

## Brooks Laboratories Limited

October 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.80	CARE BB-; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	1.00	CARE A4	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in ratings and revision in the outlook for the bank facilities of Brooks Laboratories Limited (BLL) takes into account quarter on quarter improvement in financial risk profile of the company as reflected by increasing scale of operations along with profitability margins. Additionally, BLL strengthened its liquidity position through a successful right issue.

Although, the ratings assigned continue to remain constraint by small scale of operations and operating losses in preceding financial year albeit improvement in quarter-on-quarter basis along with highly regulated and competitive nature of industry.

However, the ratings derive strength from experienced promoters coupled with established track record of operations and comfortable capital structure.

### Rating sensitivities: Factors likely to lead to rating actions.

#### Positive factors

- Sustained improvement in scale of operations with total operating income increasing to close to Rs.100 crores and continued profitable at the PBILD T and cash levels.
- Maintaining the comfortable overall solvency position and efficient working capital management

#### Negative factors

- Continued losses at the PBILD T and cash level.
- Any major debt funded capex or increase in dependence on working capital borrowings resulting in significant deterioration of the capital structure.

### Analytical approach: Standalone

#### Outlook: Positive

CARE has revised the outlook from stable to positive considering expected improvement in revenue and profitability owing to sizable order book. Furthermore, the capital structure and liquidity position of the company is likely to strengthen as company has raised fresh funds vide right issue in current financial year. However, the outlook may be revised to 'Stable' if the improvement in key financial parameters of the company is substantially lower than expected or if the same deteriorate going forward.

### Detailed description of the key rating drivers:

#### Key weaknesses

#### Small scale of operations and operating losses in preceding financial year albeit improvement on quarter-on-quarter basis.

The scale of operations of the company continues to remain small and has declined by 28.03% during FY23 (Audited; refers to the period April 01 to March 31) to Rs. 55.57 crores as against Rs. 77.21 crores in FY22 (Audited; refers to the period April 01 to March 31). Moreover, the scale of operations of the company has remains stagnant over the past five years between FY19 to FY23.

Further, Company was incurring cash losses till FY21 due to loss making unit located at Vadodara, Gujarat which was transferred in Brooks Steriscience Limited (BSL) on slump exchange basis including assets and liabilities of the unit which was concluded in March 2021 subsequently BLL becomes profitable in FY22 and has reported nominal GCA and PAT of Rs 2.15 crores and Rs 0.67 crores respectively. However, During FY23, company has experienced losses amounting to Rs. 8.19 crores at net level and cash loss of Rs 6.47 crores, in contrast to GCA of Rs. 2.15 crores in FY22. These losses were primarily attributed to API price volatility thereby leading to pressure on profitability margin of the company.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

In addition to that, company has embarked on an expansion mode for their domestic marketing and being initial stage of marketing and complete impact of same is yet to be seen company has sustained losses. However, company expect better profitability going forward when the complete impact of marketing comes into play.

Thus, company has started showing improvement and remains at breakeven at PBILDT level in Q1FY24 (in contrast to PBILDT losses in each quarter of preceding financial year) and has booked revenue from operations of Rs 15.70 crores in Q1FY24 as against Rs. 12.61 crores in Q4FY23 and Rs. 12.00 in Q3FY23. Further, as on September 2023 company has confirmed order book of around Rs 30 crores to Rs 35 crores to be executed in next 7-8 months which provides revenue visibility for the company.

#### **Highly regulated and competitive nature of industry**

The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies. BLL is engaged in the manufacturing of pharmaceutical formulations. The industry is characterized by a high level of competition having presence of a large number of small and big players.

#### **Key strengths**

##### **Experienced management**

BLL is currently being managed by all the promoters/directors collectively. Mr Atul Ranchal, Mr Rajesh Mahajan, Mr Rajnish Kumar Bedi, Mr Deepak Mahajan, Mr Durga Shankar Maity and Jitendra Pratap Singh have an industry experience of around two decade each whereas Ms. Sonia Gupta, has an industry experience of around one and a half decade. Furthermore, directors are supported by team of well-versed professionals having rich experience in their respective fields.

##### **Established track record of operations and reputed clientele**

BLL has an industry presence of nearly two decades now, leading to established relationships with the customers as well as suppliers. The company is engaged in the manufacturing of pharmaceutical formulations and is supplying to various reputed players. BLL has floated a Joint Venture (JV) named Brooks Steriscience Ltd (BSL), with another India based pharmaceutical player, Steriscience Specialties Private Limited. BLL has transferred its Vadodara facility under the slump exchange to this JV in March 2021 and has received U.S. Food and Drug Administration (USFDA) approval for their Vadodara Plant. Turnaround of the Vadodara unit and requirement of funding support from BLL to this JV, in the future, will remain a monitorable.

##### **Comfortable capital structure**

The capital structure of the company continued to remain at a comfortable level since company don't have any term liabilities apart from lease liabilities of Rs 0.85 crores as at March 31,2023, and they are availing CC limit of only Rs 5.80 crores which is utilised to the extent of 80%. The solvency position remains comfortable as reflected by debt to equity and overall gearing ratios of 0.02x and 0.12x, as on March 31, 2023, as compared to 0.02x and 0.09x respectively as at March 31,2022. Furthermore, company has raised right issue of Rs. 11.58 crores in current financial year which will further improve solvency as well as liquidity position of the company.

##### **Liquidity: Stretched**

The liquidity position of the company remains stretched as reflected by current ratio and quick ratio of 0.80x and 0.46x respectively as on March 31, 2023, as against 1.02x and 0.55x as on March 31,2022. However, company has raised right issues of Rs 11.58 crores in current financial year which is majorly used for working capital management of company, thus, improvement in liquidity position is expected in current financial year.

The company had unencumbered cash & cash equivalent of Rs. 0.02 crore only as on March 31, 2023. Although, company currently don't have term liabilities and only availing cash credit limit of Rs. 5.80 crores wherein utilisation remains at 80% during last 12 months ending August 2023.

#### **Assumptions/Covenants: Not Applicable**

#### **Environment, social, and governance (ESG) risks: Not Applicable**

#### **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](#)

[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

The company was initially incorporated as Brooks Pharmaceuticals in 2000 and subsequently rechristened as BLL in 2002. BLL is engaged in the contract manufacturing of pharmaceutical formulations at its sole manufacturing facility located in Baddi (Himachal Pradesh). It is operating at a combined installed capacity of 2.30 crore units per annum for liquid injection vials, 13.82 crore units per annum for tablets, 2.01 crore units per annum for dry syrup, 5.76 crore units per annum for liquid injection ampoules, 2.30 crore units per annum for eye/ear drops and 5.19 crore units per annum for dry powder injection from Baddi Plant as on March 31, 2023. The products manufactured by the company find application in various therapeutic segments including antibacterial, antibiotics, antigastric, anti-malarial, life-saving drugs etc. BLL also supplies generic formulations on tender basis in states like Orisha, Rajasthan, Andra Pradesh and Kerela. The company also engages in export sales to Yemen, Afghanistan etc. while some domestic sales are also being made under self-owned brand.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	77.21	55.57	15.70
PBILDT	2.11	-5.78	0.02
PAT	0.67	-8.19	-0.53
Overall gearing (times)	0.09	0.12	NA
Interest coverage (times)	3.16	-7.54	0.11

A: Audited UA: Unaudited; NA: Not Available; 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 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-Cash Credit		-	-	-	5.80	CARE BB-; Positive
Non-fund-based - ST-BG/LC		-	-	-	1.00	CARE A4

## 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	Non-fund-based - ST-BG/LC	ST	1.00	CARE A4	-	1)CARE A4 (11-Nov-22)	1)CARE A4 (06-Jan-22)	1)CARE A4 (25-Mar-21) 2)CARE A4 (30-Sep-20) 3)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 4)CARE A4; ISSUER NOT COOPERATING* (07-May-20)
2	Fund-based - LT-Cash Credit	LT	5.80	CARE BB-; Positive	-	1)CARE BB-; Stable (11-Nov-22)	1)CARE BB-; Stable (06-Jan-22)	1)CARE B; Stable (25-Mar-21) 2)CARE B; Stable (30-Sep-20) 3)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 4)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-May-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Jan-22)	1)CARE B; Stable (25-Mar-21) 2)CARE B; Stable (30-Sep-20) 3)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 4)CARE BB-; Stable; ISSUER

									NOT COOPERATING* (07-May-20)
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\*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-Cash Credit	Simple
2	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.

## Contact us

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