

Brooks Laboratories Limited

January 6, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	8.00 (Reduced from 15.00)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B; Stable (Single B; Outlook: Stable)
Short Term Bank Facilities	1.00	CARE A4 (A Four)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn*
Total Bank Facilities	9.00 (Rs. Nine Crore Only)		

Details of instruments/facilities in Annexure-1

*Withdrawn based on lender No due certificate

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Brooks Laboratories Limited is mainly on account of improvement in the solvency & operational performance due to transfer of its manufacturing unit at Vadodara, Gujrat on slump exchange basis including assets and liabilities. Further rating also derive comfort from experienced & resourceful promoters & reputed clientele. However, the ratings are constrained by the modest scale of operations and concentrated revenue stream. The ratings are further constrained by the highly competitive & regulated nature of the industry.

Rating Sensitivities

Positive Factors

- Sustained improvement in scale of operations with total operating income increasing to close to Rs.100 crore and continued profitable at the PBILDT and cash levels
- Maintaining the comfortable overall solvency position and efficient working capital management

Negative Factors

- Continued losses at the PBILDT and cash level.
- Any major debt funded capex or increase in dependence on working capital borrowings resulting in significant deterioration of the capital structure

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management:

BLL is currently being managed by all the directors collectively. Mr Atul Ranchal, Mr Rajesh Mahajan, Mr Rajnish Kumar Bedi, Mr Deepak Mahajan and Mr. Manpreet Singh Naroo have an industry experience of around two decade each. Furthermore, Ms. Sonia Gupta, has an industry experience of nearly one and a half decade.

Established Track record operations and Reputed Clientele:

BLL has an industry presence of nearly two decades now, leading to established relationships with the customers as well as suppliers. The company is engaged in the manufacturing of pharmaceutical formulations and is supplying to various reputed players. BLL has floated a Joint Venture (JV) named Brooks Steriscience Ltd, with another India based pharmaceutical player, Steriscience Specialties Private Limited. BLL has sold its Vadodara facility under the slump exchange to this JV. The JV will focus on making the plant (Vadodara) U.S. Food and Drug Administration (USFDA) compliant, attaining additional regulatory approvals along with adding some new products. Turnaround of the Vadodara unit and requirement of funding support from BLL to this JV, in the future, will remain a monitorable. BLL has also floated another JV (with BLL's share at ~45%) named SteriBrooks Penems Pvt. Ltd, also with Steriscience Specialties Private Limited, for marketing the products of the JV Brooks Steriscience Ltd, in the export markets.

Comfortable Capital Structure:

The capital structure of the company continued to remain at a comfortable level as marked by debt to equity and overall gearing ratios of 0.02x and 0.13x, as on March 31, 2021 (PY: 0.15x and 0.28x, respectively). This has been majorly reduced due to transfer of company's manufacturing unit located at Varodara in Brooks Steriscience Limited (BSL) on slump exchange

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

basis including assets and liabilities as they have transferred term liabilities of Rs ~16.31 Cr along with cash credit limits of Rs 7 Cr. Moreover, this has improved profitability of the company due to reduction in finance cost and depreciation during H1FY22.

Improvement in profitability margins

The company has achieved turnover of Rs 36.63 Cr during H1'22 with PBILTD and GCA of Rs 3.50 Cr & Rs 3.19 Cr. This improvement was mainly on account of slump exchange of Loss-making manufacturing Unit located at Vadodara including assets and liabilities to its subsidiary M/s Brooks Steriscience Ltd (BSL). The company was earlier (prior to slump exchange) incurring high operational expenses like those for obtaining of regulatory approvals, selling in new geographies etc. at the Vadodara unit while sales from the unit have not yet picked up to cover these. This has led to continued losses at the PBILDT level in FY21 and FY20. Consequently, the company also remained in losses at the Net level. Owing to transfer of loss-making unit in subsidiary, company is expected to remain profitable in current financial year.

Key Rating Weaknesses

Modest (though increased slightly) scale of operations:

The scale of operations of the company stood modest at Rs. 77.24 Cr. in FY21. However, the same increased by ~10.85% on a year-on-year (y-o-y) basis from Rs. 69.68 Cr. in FY20. In H1'22 (Prov.), the scale of operations has been reduced to Rs 36.63 Cr against 41.71 Cr (includes Sales from Baddi Plant & Vadodra Plant of Rs 23.63 Cr & 18.07 Cr respectively) for the corresponding period in FY21.

Customer concentration risk:

The customer base of the company remains concentrated with their major customers. Any adverse change in procurement policies of these customers may affect the business of the company.

Highly regulated and competitive nature of the industry:

The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies. BLL is engaged in the manufacturing of pharmaceutical formulations. The industry is characterized by a high level of competition having presence of a large number of small and big players.

Liquidity: Stretched

The liquidity position of the company stood weak as reflected by current ratio 0.95x as on March 31, 2021 (PY: 0.80x). The company had unencumbered cash & cash equivalent of Rs. 0.88 crore only as on March 31, 2021. The company has a total debt repayment obligation of Rs. 8.4 Cr. as on March 31, 2021. Overall WC cycle has also been elongated in FY 21 to 29 days due to decline in creditors period. However, Current ratio has been improved in H1'22 to 1.12x.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#) □

[Short Term Instruments](#)

[Pharmaceutical](#)

About the Company

The company was initially incorporated as Brooks Pharmaceuticals in 2000 and subsequently rechristened as BLL in 2002. BLL is engaged in the contract manufacturing of pharmaceutical formulations at its two manufacturing facilities, one each in Baddi (Himachal Pradesh) and Vadodra (Gujarat). It is operating at a combined installed capacity of 2.30 crore units per annum for liquid injection vials, 13.82 crore units per annum for tablets, 2.01 crore units per annum for dry syrup, 5.76 crore units per annum for liquid injection ampoules, 2.30 crore units per annum for eye/ear drops and 5.19 crore units per annum for dry powder injection from Baddi Plant and 2.50 crore units per annum for injections from Vadodara Plant, as on March 31, 2020.

The products manufactured by the company find application in various therapeutic segments including antibacterial, antibiotics, antigestric, anti-malarial, life-saving drugs etc. BLL also supplies generic formulations on tender basis in states like Gujarat, Jammu & Kashmir, Mumbai and West Bengal. The company also engages in export sales to Yemen, Afghanistan etc. while some domestic sales are also being made under self-owned brand. BLL's plant in Gujarat has obtained the EU-GMP (European

Union Good Manufacturing Practices) certification in December-2017. Further, both of BLL's manufacturing plants are WHO-GMP certified by the World Health Organisation (WHO) headquartered in Geneva.

Brief Financials (Rs. crore)	31-03-2019 (A)	31-03-2020 (A)	31-03-2021 (A)	30-09-2021(U)
Total operating income	57.62	70.06	77.43	36.63
PBILDT	-5.78	-2.19	1.00	3.50
PAT	-14.81	-24.38	-15.59	2.48
Overall gearing (times)	0.30	0.28	0.13	0.07
Interest coverage (times)	NM	NM	0.32	11.29

A: Audited; U: Unaudited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC		-	-	-	1.00	CARE A4
Fund-based - LT-Cash Credit		-	-	-	8.00	CARE BB-; Stable
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - ST-BG/LC	ST	1.00	CARE A4	-	1)CARE A4 (25-Mar-21) 2)CARE A4 (30-Sep-20) 3)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 4)CARE A4; ISSUER NOT COOPERATING* (07-May-20)	-	1)CARE A4+ (19-Mar-19) 2)CARE A4+ (07-Jun-18)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BB-; Stable	-	1)CARE B; Stable (25-Mar-21) 2)CARE B; Stable (30-Sep-20) 3)CARE D; ISSUER NOT COOPERATING* (25-Aug-20)	-	1)CARE BB+; Stable (19-Mar-19) 2)CARE BB+; Stable (07-Jun-18)

						4)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-May-20)		
3	Fund-based - LT- Term Loan	LT	-	-	-	1)CARE B; Stable (25-Mar-21) 2)CARE B; Stable (30-Sep-20) 3)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 4)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-May-20)	-	1)CARE BB+; Stable (19-Mar- 19) 2)CARE BB+; Stable (07-Jun-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Amit Jindal
Contact no.: 9873003949
Email ID: amit.jindal@careedge.in

Relationship Contact

Name: Swati Agarwal
Contact no.: +91-11-4533 3200
Email ID: swati.agarwal@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**