La Renon Healthcare Private Limited

April 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	10.00	CARE A; Stable / CARE A1	Reaffirmed
Short Term Bank Facilities	50.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of La Renon Healthcare Private Limited (LRHPL) take into account its experienced management, established presence in the domestic formulation market with products mainly catering to the chronic therapeutic segments and its wide distribution and marketing network. The ratings continue to be underpinned by its growing scale of operations with healthy profitability, strong return ratios, comfortable capital structure and debt coverage indicators and strong liquidity with availability of healthy free cash and liquid investments.

The above rating strengths, however, continue to remain constrained on account of concentration of its revenue towards few therapeutic segments, large working capital requirement to support the growing scale of operation, funding support requirement to its subsidiaries and exposure to the inherent regulatory risk. Furthermore, 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. CARE Ratings Limited (CARE Ratings) also takes cognisance of funding requirement from LRHPL towards operations of recently acquired loss making Enaltec Labs Private Limited (ELPL), which is engaged in the manufacturing of active pharma ingredients (API).

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Sustained healthy growth in its total operating income (TOI) with greater diversification of its revenue stream with profit before interest, lease, depreciation and tax (PBILDT) margin of more than 20% and return on capital employed (ROCE) above 30% on 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

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

Analytical approach: Consolidated

For the purpose of the credit risk assessment, CARE Ratings has considered financials of LRHPL and its subsidiaries. The list of subsidiaries whose financials have been consolidated is mentioned in **Annexure-3**.

Outlook: Stable

The outlook on the long-term rating of LRHPL is "Stable" considering its presence in the branded formulation market in the chronic therapeutic segments and healthy liquidity available with the company that would enable it to sustain its healthy financial risk profile over the medium term.

Key strengths

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

Incorporate in August 2007, LRHPL was promoted by 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 professionals with over 15 years of experience in the respective functional domain. LRHPL has established strong presence in the domestic formulation market and is ranked is ranked 25th amongst the fastest growing pharmaceutical company in India [Source: Company and All India Organization of Chemists and Druggists (AIOCD) monthly data]. LRHPL derives majority of its revenue from the

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

domestic market while export was miniscule at around 4-5% of net sales during FY21 and FY22. Furthermore, it has a strong marketing team of more than 1,200 professionals including medical representatives (MR) of 1,191 as on March 31, 2022 which covers more than 16,000 doctors across India. During 9MFY23, LRHPL has added around 900 MR to support the growth in the scale of operation along with expanding its market share. CARE Ratings notes that LRHPL's MR productivity (measured in terms of average monthly sales per MR) has remained at a healthy level in the past and 8expects it to likely moderate in the near to medium term with recent addition of the manpower.

Presence in niche chronic therapeutic segments with various strategic investments

As on March 31, 2022, LRHPL had around 357 formulations in its product portfolio catering the niche therapeutic segments like nephrology, central nervous system (CNS), critical care, urology, gastroenterology and cardiology among others. Most of the therapeutic segments catered by LRHPL are chronic and only around 8-10% of the formulations are covered under national list of essential medicines (NLEM) resulting in lesser competition, more stability of the revenue and better operating margins compared with other pharmaceutical companies operating in acute therapeutic segments.

LRHPL has multiple subsidiaries catering to various segments. It holds 51% stake in Frimline Private Limited (FPL), which is engaged in the trading and marketing of nutraceutical and food supplements; albeit the contribution of such products in its overall product portfolio is relatively small. LRHPL also holds 51% stake in the Stanford Laboratories Private Limited (SLPL) which is engaged in the manufacturing of the oral solid drugs (OSDs) and is a supplier to both LRHPL and FPL.

During FY22, LRHPL has also invested in ELPL in the form of compulsory convertible preference shares (CCPS) which got converted into equity shares in December, 2022. ELPL is into manufacturing of APIs and would provide the backward integration for LRHPL.

During 9MFY23, LRHPL had set-up a Rusoma Healthcare Private Limited (RHPL) wherein LRHPL has 51% stake and balance 49% stake is with the promoters of Rusoma Laboratories Private Limited (RLPL). RHPL would manufacture injectables, large volume parenteral (LVP) and small volume parenteral (SVP) for which capex is at planning stage. Injectables are currently being manufactured by LRHPL on loan license basis which would gradually shift to RHPL going forward. LRHPL had also procured one land at Alwar, Rajasthan for its future growth requirements.

Healthy growth in the TOI during FY22 and 9MFY23 with healthy profitability and strong return ratios

The TOI of LRHPL grew at a healthy rate of around 50% during F22 over FY21 level (which was affected amidst Covid-19 disruptions) and 21% over FY20 level, primarily driven by volume growth in CNS, Nephrology and Gastroenterology segment and normalisation of business operations. Also, there was a healthy growth in the critical care and gynaecology segment which however, has small base. Over the years, LRHPL has regularly introduced new brands across various therapeutic segments which led to growth in the scale of operation and the same was further aided by the expansion of its marketing and distribution network at pan-India level. Also, LRHPL through a structured deal acquired ELPL which was effective from February 01, 2022.

The TOI of LRHPL further grew by around 36% from Rs.589 crore during 9MFY22 to Rs.798.29 crore during 9MFY23 with ELPL being the subsidiary of the LRHPL.

The PBILDT margin of LRHPL remained healthy at 20.66% during FY22 as compared with 26.02% during FY21 and 21.22% during FY20. The PBILDT margin of LRHPL was in line with FY20 levels as in FY21 there was significant reduction in marketing expenses due to lower travel amidst Covid-19 disruption which normalized in FY22. The PAT margin also remained healthy at 14.16% during FY22 as compared with 18.51% during FY21. Overall, LRHPL has high return indicators marked by ROCE and return on net worth (RONW) of 24.21% and 20.77% during FY22 mainly om the back of its asset light model. On a steady state basis, CARE Ratings expects the PBILDT margin to remain healthy in the range of 20%-23% due to its presence in chronic therapies like nephrology, neurology, and critical care segments.

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

LRHPL has comfortable capital structure marked by overall gearing of 0.23x as on March 31, 2022 as compared with 0.15x as on March 31, 2021. The total debt of the LRHPL remained low however, it increased from Rs.69.75 crore as on March 31, 2021 to Rs.150.62 crore as on March 31, 2022 due to acquisition of ELPL. LRHPL has strong net-worth base of Rs.661.66 crore as on March 31, 2022 as compared with Rs.478.44 crore as on March 31, 2021, supported by accretion of healthy profits every year.

With low debt levels and healthy profitability, LRHPL has healthy debt coverage indicators marked by PBILDT interest coverage and total debt to gross cash accruals (TDGCA) of 39.84x and 1.10x during FY22 as compared with 30.68x and 0.61x respectively during FY21. Going forward, CARE Ratings expects, LRHPL to maintain its comfortable capital structure below 0.50x with no major debt-funded capex planned in LRHPL and its subsidiaries.

On a standalone basis, LRHPL does not have any term debt. Its total debt of Rs.53.36 crore as on March 31, 2022 comprise the lease liability and sale invoice financing limits availed. Also, as sales invoice financing is fully backed by fixed deposit thus effectively LRHPL, on a standalone basis too, has a very comfortable profile.

Key weaknesses

Moderate revenue concentration with dependency on the contract manufacturing

LRHPL commenced its operations with marketing of formulations in the nephrology segment and gradually expanded its product portfolio to other therapies. LRHPL follows asset light approach and outsources part of its manufacturing requirements which lead to low overhead, high asset turnover over the years.

Until FY15, LRHPL did not have any formulation manufacturing facility. It sourced all its formulation through contract manufacturing. During FY16, LRHPL acquired 51% stake in SLPL since then its reliance on contract manufacturing has consistently declined though remained at moderate level. The contract manufacturing keeps the business model asset light, and it possesses the supply chain-related issues regarding the quality control and resultant reputation risk. On a loan license basis, LRHPL manufactures injectables which form around 9-10% of its present scale of operation. Also, with proposed capex in RHPL, CARE Ratings expects that the sales proportion of the contract manufacturing would further moderate going forward.

LRHPL has moderate revenue concentration among few therapeutic segments and formulations. Nephrology and CNS therapeutic segments continues to remain the major therapeutic segment forming around 59% of its gross sales during FY22 (FY21: 65%) and 58% during 9MFY23. Furthermore, seven out of its top 10 products belonged to these two segments represent moderate concentration on the few key therapeutic segments. However, LRHPL has large product basket with top 10 products contributed around 35% of its total gross sales during FY22 and 9MFY23 (FY21: 37%).

Funding support requirement towards its subsidiaries especially ELPL having weak liquidity

During FY22, LRHPL invested in CCPS and in equity shares of ELPL with 51% voting rights. ELPL is in to manufacturing of active pharmaceuticals ingredients (API's) and has major presence in the export market. The CCPS have been converted into equity during December 2022 and ownership of LRHPL stands at 70%.

The operations of ELPL are managed independently by erstwhile promoters. Historically ELPL has loss making operations. On a consolidated basis, ELPL, reported TOI of Rs.138.79 crore with losses of Rs.18.78 crore at profit after tax (PAT) level and total debt of Rs.75.33 crore as on March 31, 2022. During 9MFY23 as well, ELPL has reported cash losses which had resulted in liquidity stress, and it defaulted in its debt repayment obligations. As per management of LRHPL, after acquisition of the majority stake in ELPL during FY22 and 9MFY23, the company has initiated the process of re-orientating the operations of the ELPL. LRHPL has also extended inter-corporate deposit during February 2023 to support the operations and provide liquidity to ELPL. As articulated by the management, LRHPL would ensure necessary support to prevent any such financial stress in ELPL in future.

Apart from ELPL, the company is also undertaking capex in RHPL for injectables. Thereby going forward turnaround of performance of its subsidiaries and funding support to them is a credit monitorable. However, LRHPL's healthy cash accruals and strong liquidity provides adequate cushion for investment/support to its subsidiaries.

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 which however shortened to 134 days during FY22 primarily due to moderation in the debtor collection period from 133 days during FY21 to 104 days during FY22. In absolute term debtors have increased from Rs.202.64 crore as on March 31, 2021 to Rs.278.16 crore as March 31, 2022. LRHPL generates healthy GCA of Rs.137.53 crore during FY22 albeit its cash flow from operation remained moderate due to incremental working capital requirement. Cash flow from operation was Rs.52.85 crore during FY22 as compared with Rs.94.77 crore during FY21.

LRHPL needs to extend higher credit to their dealers to support their working capital requirement as it follows model of super distributor wherein its sales are booked at super distributor level which makes payment as per sales at his level. The company mainly utilised 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, the company now operates with optimum collection period and CARE Ratings expected collection period to remain in range of 100-130 days. 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 inherent regulatory risk along with presence in the competitive industry

LRHPL is exposed to the regulatory risk which is inherent to the pharmaceuticals industry. The players in the pharmaceutical industry need to adhere to the stringent quality standards. Good manufacturing practice (GMP) must be followed for the control and management of manufacturing and quality control of drugs. The government also controls the prices of pharmaceutical products through the Drug Price Control Order (DPCO) under price control mechanism. However, as articulated by the company, currently LRHPL derives around 10-12% of its revenue from products covered under DPCO thus reduces the risk to a certain extent. 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.

CRPL is primarily engaged in the marketing of branded generic formulations in the domestic market, which exposes it to intense competition and pressure on selling price.

Liquidity: Strong

LRHPL has strong liquidity marked by expected GCA of over Rs.140-150 crore with term debt repayment obligation of Rs.21.82 crore during FY23 (for the subsidiaries) and capex requirement of around Rs.60-80 crore annually. Its expected cash accruals are sufficient to cater the capex requirement as well as funding the additional working capital requirement with expected growth in the scale of operation. Furthermore, low utilisation of fund-based working capital limits apart from presence of cash and liquid investments of Rs.226.91 crore as on March 31, 2022 and Rs.290.16 crore as on December 31, 2022 provides cushion to its liquidity. Cash flow from operation was Rs.52.85 crore during FY22 as compared with Rs.94.77 crore during FY21. Current ratio and quick ratio remained comfortable at 2.26x and 1.83x respectively as on March 31, 2022.

Applicable criteria:

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

About the company and industry

Industry classification

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

Incorporated in August 2007 by Pankaj Singh, LRHPL (CIN; U24233GJ2007PTC05146) is engaged in the 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 has major presence in the domestic formulations market, while exports contribute less than 45% of its net sales during FY22. As on March 31, 2022, the promoters held 72% equity stake while balance is mainly held by private equity (PE) firms, Sequoia Capital (13.91%) and A91 partners (6%).

Brief Financials (₹ crore)- Consolidated	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	558.70	835.86	798.29
PBILDT	145.40	172.71	160.46
PAT	103.41	118.37	112.55
Overall gearing (times)	0.15	0.23	0.21
Interest coverage (times)	30.68	39.84	111.43

A: Audited; Prov.: Provisional; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore)- Standalone	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	517.10	729.77	729.39
PBILDT	136.66	159.86	135.55
PAT	101.04	120.07	99.54
Overall gearing (times)	0.11	0.09	0.09
Interest coverage (times)	38.38	107.11	185.68

A: Audited; Prov.: Provisional; Note: 'the above results are latest financial results available'

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 instruments/facilities: Detailed explanation of covenants of the rated instrument facilities is given in Annexure-4

Complexity level of various instruments rated for this company: Annexure- 5

Lender details: Annexure- 6

Annexure-1: Details of instrument/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 - ST-Bill Discounting/ Bills Purchasing	-	-	-	-	50.00	CARE A1
Fund-based-LT/ST	-	-	-	-	10.00	CARE A; Stable / 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 (₹ 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/ST	LT/ST*	10.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (07-Mar-22)	1)CARE A-; Positive / CARE A2+ (25-Feb-21)	1)CARE A-; Stable / CARE A2+ (21-Jan-20)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (21-Jan-20)
3	Fund-based - ST-Bill Discounting/ Bills Purchasing	ST	50.00	CARE A1	s-	1)CARE A1 (07-Mar-22)	1)CARE A2+ (25-Feb-21)	1)CARE A2+ (21-Jan-20)

* Long term / Short term

Annexure-3: List of subsidiaries of LRHPL getting consolidated

Sr. No.	Name of the Entity	% holding by LRHPL as on March 31, 2022
1.	Stanford Laboratories Private Limited (SLPL)	51%
2.	Frimline Private Limited	51%
3.	Stanford Lifecare Private Limited #	51%
4.	Enaltec Labs Private Limited (Enaltec) @	51%
5.	Enaltec Pharma Research Pvt. Ltd. #	100%
6.	Enaltec Labs INC #	100%
5.	Rusoma Healthcare Private Limited $	-
6.	Vedalik Healthcare Private Limited ^	-

Step-down subsidiary of LRHPL; @ Acquired controlling stake during FY22; $ incorporated during 9MFY23 with LRHP holds 51% stake; ^amalgamated with LRHPL w.e.f. April 2021.

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-5: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - ST-Bill Discounting/ Bills Purchasing	Simple
2	Fund-based-LT/ST	Simple

Annexure-6: Lender details

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

Note on 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	**Analytical Contacts**
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Deepak Purshottambhai Prajapati Senior Director/Director **CARE Ratings Limited** Phone: +91-79-4026 5656 E-mail: deepak.prajapati@careedge.in	Name: Kalpesh Patel Director **CARE Ratings Limited** Phone: +91-79-4026 5611 E-mail: kalpesh.patel@careedge.in Name: Akhil Goyal Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5621 E-mail: akhil.goyal@careedge.in Name: Jignesh Trivedi Lead Analyst **CARE Ratings Limited** E-mail: jignesh.trivedi@careedge.in

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