La Renon Healthcare Private Limited

March 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term/ Short Term Bank Facilities	10.00	**CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)**	**Revised from CARE A-; Positive/CARE A2+ (Single A Minus; Outlook: Positive/ A Two Plus)**
Short Term Bank Facilities	50.00	**CARE A1 (A One)**	**Revised from CARE A2+ (A Two Plus)**
Total	**60.00 (Rupees Sixty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of La Renon Healthcare Private Limited (LRHPL) take into account the consistent growth in its total operating income (TOI) and profitability which improved further during 9MFY22 (FY refers to the period April 01 to March 31) supported by growth in revenue from existing therapeutic segments apart from gradual diversification into new therapeutic segments. The revision in ratings also factors in expectation of further growth in TOI in the medium term on the back of recent diversification in Active Pharmaceutical Ingredients (API) segment through acquisition of majority stake in Enaltec Labs Private Limited (ELPL). The ratings further continue to derive strength from LRHPL's experienced management, its established presence in domestic formulation market with products mainly catering to chronic therapeutic segments and its wide distribution and marketing set-up. The ratings continue to be underpinned by its strong return ratio, comfortable capital structure along with strong capital base and liquidity supported by growing cash accruals and availability of free cash and liquid investments.

The above rating strengths, however, continue to remain constrained by its moderate track record of operations, concentration of its revenue towards few therapeutic segments, large working capital requirement to support the growing scale of operation and inherent regulatory risk associated with the pharmaceutical industry. Further, relatively low research and development (R&D) expenditure and its dependence on contract manufacturing for sourcing of formulations may restrict its ability to launch new high margin products in the competitive domestic formulation industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained healthy growth in its TOI with greater diversification of its revenue stream with PBILDT margin of more than 20% and ROCE above 30% on a sustained basis
- Gross operating cycle days (i.e. receivables + inventory) of around 120 days on sustained basis along with maintaining healthy free liquidity

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Any large sized predominantly debt-funded acquisition leading to deterioration in its overall gearing beyond 0.60 times on a sustained basis
- Deterioration in its hitherto healthy PBILDT margin to below 15% on a sustained basis at a consolidated level
- Significant elongation in its operating cycle along with significant deterioration in its liquidity
- Any unforeseen regulatory changes adversely affecting the operations of the company

Detailed description of the key rating drivers

Key Rating Strengths

Consistent growth in TOI; albeit demand disruption during FY21 due to Covid-19 pandemic

LRHPL witnessed healthy growth in its TOI at a compounded annual growth rate (CAGR) of 31% during the three years ended FY20. Growth in scale of operations was primarily driven by volume growth in Nephrology and Central Nervous System (CNS) and Gastroenterology segments along with launch of new formulations products which was aided by expansion of its marketing and distribution network. However, LRHPL's TOI declined by 19% on y-o-y basis during FY21 primarily due to adverse impact of Covid-19 led national-wide lockdown in Q1FY21. As majority of the sales of LRHPL is prescription driven, the lower outpatient turnout during the pandemic had impacted its sales. Subsequently, LRHPL has witnessed recovery in its sales post normalization of operations and increase in the footfall in the clinics and hospitals. Consequently, LRHPL's TOI grew by a healthy 42% on y-o-y basis and stood at Rs.589 crore during 9MFY22 as compared to Rs.416 crore during 9MFY21 and Rs.523 crore in 9MFY20. Further, TOI during 9MFY22 has already surpassed its FY21 TOI. Moreover, TOI of the company is expected to grow steadily at around 15-20% over the medium term supported by expectation of increase in export revenue apart from API sales.

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

Healthy and improving profitability along with strong return ratio

The operating profitability (PBILDT) of the company on a consolidated basis grew at a CAGR of 27% during last three years ended FY21 backed by growth in TOI apart from expansion in PBILDT margin. The PBILDT margin of the company also improved from 15% to more than 20% over last three years ended FY21. Further, the PBILDT margin of the company improved significantly by nearly 500 bps and stood at 27% during FY21 primarily on account of saving in travelling & conveyance expenses, advertising & business promotion expenses and seminar/ conference costs due to restriction in travelling in light of Covid-19 pandemic. The aforesaid cost put together stood at Rs.67 crore during FY21 as compared to Rs.165 crore in FY20. However, with normalization of expenses, the PBILDT margin also normalized and stood at 23% during 9MFY22. On a steady state basis, the PBILDT margin of the company is expected to remain healthy in the range of 21%-23% due to its presence in chronic therapies like nephrology, neurology, and critical care segments. Further, the return ratios of the company marked by ROCE (%) and RONW (%) remained healthy at 29% and 24% respectively during FY21 at a consolidated level and same is expected to remain around 25% in the medium-term.

Comfortable capital structure with strong net worth base and healthy debt coverage indicators

The capital structure of LRHPL remained comfortable with strong net-worth base of Rs.478 crore as on March 31, 2021 supported by accretion of healthy profits every year. Further, total debt of the company at a consolidated level remained low at Rs.69.75 crore as on March 31, 2021 (including finance lease of Rs.19.27 crore) leading to comfortable overall gearing of 0.15 times as on March 31, 2021 (0.13 times as on March 31, 2020). Going forward, the company does not have any plan to avail term debt and hence, its capital structure is expected to remain comfortable in future.

Moreover, the debt coverage indicators remained healthy during FY21 with interest coverage of 32 times and total debt to GCA of 0.61 years during FY21 backed by healthy profitability and low interest cost.

Established presence in domestic formulation market with wide distribution and marketing set-up

LRHPL was promoted in August 2007 by Mr. Pankaj Singh, Managing Director, who possesses experience of more than two decades in the Indian pharmaceutical industry. He is aided by a well experienced management team comprising of professionals with more than 15 years' experience in the domestic pharmaceutical industry who head different segments of the business. LRHPL has established strong presence in domestic formulation market, ranking among the top 40 pharmaceutical companies in India with one of its brands (Nuhenz) featuring in the top 300 formulation brands in domestic market (Source: Company). LRHPL derives most of its revenue from the domestic market while export was miniscule at less than 4% of total operating income during FY21. Further, LRHPL has a marketing team of more than 1,300 professionals including field staff of 1,085 medical representatives (MR) as on March 31, 2021 covering more than 16,000 doctors across India. Its MR productivity (measured in terms of average monthly sales per MR) has remained at a healthy level.

Presence in niche chronic therapeutic segments

As on March 31, 2021, LRHPL had around 340 formulations in its product portfolio catering to niche therapeutic segments like nephrology, neuro-psychiatry, critical care, urology, gastroenterology, respiratory and cardio metabolic. Most of the therapeutic segments catered by LRHPL are chronic and only 8% to 10% of the formulations are covered under National List of Essential Medicines (NLEM) resulting in lesser competition, more stability of revenue and better operating margins compared with many pharmaceutical companies operating in acute therapeutic segments.

LRHPL, through its 51%-owned subsidiary, Frimline Private Limited (FPL), is also engaged in trading and marketing of nutraceutical and food supplements; albeit the contribution of such products in its overall product portfolio is miniscule. Moreover, FPL, has developed new product, under the brand name 'PALMIGES' in the nutraceuticals segment (i.e. medical food supplement) for treating Neuropathic pain. LRHPL has filed product patent with various countries/continents against which it has already received patent approval from various countries including Canada and Europe.

Moreover, during the current year, LRHPL has acquired majority equity stake in ELPL, an API manufacturing company. The estimated cost of the acquisition is nearly Rs.40 crore which is being entirely funded through internal accruals. This acquisition will allow LRHPL to backward integrate its operations apart from diversification of its business segments.

Liquidity: Strong

Liquidity of LRHPL remained strong marked by healthy cash accruals of Rs.115 crore and cashflow from operation of Rs.102 crore during FY21. Further, the company has low term debt repayment obligation over FY22-FY23 providing very strong debt service coverage ratio. Furthermore, low utilization of fund-based working capital limits apart from presence of cash and liquid investments of Rs.274 crore as on December 31, 2021 provides cushion to its liquidity. However, the available liquidity may be utilized for LRHPL's in-organic expansion plans; albeit nothing concrete has been finalized yet as articulated by the company management. In terms of inorganic expansion, the size and its funding mix shall remain crucial from credit perspective.

Key Rating Weaknesses

Moderate track record of operations with moderate revenue concentration

LRHPL commenced its operations in August 2007 with marketing of formulations in the nephrology segment and gradually expanded its product portfolio to other therapies. LRHPL has operational track record of 14 years; albeit with moderate revenue concentration among few therapeutic segments and formulations. Nephrology and CNS therapeutic segments continued to contribute around 65% of its gross sales during FY21; however, this concentration reduced to around 57% during 9MFY22. Further, eight out of its top ten products belonged to these two segments whereby top ten products contributed around 41% of its total net sales during FY21 which reflects high reliance on few therapeutics and products.

Low R&D expenditure and dependence on contract manufacturing for sourcing formulations
The expenditure on research and development (R&D) for LRHPL continued to remain low during FY21 which restricts its ability to develop and launch new formulations. Until FY15, LRHPL did not have any formulation manufacturing facility and used to source all its formulations through contract manufacturing. Although its dependence on contract manufacturing has declined since the acquisition of Stanford Laboratories Private Limited (SLPL) in FY16, it still remained relatively high as it sourced around 36% of its total formulation requirement through contract manufacturing and loan licensing during FY21 (P.Y.: 43%). Hence, continued steady relationship with its suppliers and maintaining requisite product quality remains critical. LRHPL through its subsidiary SLPL had expanded its manufacturing facility in Himachal Pradesh which commenced operations in November 2020. The expanded capacity caters to the export market of emerging countries of South Asia, Africa and South America. Moreover, this is expected to further reduce its dependency on third party contract manufacturing.

Large working capital requirement restricts operating cash flow
The operations of LRHPL remain working capital intensive marked by long working capital cycle of 165 days during FY21 (117 days in FY20) primarily due to elongated debtor collection period of 133 days (P.Y. 92 days). The average debtor collection days elongated during FY21 largely due to reduction in revenue during year. However, on absolute basis, total receivables stood at Rs.203 crore as on March 31, 2021 as compared to Rs.210 crore as on March 31, 2020. Despite elongation in operating cycle, LRHPL had generated strong operating cash flow of around Rs.102 crore as against net profit of Rs.103 crore and Gross Cash Accruals of Rs.115 crore during FY21.
With growth in scale of operation, the debtor collection cycle has improved sharply from 133 days in FY21 to 92 days in 9MFY22 and is expected to remain at around 90-100 days in the medium term. LRHPL needs to extend higher credit to their dealers to support their working capital requirement. However, utilization of Cash Credit (CC) remains negligible as the company uses bill discounting facility to facilitate its customers. Bill discounting charges and interest thereon is also recovered from respective customers. As articulated by the company management, there would not be any major incremental investment in working capital (mainly in debtors) as the company now operates with optimum collection period. Going forward, LRHPL's ability to generate adequate operating cash flows to meet additional/ incremental working capital requirement will be crucial from credit perspective.

Exposure to regulatory risk and competitive industry landscape
LRHPL is exposed to regulatory risk as its operations are centered majorly on manufacturing pharmaceutical formulations for human needs. The players in the pharmaceutical industry need to manufacture products that meet the set quality standards. Good manufacturing practice (GMP) have to be followed for the control and management of manufacturing and quality control testing of drugs. The government also controls the prices of pharmaceutical products through the drug price control order (DPCO) under price control mechanism. Inclusion of formulations of LRHPL in DPCO may pose significant regulatory risk. However, only 8-10% of LRHPL's formulations are presently included in DPCO. Besides DPCO, Government interventions such as ban on certain fixed dose combinations may impact the industry players including LRHPL.
The Indian Pharmaceutical Industry (IPI) is ranked third globally in terms of volume and thirteenth in terms of value. The lower market share in terms of value can be attributed to the predominance of IPI in generic medicines which command lower prices. LRHPLL is primarily engaged in marketing of branded generic formulations in domestic market which exposes it to competition.

Analytical Approach: Consolidated. For the purpose of analysis, CARE has considered consolidated financials of LRHPL. The list of subsidiaries whose financials have been consolidated in LRHPL is mentioned in ***Annexure-3***.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
CARE's methodology for manufacturing companies
Rating Methodology – Pharmaceutical Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Incorporated in August 2007 by Mr. Pankaj Singh, LRHPL is engaged in manufacturing and marketing of branded generic formulations based out of Ahmedabad. LRHPL started its operations by marketing formulations in nephrology therapeutic segment and later expanded into several other therapeutic segments like cardio-metabolic, respiratory, urology, neuropsychiatry, etc. It operates majorly in domestic formulations market, while exports contribute less than 4% of its total operating income. As on March 31, 2021, the promoters held 72% equity stake while balance is mainly held by private equity (PE) firms, Sequoia Capital (13.91%) and A91 partners (6%).

(Rs. Crore)

Brief Financials of LRHPL (Consolidated)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total Operating Income	697	566	589
PBILDT	152	153	135
PAT	108	103	94
Overall Gearing (times)	0.13	0.15	NA
Interest Coverage (times)	47.28	32.21	115.84

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instrument / facility: Not Applicable

Complexity level of various instruments rated for this company: Please refer 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
Fund-based-LT/ST	-	-	-	-	10.00	CARE A; Stable / CARE A1
Fund-based - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	50.00	CARE A1

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	Fund-based-LT/ST	LT/ ST*	10.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (25-Feb-21)	1)CARE A-; Stable / CARE A2+ (21-Jan-20)	1)CARE A-; Stable / CARE A2+ (13-Dec-18)
2	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	50.00	CARE A1	-	1)CARE A2+ (25-Feb-21)	1)CARE A2+ (21-Jan-20)	1)CARE A2+ (13-Dec-18)
3	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (21-Jan-20)	1)CARE A-; Stable (13-Dec-18)

** LT/ST: Long Term/ Short Term*

Annexure-3: List of Subsidiaries

Name of the Company	% of holding as on March 31, 2021	Consolidation
Stanford Laboratories Private Limited (SLPL)	51%	Fully Consolidated
Frimline Private Limited (FPL)	51%	Fully Consolidated
Vedalik Healthcare Private Limited (VHPL)	100%	Fully Consolidated
Stanford Lifecare Private Limited #	100%	Fully Consolidated

 # Step-down subsidiary of La Renon Healthcare Private Limited

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - ST-Bills discounting/ Bills purchasing	Simple
2.	Fund-based-LT/ST	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: Krunal Pankajkumar Modi
Contact no.: +91-8511190084
Email ID: krunal.modi@careedge.in

Relationship Contact
Name: Deepak Purshottambhai Prajapati
Contact no.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

About CARE Ratings Limited:
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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.

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