Makers Laboratories Limited

March 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	8.40 (Reduced from 12.00)	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Makers Laboratories Limited (MLL) continues to derive comfort from the promoter's association with IPCA Laboratories Limited (IPCA) and long-standing experience of promoters in the pharmaceutical industry, diversified product portfolio, satisfactory capital structure & debt protection metrics and long-standing supplier network. The rating, however, is tempered due to declining scale of operations in FY23, vulnerability accruing from volatility in raw material prices, exposure to regulatory risk and moderate working capital cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- To achieve PBILDT margin above 15.00% on sustained basis.
- Sustainable improvement in scale of operations registering growth rate of about 15%.

Negative factors

- Reduction in PBILDT margins below 5% on sustained basis.
- Deterioration in capital structure with overall gearing above 0.50x.

Analytical approach: Consolidated

For arriving at the rating, CARE Ratings has considered the consolidated financials of MLL and support derived from its linkages with IPCA Laboratories Limited. Both the entities have sizable common shareholding pattern.

Outlook: Stable

CARE Ratings believes MLL will continue to benefit from its experienced promoter group and their long standing experience in the pharmaceutical industry, diversified product portfolio and its satisfactory capital structure.

Key strengths

Experienced promoters with established track record in the industry

The promoters of IPCA Laboratories Limited (IPCA) have promoted MLL. Mr. Premchand Godha, the Managing Director of IPCA is also the promoter of MLL. He is a Chartered Accountant with over 4 decades of experience in the Pharma Industry. He has been instrumental in turning around IPCA from a sick unit in 1975 to a profitable International Pharmaceutical company. Mr. Nilesh Jain and Mr. Saahil Parikh are whole-time Directors in MLL and handle day to day operations of the Company. Mr. Saahil Parikh is a graduate in B.Sc. (Bio-Chemistry) from Gujarat University. He has also done Diploma in Management Studies from Ahmedabad Management Association. He has two decades of experience in the Pharma Industry, wherein he has overlooked production, quality control, projects and general management. Mr. Nilesh Jain is a Commerce Graduate (B. Com) and M.M.S. (Masters in Management Studies) from Mumbai University. He has more than 20 years of experience in the field of Materials Management, Marketing Management, Business Development and General Management. The management is ably supported by a team of well-qualified professionals down the line.

Diversified business segments backed by approved manufacturing facilities.

MLL markets generic formulations in the Indian market. The company procures its products on P2P basis from various companies situated in the excise free zone of Himachal Pradesh and Uttarakhand. The facilities of their vendors have all the necessary certifications in place including CGMP. The manufacturing facility of MLL is CGMP certified. During FY22, the company started working on upgradation/ capacity enhancement of its old liquid injectable manufacturing unit situated at Ahmedabad with a capital outlay of Rs.11.22 crores to enable this manufacturing unit to be offered for WHO-GMP certification. The same became operational from January 2023. During FY23, MLL added few generic formulations in the marketplace as well as increased its geographical coverage through appointment of new distributors. MLL's subsidiary, Resonance Specialties Limited (RSL) is a company engaged in business of manufacturing and marketing of Pyridine, Picolines, Cynopyridines drug intermediates and active pharmaceutical

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

ingredient (API's). The acquisition of controlling shareholding in RSL will enable MLL to enter into speciality chemicals and API businesses which will complement the parent's existing generic formulations business.

Long-standing supplier relations with PAN India supply chain

The company, by virtue of its long presence in the Pharma Industry and association with IPCA Laboratories Limited, has established a strong and dependable supplier network. The company's major P2P vendors are Meghmani LLP, Pinnacle Life Sciences Pvt Ltd, Vital Laboratories Pvt Ltd, Aarti Drugs Ltd, Smayan Healthcare Pvt Ltd and Acme Formulation, among others. The company procures majority of its API from Farmson Analgesics and IPCA Laboratories Ltd, among others. MLL has a sound supply chain operating PAN India backed by a strong distribution network of super stockists. MLL has changed its distribution policy from 'Direct to Distributor' to 'Direct to Chemist'. MLL has its own depot at several locations pan-India to supply its products directly to chemists. Thus, saving on commission and logistics cost paid to the distributor.

Diversified product portfolio with acquisition of controlling stake in RSL

MLL markets its products in major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti-inflammatory, Analgesic, Anti-Diabetics and other common diseases. The company's top formulation brands comprise of Duramol (Paracetamol), Artemak-AB (α-β Arteether), Loroquin (Chloroquine), Nimuwin (Nimuselide), Coffwin (Anti cough Range) and Exylin (Amoxycillin range). The company generates a stable stream of revenue from a diversified product portfolio with the top 10 products contributing 37% of the net sales in FY22 (29% of the net sales in FY21). RSL is into business of manufacturing and marketing of Pyridine and Pyridine Derivatives, Picolines and some bulk drugs. RSL has a strong and established business relationship with its clients across Pharmaceuticals, Agrochemicals and Specialty Ingredients industries.

Comfortable capital structure; modest debt coverage indicators

MLL has a sound capital structure marked by the overall gearing remaining below unity at 0.20x as on March 31, 2022 (0.19x as on March 31, 2021). The company's debt profile comprises of working capital bank borrowings and term loan availed in FY19-20 for funding the new ophthalmic facility. During Q1FY23, MLL has raised funds through Rights issue of Rs.14.75 crore to fund its upgradation capex. Considering same, Total Net Worth of the company is expected show sharp improvement in FY23, leading to improvement in capital structure of the company. Debt coverage indicators continues to remain modest. As on March 31, 2022, Total Debt to GCA of the company has improved to 1.25x (PY: 2.90x), PBILDT Interest coverage stood at 9.33x (PY: 2.30x).

Key weaknesses

Moderate scale of operations

For FY22, MLL's consolidated TOI increased by 87% to Rs.128.53 crore as against Rs.68.89 crores during FY21 while PBILDT margin has improved from 8.37% to 20.23% during the said period. MLL's standalone TOI increased by 19% to Rs. 53.25 crores in FY22 as against Rs. 44.83 crores during FY21. MLL's generic formulations are mainly used by dispensing doctors, nursing homes and hospitals. Due to ease of lockdown restrictions in the second half of FY22, MLL's sale of generic drugs have improved during FY22. However, the consolidated TOI during 9MFY23 fell by over 27% to Rs. 72 crores as against Rs. 99 crores during 9MFY22. The PBILDT margin during 9MFY23 fell to 3.63% as against 18.79% during 9MFY22. The substantial increase in the prices of several key active pharmaceutical ingredients used in the Company's major selling generic formulations such as Paracetamol and due to the price control regime, the increased raw material cost could not be passed on by the Company to its customers for several of its formulations. This coupled with inflationary trend in the economy which resulted in increased operating cost also contributed to the reduction of margins in several products.

Vulnerability to Volatility in raw material prices and forex fluctuation risk

The raw material cost is the major cost component which accounted for 41% of the total cost of sales in FY22 (45% during FY21). The volatility in input prices subjects the profitability of the company to risk associated with adverse movement of prices. The company primarily operates in the domestic market with no forex inflows compared to moderate forex outflow over the years. The company has no hedging mechanisms in place for the same. Resultantly, the company is exposed to risk associated with volatility in movement of foreign exchange rates.

Moderate working capital cycle

The operating cycle has remained stable at 100 days in FY22 as against 102 days in FY21. While MLL, now shifted to Direct to Stockist model and has improved collection period during from 60 days during FY21 to 43 days during FY22. Further, this change in model also improved inventory position as earlier inventory used to stuck at distributor level. The inventory period improved marginally to 90 days during FY22 as compared to 102 days during FY21. Consequently, MLL's average working capital utilization remained moderate around 35% for 12-month period ending in December 2022.

Exposure to regulatory risk

The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations, and permissions for conducting business activities. The approval process for a new product registration is complex, lengthy, and expensive. The time taken to obtain approval varies across countries and authorities, usually taking a minimum of six months to several years from the date of application. Any delay or failure in getting approvals for new product launch could adversely affect the business prospect of the company.

Liquidity: Adequate

MLL's liquidity profile is marked by modest cash and bank balance of Rs.0.25 crore as on September 30, 2022 and current ratio at 1.89x as on March 31, 2022. MLL's working capital limits are utilized till the extend of 35% of sanctioned limits. Hence, providing adequate cushion for meeting incremental working capital requirement from existing line of credit. For FY23, MLL has term debt repayment obligation of Rs.2.84 crore against expected cash accruals of Rs. 2.96 crore. Nevertheless, the comfort is drawn at the back that the company during H1FY23 already raised Rs. 14.75 crore through right issue, the proceeds of the same are partly being utilized for meeting debt obligations, operational requirements and also for undertaking the capex.. Hence, considering above, MLL's liquidity profile remains adequate in near term.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Makers Laboratories Limited (MLL), incorporated in July 1984, is an Indian Pharmaceutical company manufacturing Generics. The promoters of IPCA Laboratories Limited (IPCA) have promoted MLL. Mr. Premchand Godha, the Managing Director of IPCA is also the promoter of MLL. MLL primarily markets branded generic formulations and generic formulations in the domestic market under major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti-Inflammatory, Analgesic, Anti-Diabetics, and other common diseases. The company gets it products manufactured on Procure to Pay (P2P) basis in the facilities of various companies situated in Himachal Pradesh and Uttarakhand. Additionally, the company also handles job-work for manufacturing of injectables (anti-malarial) solely for IPCA. The company adheres to all the requisite quality norms to ensure the best quality for its products.
MLL is listed on the Bombay Stock Exchange (BSE). In September 2020, MLL had acquired controlling stake in Resonance Specialities Limited (RSL), a chemical manufacturing and marketing company. RSL is a company engaged in business of manufacturing and marketing of Pyridine, Picolines, Cynopyridines drug intermediates and active pharmaceutical ingredient (API's) with its manufacturing unit situated in Tarapur, Boisar, Palghar District (Maharashtra). MLL has acquired 45.48% stake in RSL for cash consideration of Rs. 22.37 crore. MLL has took over board of RSL on December 21, 2020. The acquisition of controlling shareholding in RSL will enable MLL to enter into speciality chemicals and API businesses which will complement the parent's existing generic formulations business.

Industry Classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	68.89	128.53	71.83
PBILDT	8.37	20.23	3.63
PAT	1.35	11.72	-2.53
Overall gearing (times)	0.19	0.20	NA
Interest coverage (times)	5.12	11.65	1.93

A: Audited, UA: Un-audited, NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	5.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	31-03-2024	3.40	CARE BBB+; Stable

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-Term Loan	LT	3.40	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Mar-22)	1)CARE BBB+; Stable (22-Mar-21)	1)CARE BBB+; Stable (11-Feb-20)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Mar-22)	1)CARE BBB+; Stable (22-Mar-21)	1)CARE BBB+; Stable (11-Feb-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: 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.

Contact us

Media Contact Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754-3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	**Analytical Contacts** Name: Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-22-6754-3505 E-mail: Pulkit.Agarwal@careedge.in Name: Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: +91-40-4010-2030 E-mail: Dnaveen.Kumar@careedge.in Name: Shiva Shakthi Loya Analyst **CARE Ratings Limited** E-mail: Shiva.Loya@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in