

Fourrts (India) Laboratories Private Limited

December 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	39.00	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	40.00	CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable/ A Two Plus)	Reaffirmed
Short-term bank facilities	25.00	CARE A2+ (A Two Plus)	Reaffirmed
Total bank facilities	104.00 (₹ One hundred four crore only)		

Details of instruments/facilities in Annexure-1

Detailed rationale & key rating drivers

The ratings assigned to the bank facilities of Fourrts (India) Laboratories Private Limited (Fourrts) continue to derive strength from the vast experience of the promoters in the pharmaceutical industry, well-established operations in pharmaceutical formulations and strong distribution network with presence in both domestic and export markets. The ratings also derive comfort from low leverage, comfortable financial risk profile, and strong liquidity.

The ratings, are however, are constrained by modest profitability margins, competitive and regulated nature of the pharmaceutical industry, and susceptibility of margins to raw material price fluctuation and forex fluctuations.

Rating sensitivities

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

- Scaling-up of operations with total operating income (TOI) at around ₹750 crore.
- Improvement in profitability margins on a sustained basis.

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

- Any debt-funded capital expenditure, leading to deterioration of the overall capital structure with the overall gearing increasing above unity.
- Any deterioration in the overall liquidity position, which is presently aided by the presence of fixed deposits.

Detailed description of the key rating drivers

Key rating strengths

Established operations in the pharmaceutical formulations segment:

Fourrts has expertise in the nutraceuticals segment and majority of the products of the company cater to this segment. Since the company operates mainly in this segment, it is protected from price restrictions by Drugs Price Control Order (DPCO). The key brands for all the divisions include Sucrafil, Rejunron, Fourrts B, etc. The company currently has two manufacturing facilities – Plant 1, with WHO-GMP approval, has facilities to manufacture tablets, capsules, liquids and cream, and it caters to domestic as well as exports; whereas Plant 2 caters only to exports and has facilities conforming to the UK-MHRA standards. The company also outsources the manufacturing of its products based upon its requirements. For FY22, the capacity utilisation for tablets and liquids averaged at more than 90%, capsules were lower at 32% and creams at 60% with the overall average capacity utilisations in the range of at 70-75%.

Strong distribution network in the domestic market with expanding presence in export markets:

Around 67% of Fourrts' revenues are generated from domestic sales. For the domestic market, the company has over 1,200 medical representatives with revenues being majorly from South India. The distribution network consists of 23 super stockists and around 1,200 stockists across the country. Over the years, the company has also been consistently growing its presence in international markets, with focus on the regulated markets of Europe, Australia, and is now planning for the US. It exports its products to around 50 countries in the world – in Africa, South-East Asia, Latin America and Eastern Caribbean. Around 33% of the revenue in FY22 was from export markets of which around 10%-15% of the revenue is from regulated markets.

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

Healthy debt coverage indicators and comfortable capital structure:

Fourrts continues to have a comfortable risk profile, with moderate overall gearing of 0.56x as on March 31, 2022. The company has fixed deposits worth ₹140-150 crore against the total debt of ₹130 crore as on March 31, 2022. The debt coverage indicators continued to be healthy with interest coverage of more than 10 times and TDGCA of less than three times in the past three years.

Vast experience of the promoters in the pharmaceutical industry:

SV Veeramani, the Chairman and Managing Director, has been associated with the pharmaceutical industry for about four decades. He, along with his wife Radha Veeramani, who is also the director of the company, look after the overall operations of the company. The promoter's daughters and sons-in-law have also joined the business as directors. The top management at Fourrts is supported by experienced and well-qualified management.

Key rating weaknesses**Modest profitability margins:**

The company has been seeing consistent improvement in revenue over the past five years, with a CAGR of around 10%. In terms of its profitability, the company saw a dip in profit margins during FY22 due to higher freight cost and increased raw material cost. Furthermore, margins remain constrained due to exports to unregulated markets which yield lower margins. Furthermore, the PBILDT and PAT margins of the company are generally low compared with the industry due to high employee costs (around 30% of the total income), which includes salary drawn by the promoters, which is on an average 22% of the total employee cost.

Susceptibility of margins to foreign exchange fluctuations and raw material price fluctuations:

The company engages in export of its products to about 50 countries, with export income constituting 33% of the sales in FY22, while around 10% of the purchases of the raw materials are imported. In the absence of any other hedging mechanism (apart from some natural hedge), the profitability margins of the company remain susceptible to any adverse fluctuations in the foreign currency rates. The pharmaceutical industry as such is affected by surge in the raw material prices. Furthermore, imports from China were impacted of late, owing to stringent environment norms concerning industries manufacturing APIs, and COVID. However, the company's direct dependence on import from China is lower; this has not affected the company.

Nature of industry being very competitive and highly regulated:

The domestic generic formulation industry consists of numerous contract manufacturers, MNCs as well as established domestic brands, with some of these players also having a pan-India presence. This leads to intense competition, which restricts the company's revenue growth and pricing flexibility. Fourrts is exposed to regulatory risk, since the players in the pharmaceutical industry need to manufacture products that meet the set quality standards of the various regulators. Good manufacturing practice (GMP) has to be followed for the control and management of manufacturing and quality control testing of drugs. Regular compliance with manufacturing quality standards of regulatory authorities is critical for selling products across various categories. With its presence in both domestic and export markets, the company has to follow the regulations from domestic and export country regulations as well.

Liquidity: Adequate

Liquidity is marked by adequate accruals against low repayment obligations and healthy unencumbered cash and bank balance of ₹152.26 crore, as on March 31, 2022. The company holds inventory for 30-35 days. The company offers a receivable period of up to 100 days. The company did not have any long term loan and the working capital utilisation has been around 84% for the 12-month period ended October 2022.

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](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

\About the company

Fourrts was founded by S V Veeramani as a partnership firm in 1977. It was incorporated as a private limited company in 1979 as Fourrts (India) Laboratories Private Limited. Fourrts is engaged in the manufacturing and sale of generic formulations, cardiovascular, anti-diabetic, nutraceuticals and anti-malarials. The company has two manufacturing facilities in Chennai – Plant 1 was established in 1985 and Plant 2, in 2013. As of March 31, 2022, the company had installed capacities to manufacture 2,400 million pieces of tablets, 600 million pieces of capsules, 2 million litres of liquids and 0.25 million kg of creams. The company also does contract manufacturing majorly for its export customers.

Brief Financials (₹ crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (A)	H1 FY23
Total operating income	529.20	554.74	624.62	327.00
PBILDT	36.16	68.67	66.80	NA
PAT	22.55	44.78	53.23	NA
Overall gearing (times)	0.71	0.57	0.56	NA
Interest coverage (times)	7.32	17.51	22.97	NA

A: Audited; NA: Not Available

Status of non-cooperation with previous CRA: CRISIL classified Fourrts as Issuer Not Cooperating vide its press release dated January 24, 2022.

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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	39.00	CARE A-; Stable
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	40.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Bank guarantee		-	-	-	10.00	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	15.00	CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash credit	LT	39.00	CARE A-; Stable	-	1)CARE A-; Stable (22-Feb-22)	1)CARE BBB+; Stable (22-Jan-21)	1)CARE BBB+; Positive (25-Oct-19)
2	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A2+	-	1)CARE A2+ (22-Feb-22)	1)CARE A2+ (22-Jan-21)	1)CARE A2+ (25-Oct-19)
3	Non-fund-based - ST-Bank guarantee	ST	10.00	CARE A2+	-	1)CARE A2+ (22-Feb-22)	1)CARE A2+ (22-Jan-21)	1)CARE A2+ (25-Oct-19)

4	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST*	40.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (22-Feb-22)	1)CARE BBB+; Stable / CARE A2+ (22-Jan-21)	1)CARE BBB+; Positive / CARE A2+ (25-Oct-19)
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*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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/ ST-Packing Credit in Foreign Currency	Simple
3	Non-fund-based - ST-Bank guarantee	Simple
4	Non-fund-based - ST-Letter of credit	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 instruments: CARE Ratings Limited (CARE Ratings) 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.

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