICRA]A3+	-	-

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	-	-	-	15.0	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	45.0	[ICRA]A2

Source: CLPL

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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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