Fleming Laboratories Limited

October 05, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	4.68	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	32.40 (Enhanced from 24.35)	CARE BBB+; Stable / CARE A2	Revised from CARE BBB+; Stable
Short Term Bank Facilities	7.60	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Fleming Laboratories Limited (FLL) continue to derive strength from long proven track record of business, healthy operating margins of above 20% which is expected to sustain given company's established position in its niche product segment, and conservative capital structure with limited reliance on bank borrowings. The rating strengths are, however, partially offset by moderate albeit growing scale of operation, regulated nature of business and project implementation risk w.r.t the ongoing debt funded capex in subsidiary (Fermac Bio Private Limited) where FLL has made equity investments as well as it has extended corporate guarantee towards the debt availed by Fermac.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in TOI to more than ₹200 crore while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins above 24%.
- Reduction in the operating cycle below 90 days on a sustained basis.

Negative factors

- Any un-envisaged incremental borrowings, deteriorating its overall gearing over 0.4x on a sustained basis.
- Decline in TOI by more than 30% and PBILDT margin falling below 15%.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that FLL will continue to benefit from the experience of the promoters and established relationships with customers.

Detailed description of the key rating drivers:

Key strengths

Established track record of operations

FLL has a track record spanning over two decades in the pharmaceutical industry. It is currently led by M. Jeyamuruga Prakash, who holds a post-graduate degree in Chemistry & Chemical Engineering from BITS Pilani and an MBA from the Great Lakes Institute of Management. He possesses extensive experience in the API industry and has a background in industrial and marketing roles, with a focus on the pharmaceutical sector. Prior to joining FLL, he served as Vice President for international business and marketing at Shasun Pharmaceuticals Limited. The company also benefits from the management's well-established relationships it the market with suppliers and customers.

Healthy profitability margins albeit moderate revenue base

The TOI of the company though remained small, has grown by 12%, from ₹138.09 crore to ₹154.94 crore in FY23 backed by improved realisations. The PBILDT margins stood strong at 24%, while profit after tax (PAT) margins have increased marginally to 16.29% in FY23 compared with 15.90% in the previous year.

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

Comfortable capital structure and satisfactory debt coverage indicators
The capital structure of the company has improved and remains comfortable, with an overall gearing ratio of 0.09x (0.21x in FY22) as on March 31, 2023. The company has limited reliance on bank borrowings as it generates adequate accruals for its operational purposes. The company holds a total debt of ₹11.44 crore in contrast to a net worth of ₹123.60 crore as on March 31, 2023. The company’s debt coverage indicators have also improved and remain satisfactory, with a total debt/gross cash accruals (TDGCA) ratio of 0.40x and a PBILDT interest coverage ratio of 20.40x as compared with 0.84x and 18.95x in FY22, respectively. This improvement is attributed to a healthy PBILDT of ₹37.26 crore in FY23.

Accredited manufacturing facilities
To compete with and meet the standards of its international and domestic competitors, the company has made substantial investments in strengthening its business operations. This includes obtaining approvals and audits from various regulatory agencies, including EUGMP, EDQM, WHO GMP, PMDA (Japan), COFEPRIS (Mexico), and Korea FDA. Furthermore, the company operates two API manufacturing facilities, staffed by a qualified team dedicated to upholding stringent international standards. Additionally, the company's R&D centre is recognised by the Government of India under the Department of Scientific and Industrial Research (DSIR).

Established customer base and diversified geographical reach
The company has established relationships with its pharmaceutical clients, spanning more than a decade and extending across the globe. FLL has expanded its geographical presence to encompass over 70 countries, including South American countries, Middle Eastern countries, Asia, Europe, and Russia, among others. The company's revenue is well-diversified, with the top five clients accounting for 42.56% of gross sales in FY23, compared with 53.43% in FY22.

Stable industry outlook
The Indian pharmaceutical industry has experienced substantial growth, increasing from USD 35.41 billion in FY18 to USD 49.78 billion in FY23, and is likely to reach USD 57 billion by FY25. Globally, the Indian pharmaceutical industry has a significant presence in the generics segment. Both pharmaceutical exports and the domestic market play equally vital roles in contributing to the overall Indian pharmaceutical industry. Looking ahead, there are positive indications for the industry. The raw material prices are stabilising, freight rates are returning to normal levels, and pricing pressure in the US generics market is subsiding. These factors are expected to lead to an expansion of operating margins by approximately 100 to 150 basis points over FY24-FY25 compared with FY23.

Key weaknesses

Product and therapeutic concentration risk
In FY23, the company generated 88% of its revenue from the top 10 products, as compared with 92% in FY22. Among these, the top two products, Carisoprodol and Cinnarizine, contributed to 54% of the revenue in FY23. Nonetheless, the company is actively working to reduce product concentration by increasing sales volumes from other product lines. The company serves a wide range of therapeutic segments, including muscle relaxants, anti-vertigo medications, antihistamines, anticholinergics, anti-diarrheal, urology products, and anti-migraine medications, among others.

Project implementation risk
FLL, in partnership (50%) with Bransun Labs LLP (BLL), has established an entity named Fermac Bio Private Limited (Fermac) in February 2022, to undertake the production of APIs through the fermentation process. Fleming has invested around ₹7.5 crore as equity and provided a corporate guarantee for the debt of ₹44 crore. FLL has extended corporate guarantee towards this debt and the total project cost forms about 50% of the present net worth of FLL. Nonetheless, the project is progressing as scheduled, and is expected to achieve COD by June 2024. Timely completion of the project without any major time or cost overrun, which remains critical from the credit perspective.

Presence in regulated industry
The company is exposed to the regulatory risks due to its primary focus on manufacturing pharmaceutical APIs. The pharmaceutical industry is subject to extensive regulations in many countries, requiring approvals, licenses, registrations, and permissions for various business activities. The approval process for registering a new product is intricate, time-consuming, and costly. The timeline for obtaining approvals varies by country, typically ranging from six months to several years from the date of application. CARE Ratings notes that any delays or failures in obtaining approval for the launch of a new product could have adverse effects on the company's business prospects and will continue to monitor the same.

Highly competitive and competitive bulk drug industry
The Indian pharmaceutical industry is characterised by high fragmentation, with the presence of over a thousand players in APIs and formulations. This industry manufactures approximately 60,000 generic brands across 60 different therapeutic categories, along with about 1,500 bulk drugs and nearly the complete spectrum of formulations. Within this highly fragmented landscape, around 20,000 players participate, with approximately 250 operating in the organised sector, primarily focusing on formulations. These organised sector players exert control over more than 70% of the total domestic market.

Liquidity: Adequate

The company's liquidity position is adequate, with ample accruals and no significant repayment obligations. It has a substantial cushion through unused working capital limits, with an average working capital utilisation of 50% over the past 12 months ending in June 2023. The current ratio of the company remained comfortable and above unity at 2.06x as on March 31, 2023. Additionally, the company has been generating positive cash flows from operations amounting to ₹28.15 crore as on Mar 31, 2023, which is sufficient to cover its working capital requirements.

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

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

Fleming Laboratories Limited (FLL) was incorporated in 1992 and is engaged in the manufacturing and export of active pharmaceutical ingredients (API). The company was initially promoted by B. Ravishankar, with the primary objective of manufacturing APIs. Later, in November 2014, Jeyamuruga Prakash acquired a 55% stake and took over the operations of the company from December 2014 onwards. The company operates two manufacturing units in Telangana, both audited and approved by various regulatory agencies, including EUGMP, EDQM, WHO GMP, PMDA (Japan), COFEPRIS (Mexico), and Korea FDA, among others.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	138.09	154.94	31.84
PBILDT	34.74	37.26	NA
PAT	21.96	25.24	NA
Overall gearing (times)	0.21	0.09	NA
Interest coverage (times)	18.95	20.40	NA

A: Audited; UA: Unaudited; Note: 'the above results are latest financial results available'; NA: Not applicable

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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: 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-Term Loan		-	-	Jan 2026	4.68	CARE BBB+; Stable
Fund-based - LT/ ST-CC/Packing Credit		-	-	-	32.40	CARE BBB+; Stable / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	7.60	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 2023-2024	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
1	Fund-based - LT/ ST-CC/Packing Credit	LT/ST*	32.40	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable (08-Nov-22)	1)CARE BBB; Stable (05-Oct-21)	1)CARE BBB; Stable (30-Sep-20)
2	Fund-based - LT/ ST-Standby Line of Credit	LT/ST*	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE BBB; Stable / CARE A3+ (30-Sep-20)
3	Non-fund-based - ST-BG/LC	ST	7.60	CARE A2	-	1)CARE A2 (08-Nov-22)	1)CARE A3+ (05-Oct-21)	1)CARE A3+ (30-Sep-20)
4	Non-fund-based - ST-Forward Contract	ST	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A3+ (30-Sep-20)
5	Fund-based - LT-Term Loan	LT	4.68	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Nov-22)	1)CARE BBB; Stable (05-Oct-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - ST-BG/LC	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.

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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.

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