Makers Laboratories Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	8.06 (Reduced from 8.40)	CARE BBB+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to bank facilities of Makers Laboratories Limited (MLL) continue to derive comfort from promoters' association with IPCA Laboratories Limited (IPCA). Rating also derives comfort from long-standing experience of 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 profitability margins and making losses at net level in FY24, vulnerability accruing from raw material price volatility, exposure to regulatory risk and moderate working capital cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achieving profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 10% on a sustained basis.
- Improving scale of operations registering growth rate of about 15% on a sustained basis.

Negative factors

- Deteriorating capital structure with overall gearing above 0.50x.
- Reducing promoter shareholding in the company.

Analytical approach: Consolidated

For arriving at the rating, CARE Ratings Limited (CARE Ratings) has considered consolidated financials of MLL and support derived from its linkages with IPCA. Both entities have sizable common shareholding pattern. Companies consolidated are listed under 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 satisfactory capital structure.

Detailed description of key rating drivers:

Key strengths

Experienced promoters with established track record in industry

MLL is promoted by IPCA's promoters, with Premchand Godha, the Managing Director, 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 over two decades of experience in the pharma industry, where 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 over 20 years of experience in 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 companies in the excise free zone of Himachal Pradesh and Uttarakhand. Vendor facilities have all necessary certifications in place including CGMP. MLL's manufacturing facility is CGMP-certified. In FY24, MLL's new ophthalmic eye drops manufacturing unit received Eurasian Economic Union (EAEU) RU GMP Certificate. In FY24, MLL added few generic formulations in the market place and increased its geographical coverage through appointment of new distributors. MLL's subsidiary, Resonance Specialties Limited (RSL) is engaged

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

in manufacturing and marketing pyridine and pyridine derivatives, picolines, and some bulk drugs. Acquisition of controlling shareholding in RSL has enabled MLL enter speciality chemicals and active pharmaceutical ingredients (API) businesses, which will complement the parent's existing generic formulations business.

Long-standing supplier relations with PAN India supply chain

With its long presence in the pharma industry and association with IPCA, the company 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'. MLL's marketing efforts involve field forces going "Directly to chemists" as a part of their Maximus Division. It has its own depot at several locations pan-India to supply its products directly to chemists, saving on commission and logistics cost paid to the distributor.

Comfortable financial risk profile despite weak debt coverage indicators

MLL has a sound capital structure marked by overall gearing remaining below unity at 0.21x as on March 31, 2024 (0.14x as on March 31, 2023). The company's debt profile comprises working capital bank borrowings, term loan, inter corporate deposits (ICD) and lease liabilities. Due to further decline in profitability margins in FY24, debt coverage indicators remain weak. In FY24, PBILDT interest coverage stood below unity at 0.76x (PY: 2.24x). However, in FY24, MLL has received an inter corporate deposit (ICD) of ₹6.00 crore from one of its promoters, Kaygee Investments Private Limited, which aided in meeting debt obligations on time despite incurring net loss.

Key weaknesses

Moderate scale of operations and declining profitability margins in FY24

In FY24, MLL's total operating income (TOI) was stable at ₹104.77 crore against ₹101.97 crore in FY23, while PBILDT margin declined to 1.46% against 3.25% in FY23. On standalone basis, while MLL reported improvement in revenue from operations by about 15% in FY24 to ₹49.08 crore against ₹42.54 crore in FY23, RSL registered a decline of ~6% to ₹55.30 crore against ₹58.81 crore in FY23.

MLL even though reported improvement in standalone performance in FY24, it was moderate. In FY24, due to lower prevalence of acute diseases in the country, for which diseases most of generic formulations are used, there was lower growth in MLL's generic business. Demand for liquid injectables manufactured by MLL was also lower due to this. In beginning of FY24, there was also substantial increase in prices of several key active pharmaceutical ingredients (APIs) used in manufacturing MLL's major selling generic formulations. Due to price control regime, increased raw material cost could not be passed on by MLL to its customers for several of its formulations. This, with inflationary trend in the economy resulting in increased operating cost, also contributed in reduced margins in several products and lower overall business and profitability in FY24. However, from the second half of FY24, raw material prices have started moderating.

RSL's (subsidiary company) financial performance in FY24 was impacted mainly due to lower sales of Di Picolinic Acid and Zinc Piclolinate compared to its sales in the preceding financial years, in which, this product had huge demand due to outbreak of corona virus pandemic. The erratic supply of imported raw material of another major product also impacted its production and sales.

In Q1FY25, MLL reported an improvement in TOI of ₹29.59 crore (Q1FY24 - ₹25.01 crore) with PBILDT margin of ~4.39% on consolidated level. As the commercial production from new ophthalmic eye drops manufacturing unit gradually increases, post commercialisation of MLL's products for Europe and rest of the world (ROW) markets, which shall result in improved financials of this manufacturing unit.

Vulnerable to raw material price volatility and forex fluctuation risk

Raw material cost is the major cost component, therefore, volatility in input prices subjects the the company's profitability to risk associated with adverse movement of prices. MLL primarily operates in the domestic market with no forex inflows. However, its subsidiary RSL, derives over 55% of its revenue through exports, and has a system of regularly monitoring its currency-wise exposures. 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 approvals, licenses, registrations, and permissions for conducting business activities. 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. Delays or failure in getting approvals for new product launch could adversely affect the company's business prospect.

Liquidity: Adequate

MLL's liquidity profile is marked by modest cash and liquid investments of ₹4.62 crore as on March 31, 2024, and current ratio at 1.87x as on March 31, 2024. In FY24, MLL increased its working capital (WC) limits from ₹5.00 crore to ₹8.00 crore, providing additional cushion for working capital requirements. For FY25, MLL has term debt repayment obligation of ₹1.42 crore against expected cash accruals of ~₹6.50 crore, of which, MLL has repaid to the tune of ₹0.71 crore till August 31, 2024. Per the management, MLL has sold land and office building having book value of ~₹8.50 crore to its group company IPCA for ~₹18.50 crore in Q2FY25, improving overall liquidity. From these proceeds, Makers has repaid ICD of ₹6 crore taken from the promoter Kaygee in FY24 and liquidated outstanding balance of working capital borrowings. Thus, considering support from promoters and promoter group companies such as IPCA, additional cushion in the working capital borrowing limits and internal accruals, MLL's liquidity profile remains adequate in the near term.

Assumptions/Covenants: Not applicable

Environment, social, and governance (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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in July 1984, MLL is an Indian pharmaceutical company manufacturing generic drugs. IPCA's promoters also promote MLL. Premchand Godha, Managing Director, IPCA, is also MLL's promoter. MLL primarily markets branded generic formulations and generic formulations in the domestic market under major general health therapeutic segments such as 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 facilities of companies situated in Himachal Pradesh and Uttarakhand. The company also handles job-work for manufacturing injectables (anti-malarial) solely for IPCA. The company adheres to all requisite quality norms to ensure best quality for its products.

MLL is listed on the Bombay Stock Exchange (BSE). In September 2020, MLL acquired controlling stake in RSL, a chemical manufacturing and marketing company. RSL is engaged in manufacturing and marketing pyridine, picolines, Cynopyridines, drug intermediates and API with its manufacturing unit in Tarapur, Boisar, Palghar District (Maharashtra). MLL acquired 45.48% stake in RSL for cash consideration of ₹22.37 crore. MLL took over the board of RSL on December 21, 2020. Acquisition of controlling shareholding in RSL has enabled MLL enter speciality chemicals and API businesses, which will complement the parent's existing generic formulations business.

Brief Financials - Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	101.97	104.77	29.59
PBILDT	3.31	1.53	1.30
PAT	-2.19	-4.81	-0.70
Overall gearing (times)	0.14	0.21	NA
Interest coverage (times)	2.24	0.76	2.50

A: Audited, UA: Unaudited, NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	8.00	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	10-10-2024	0.06	CARE BBB+; Stable

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	0.06	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Feb-24)	1)CARE BBB+; Stable (08-Mar-23)	1)CARE BBB+; Stable (24-Mar-22)
2	Fund-based - LT-Cash Credit	LT	8.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Feb-24)	1)CARE BBB+; Stable (08-Mar-23)	1)CARE BBB+; Stable (24-Mar-22)

LT: Long term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Resonance Specialties Limited	Full	Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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