Makers Laboratories Limited

February 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	8.40	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

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). Rating also derives comfort from long-standing experience of the promoters in the pharmaceutical industry, diversified product portfolio, satisfactory capital structure, debt protection metrics and long-standing supplier network. However, the rating is tempered due to declining scale of operations in FY23 and H1FY24, 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 profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 15% on a sustained basis.
- Sustainable improvement in scale of operations registering growth rate of about 15%.

Negative factors

- Reduction in PBILDT margins below 5% on a sustained basis.
- Deterioration in capital structure with overall gearing above 0.50x.
- Reduction of promoter shareholding in the company.

Analytical approach: Consolidated

For arriving at the rating, CARE Ratings Limited (CARE Ratings) has considered the consolidated financials of MLL and support derived from its linkages with IPCA. Both the entities have sizable common shareholding pattern. The list of companies being consolidated is given in Annexure-6.

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.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters with established track record in the industry

MLL is promoted by the promoters of IPCA, with Premchand Godha, the managing director of IPCA, also being the promoter of MLL. He is a Chartered Accountant with over four 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. Nilesh Jain and Saahil Parikh are whole-time Directors in MLL handling its day-to-day operations. Saahil Parikh is B.Sc. (Bio-Chemistry) from Gujarat university, with 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. Nilesh Jain is a B. Com and has Master's in management studies from Mumbai university. He has more than 20 years of experience in the field of materials management, marketing management and business development. 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

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

certifications in place including CGMP. The manufacturing facility of MLL is CGMP-certified. During FY23, the company completed working on upgradation/capacity enhancement of its old liquid injectable manufacturing unit situated at Ahmedabad, which became operational from January 2023. During FY23, MLL added few generic formulations in the market place as well as increased its geographical coverage through appointment of new distributors. MLL's subsidiary, Resonance Specialties Limited (RSL) is engaged in business of manufacturing and marketing of pyridine and pyridine derivatives, picolines, and some bulk drugs. The acquisition of controlling shareholding in RSL has enabled MLL to enter into speciality chemicals and active pharmaceutical ingredients (API) businesses which will complement the parent's existing generic formulations business.

Comfortable financial risk profile; moderate debt coverage indicators

MLL has a sound capital structure marked by the overall gearing remaining below unity at 0.12x as on March 31, 2023 (0.20x as on March 31, 2022). The company's debt profile comprises working capital bank borrowings, term loan, inter corporate deposits (ICD) and lease liabilities. During FY23, MLL has raised funds through rights issue amounting ₹14.75 crore to fund its upgradation capex. However, due to decline in profitability margins during FY23, debt coverage indicators remain moderate. As on March 31, 2023, total debt to gross cash accruals (TD/GCA) of the company stood at 8.47x (PY: 1.25x), PBILDT interest coverage stood at 2.24x (PY: 11.73x).

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, has established a strong and dependable supplier network. 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'. It 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.

Key weaknesses

Decline in scale of operations and profitability margins during FY23 and H1FY24

For FY23, MLL's total operating income (TOI) registered a degrowth by about 20% to ₹101.97 crore as against ₹128.53 crore during FY22, while PBILDT margin substantially declined to 3.25% as against 15.86% during FY22. Both MLL and its subsidiary, RSL reported decline in revenue during FY23. On standalone basis during FY23, MLL reported revenue from operations of ₹42.55 crore during FY23 as against ₹52.38 crore during FY22. During FY23, MLL completed working on upgradation/capacity enhancement of its old liquid injectable manufacturing unit situated at Ahmedabad. This facility upgradation/capacity enhancement project commenced in January 2022 and was completed by July 2022. During this period, the said manufacturing facility did not carry out any activities for nearly six months, thereby impacting the business and profitability margins of the company during the financial year. Apart from this, there was substantial increase in several key API prices used in the manufacturing of company's major selling generic formulations. 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 resulting in increased operating cost also contributed to the reduction of margins in several products as well as lower overall business and profitability.

RSL's (subsidiary company's) financial performance during FY23 was impacted mainly due to lower sales of zinc piclolinate, as compared to its sales in the preceding two financial years, during which this product had a favourable demand due to corona virus pandemic. The demand for another product of the company from Republic of China also got reduced on account of frequent lockdowns in the said country due to COVID-19 pandemic in FY23.

Vulnerability to volatility in raw material prices and forex fluctuation risk

The raw material cost is the major cost component, therefore, the volatility in input prices subjects the profitability of the company to risk associated with adverse movement of prices. MLL primarily operates in the domestic market with no forex inflows. However, the subsidiary company, RSL, derives more than 55% of its revenue through exports, and has a system of regularly monitoring its currency-wise exposures. The significant part of RSL's receivables and payables are in US Dollars which operates as a natural hedge against each other. RSL has a policy not to borrow in a currency where it has no business exposure. RSL is in the process of starting currency hedging to safeguard currency exchange losses.

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 cash equivalents of ₹0.48 crore as on September 30, 2023, and current ratio at 2.28x as on March 31, 2023. During FY24, MLL has increased its working capital (WC) limits from ₹5.00 crore to ₹8.00 crore, therefore, providing additional cushion for WC requirements. For FY24, MLL has the term debt repayment obligation of ₹2.58 crore as against expected cash accruals of around ₹4 crore, out of which MLL has repaid to the tune of ₹2.40 crore till December 31, 2023. During FY23, MLL has received an ICD of ₹2.00 crore from IPCA and has received another ₹4.00 crore of ICD during H1FY24. Thus, considering the support from IPCA, additional cushion in the WC borrowing limits and internal accruals, MLL's liquidity profile remains adequate in near term.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

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

About the company and industry

Industry classification

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

MLL, incorporated in July 1984, is an Indian pharmaceutical company manufacturing generic drugs. The promoters of IPCA also promote MLL. 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 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) with its manufacturing unit situated in Tarapur, Boisar, Palghar District (Maharashtra). MLL has acquired 45.48% stake in RSL for cash consideration of ₹22.37 crore. MLL took over the board of RSL on December 21, 2020. The acquisition of controlling shareholding in RSL has enabled MLL to enter into speciality chemicals and API businesses which will complement the parent's existing generic formulations business.

Brief Financials (₹ crore) - Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	128.53	101.97	50.07
PBILDT	20.38	3.31	0.72
PAT	11.72	-2.19	-2.79
Overall gearing (times)	0.20	0.12	0.14
Interest coverage (times)	11.73	2.24	0.80

A: Audited UA: Unaudited; 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	-	-	-	-	8.00	CARE BBB+; Stable
Fund-based - LT-Term loan	-	-	-	10-10-2024	0.40	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 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-Term loan	LT	0.40	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Mar-23)	1)CARE BBB+; Stable (24-Mar-22)	1)CARE BBB+; Stable (22-Mar-21)
2	Fund-based - LT-Cash credit	LT	8.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Mar-23)	1)CARE BBB+; Stable (24-Mar-22)	1)CARE BBB+; Stable (22-Mar-21)

LT - Long 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	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.

Annexure-6: Subsidiaries being consolidated

Sr. No.	Name of the company	Percentage ownership interest as on December 31, 2023
1	Resonance Specialties Limited	45.48%

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About us:
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