La Renon Healthcare Private Limited

March 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	-	-	Reaffirmed at CARE A; Stable/CARE A1 and Withdrawn
Short-term bank facilities	-	-	Reaffirmed at CARE A1 and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE A; Stable/CARE A1' [pronounced as 'Single A; Outlook: Stable/ A One'] assigned to bank facilities of La Renon Healthcare Private Limited (LRHPL) with immediate effect. The above action has been taken at the request of LRHPL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings.

Ratings assigned to bank facilities of LRHPL, prior to withdrawal, continued to consider its experienced management, established presence in the domestic formulation market with products mainly catering to chronic therapeutic segments and its wide distribution and marketing network. Ratings continued 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.

However, above rating strengths are constrained due to 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. Ratings also considered a relatively low research and development (R&D) expenditure and company's dependence on contract manufacturing for sourcing of formulations which may restrict its ability to launch new high-margin products in the competitive domestic formulation industry. CARE Ratings also took cognisance of the funding requirement from LRHPL towards its loss-making subsidiary.

Analytical approach: Consolidated

For the credit risk assessment, CARE Ratings considered consolidated financials of LRHPL. The list of subsidiaries of LRHPL is mentioned in **Annexure-6**.

Outlook: Stable

The outlook on LRHPL's long-term rating was reaffirmed at "Stable" considering company's presence in the branded formulation market in 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.

Detailed description of the key rating drivers

Key strengths

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

Incorporated in August 2007, LRHPL was promoted by Pankaj Singh, Managing Director, who possesses more than two decades of experience 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 a strong presence in the domestic formulation market. It derives majority of its revenue from the domestic market while export stood miniscule at around 4-5% of net sales in FY21 and FY22.

It has a strong marketing team of more than 1,800 professionals, which covers more than 16,000 doctors across India. 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.

Presence in niche chronic therapeutic segments with various strategic investments

LRHPL had more than 300 formulations in its product portfolio catering the niche therapeutic segments such as 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.

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

LRHPL has multiple subsidiaries catering to various segments, including Frimline Private Limited (FPL), Stanford Laboratories Private Limited (SLPL), Enaltec Labs Pvt Ltd (ELPL), and Rusoma Healthcare Pvt Ltd (RHPL). FPL is engaged in the trading and marketing of nutraceutical and food supplements, whereas SLPL is into manufacturing of the oral solid drugs (OSDs) and is a supplier to both LRHPL and FPL.
In FY22, LRHPL 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 active pharmaceutical ingredients (APIs) and would provide the backward integration for LRHPL. In FY23, LRHPL set-up RHPL, wherein it holds 51% stake and the balance 49% stake is with the promoters of Rusoma Laboratories Private Limited (RLPL). RHPL was stated to manufacture injectables, large volume parenteral (LVP) and small volume parenteral (SVP) for which capex was at planning stage, during the last review. As articulated by the management, injectables currently being manufactured by LRHPL on loan license basis 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 total operating income in FY23 with healthy profitability and strong return ratios
LRHPL's total operating income (TOI) grew at a healthy rate of around 38% from ₹835.86 crore in FY22 to ₹1,155.11 crore in FY23. Over the years, LRHPL has regularly introduced new brands across various therapeutic segments which led to growth in the scale of operation. This was further aided by the expansion of its marketing and distribution network at PAN-India level.
Despite moderation of about 368 bps, profitability continued to remain healthy marked by profit before interest, lease, depreciation and tax (PBILDT) margin of 16.98% in FY23 (FY22: 20.66%). The moderation in the profitability in FY23 was due to increase in the raw material and employee cost. The profit after tax (PAT) margin also remained healthy at 10.14% in FY23 (FY22: 14.16%). Overall, LRHPL has strong return indicators marked by return on capital employed (ROCE) and return on net worth (RONW) of 20.32% and 16.18% in FY23, mainly due to its asset light model.

Comfortable capital structure with strong net worth base and healthy debt coverage indicators
LRHPL has a comfortable capital structure marked by an overall gearing of 0.20x as on March 31, 2023 as compared with 0.23x as on March 31, 2022.
LRHPL has a strong net worth base of ₹781.89 crore as on March 31, 2023, 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 17x and 1.05x in FY23 as compared with 39.84x and 1.10x, respectively, in FY22.
On a standalone basis, LRHPL does not have any term debt. Its total debt of ₹59.24 crore as on March 31, 2023, comprises lease liability and sale invoice financing limits. Also, as sales invoice financing is fully backed by fixed deposit, effectively LRHPL has a comfortable profile, on a standalone basis as well.

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.
In FY16, LRHPL acquired 51% stake in SLPL and since then its reliance on contract manufacturing has consistently declined, though remained at moderate level. The contract manufacturing keeps the business model asset light. However, 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.
LRHPL has moderate revenue concentration among few therapeutic segments and formulations. Nephrology and CNS therapeutic segments continue to remain the major therapeutic segment. Seven out of its top 10 products belonged to these two segments, representing moderate concentration on few key therapeutic segments. However, LRHPL has large product basket with top 10 products contributing around 35% of its total gross sales in FY22 and 9MFY23 (FY21: 37%).

Funding support requirement towards its subsidiaries, especially ELPL, having weak liquidity
In FY22, LRHPL invested in ELPL's CCPS and equity shares with 51% voting rights. ELPL is in to manufacturing APIs and has major presence in the export market. The CCPS have been converted into equity in December 2022 and ownership of LRHPL stands at 70.18% as on March 31, 2023.
ELPL's operations are managed independently by erstwhile promoters. Historically, ELPL has loss-making operations. On a consolidated basis, ELPL reported TOI of ₹138.55 crore with net losses of ₹30.73 crore in FY23. Post acquisition of the majority stake in ELPL, LRHPL has initiated the process of re-orientating ELPL's operations. LRHPL has also extended inter-corporate deposit of ₹20.19 crore as on March 31, 2023, to support ELPL's operations. Apart from ELPL, the company also had plans to

undertake a capex in RHPL for injectables. Thereby, LRHPL is required to extend funding support to its subsidiaries, extent of which depends upon the turnaround of their performance.

Large working capital requirement restricts operating cash flow

LRHPL's operations remain working capital intensive marked by long working capital cycle of 118 days in FY23 (FY22: 134 days). The working capital cycle shortened in FY23, primarily due to moderation in the debtor collection period from 104 days in FY22 to 98 days in FY23 and average inventory days from 66 days in FY22 to 59 days in FY23.

LRHPL generates healthy GCA of ₹146.22 crore in FY23 albeit its cash flow from operation remained moderate due to incremental working capital requirement. Cash flow from operation grew from ₹52.85 crore in FY22 to ₹88.51 crore in FY23.

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 the distributor level. The company mainly utilises 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 during the last review.

Exposure to inherent regulatory risk with presence in the competitive industry

LRHPL is exposed to the regulatory risk which is inherent to the pharmaceuticals industry. Pharmaceutical industry players 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 pharmaceutical product prices 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, which 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 ₹130-140 crore with low term debt repayment obligation of ₹13.55 crore in FY23 (for the subsidiaries) and capex requirement of around ₹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. The presence of healthy cash and liquid investments of ₹276 crore as on March 31, 2023 (₹227 crore as on March 31, 2022) provides cushion to its liquidity. Current ratio and quick ratio remained comfortable at 2.52x and 2.10x, respectively, as on March 31, 2023.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

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 such as cardio-metabolic, respiratory, urology, and neuropsychiatry among others. It has major presence in the domestic formulations market with around 89% shares in FY23. As on March 31, 2023, 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)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	835.86	1,155.11
PBILDT	172.71	196.12
PAT	118.37	117.15
Overall gearing (times)	0.23	0.20
Interest coverage (times)	39.84	17.00

A: Audited; Note: The above results are the 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 to Annexure-2

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

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to 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 - ST-Bill discounting/ Bills purchasing	-	-	-	-	0.00	Withdrawn
Fund-based-LT/ST	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for 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	LT/ST*	-	-	1)CARE A; Stable / CARE A1 (06-Apr-23)	-	1)CARE A; Stable / CARE A1 (07-Mar-22)	1)CARE A-; Positive / CARE A2+ (25-Feb-21)
2	Fund-based - ST-Bill discounting/ Bills purchasing	ST	-	-	1)CARE A1 (06-Apr-23)	-	1)CARE A1 (07-Mar-22)	1)CARE A2+ (25-Feb-21)

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	% holding as on March 31, 2023	Extent of consolidation	Rationale for consolidation
1.	Stanford Laboratories Private Limited	51%	Full	Subsidiary
2.	Frimline Private Limited	51%	Full	Subsidiary
3.	Stanford Lifecare Private Limited	51%	Full	Step-down subsidiary
4.	Enaltec Labs Private Limited	70.18%	Full	Subsidiary
5.	Enaltec Pharma Research Private Limited	70.18%	Full	Step-down subsidiary
6.	Enaltex Labs INC	70.18%	Full	Step-down subsidiary
7.	Rusoma Healthcare Private Limited	51%	Full	Subsidiary

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:

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