Brawn Laboratories Limited

March 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	50.00	CARE A-; Stable	Assigned
Long-term / Short-term bank facilities	295.00	CARE A-; Stable / CARE A2+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Brawn Laboratories Limited (BLL) derives strength from the extensive experience of promoters in the pharmaceutical formulation business and the company's comfortable financial risk profile characterised by low dependence on external debt and a comfortable capital structure with overall gearing of 0.16x as on March 31, 2024, and healthy debt coverage indicators. Ratings favourably consider BLL's approved manufacturing facility, which complies with the standards of semi-regulated markets, enabling the company to export to over 50 countries. This geographic diversification, and established client relationships further enhances BLL's position.

However, ratings are constrained by the susceptibility of BLL's profit margins to fluctuations in raw material prices and currency exchange rates, leading to volatility in operating profit margins (OPM). BLL operates in a less regulated market, resulting in relatively lower profitability compared to U.S. Food and Drug Administration (USFDA) or European Union Good Manufacturing Practices (EU GMP) approved facilities. CARE Ratings Limited (CARE Ratings) notes BLL has ventured and is expanding its trading division of medical equipment to government hospitals, resulting in an elongation of the overall working capital cycle in FY24 (refers to April 01 to March 31), a slight moderation in operating profit margins and higher utilisation of working capital limits in 10M FY25 (refers to April 01 to January 31). Ratings factor in the project execution and approval risks associated with BLL's ongoing capital expenditure in Halol, Gujarat. BLL is also exposed to the stiff competition from reputed companies and inherent regulatory risks associated with the pharmaceutical sector.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in core operating income (non-trading revenue) above ₹500 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 12.0% on a sustained basis.
- Improvement in collection efficiency leading to healthy cash flow generation and strong liquidity position.

Negative factors

- Significant decline in operating income with PBILDT margin below 10.0% on a sustained basis.
- TD/PBILDT above 2.5x on a sustained basis.
- Deterioration in liquidity profile due to elongation in operating cycle with collection period above 140 days on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has taken a consolidated approach of BLL and its subsidiaries considering common management, and their operational and financials linkages. The entities included in the consolidated analysis are given in Annexure-6.

Outlook: Stable

CARE Ratings believes BLL is likely to sustain its operating metrics and comfortable financial risk profile, going forward, with steady increase in the scale of operations and adequate liquidity position.

Detailed description of key rating drivers:

Key strengths

Extensive experience of promoters in pharmaceutical formulation business

BLL's promoters have over five decades of experience in the pharmaceutical business. Although BLL was established in 1990, the promoters have been active in the industry since 1970. They, and their family, are involved in BLL's day-to-day operations and

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

are supported by an experienced team across domains. Leveraging their prior experience in the trading business, BLL entered an arrangement in FY23 with a leading medical equipment company to supply Cath labs, MRI machines, and other equipment to government hospitals in India. This arrangement is expected to generate a turnover of ~₹100 crore with a PBILDT margin of ~5.0-5.5% per annum.

Comfortable financial risk profile

BLL's financial risk profile is comfortable, supported by adequate cash accruals, low debt dependence and a comfortable capital structure of the company. As on March 31, 2024, the overall gearing stood at 0.16x (PY: 0.02x) and total debt/ PBILDT ratio was 0.59x (PY: 0.07x). With a healthy PBILDT margin of ~14%, the debt coverage indicators also stood comfortable with an interest coverage ratio (PBILDT/Interest) of 19.45x and total debt to gross cash accrual (TD/GCA) of 0.78x as on March 31, 2024 (PY: 30.39x and 0.09x, respectively). CARE Rating notes BLL has ventured and is expanding its trading division of medical equipment to government hospitals, resulting in an elongation of the overall working capital cycle to ~120 days from ~80 days, a slight moderation in operating profit margins and higher utilisation of working capital limits in 10M FY25. Depending on the sales mix, BLL's working capital intensity may increase with a higher contribution from trading, as receivable days from government departments tend to be longer. However, due to healthy profit margins and low reliance on debt, the overall financials are expected to remain comfortable.

Approved manufacturing facility from semi regulated markets

BLL's facility at Faridabad, Haryana holds WHO GMP certification, ensuring high quality standards. BLL has a DSIR-approved R&D centre in Gurgaon. To expand its scale, BLL continuously applies for registrations in new markets, enabling it to export products to over 50 countries.

Healthy geographic diversification; established client relationships

The company has diversified revenue segments, such as tablets, capsules, syrups, injections and ointments. BLL generates ~70-75% revenue from exports to over 50 countries, including Vietnam, Iraq, and Myanmar being key contributors due to established client relationships and repeat orders. With the addition of the trading business in FY23, domestic revenue has also increased and is expected to reach ~₹100 crore in FY25.

Key weaknesses

Susceptibility of profitability margins to raw material prices and currency fluctuations

BLL does not have fixed-price agreements with its suppliers or customers and, hence, faces the risk of margin fluctuation in case of wide variation in raw material prices. However, BLL partially mitigates this risk by booking raw materials simultaneously with receiving customer orders. BLL generates over 70% revenue from exports, which exposes it to foreign currency fluctuation risks. BLL assumes a dollar price lower than the market rate, which helps cover some potential risks associated with currency fluctuations. BLL operates in a less regulated market, resulting in relatively lower profitability compared to USFDA or EU-approved facilities.

Elongated working capital cycle

BLL's working capital cycle is elongated at ~80 days in the exports business due to receivable period of 45-80 days and inventory period of ~30 days. The expiry of products registration in a key market from October 2024 to January 2025, led to higher receivables until January 2025, which have started to improve following the recent renewal of registration. With an increase in trading business from FY25 onwards, the utilisation of fund-based working capital limits is expected to increase due to an extended receivable cycle of 4-6 months from government hospitals. BLL will also need to submit bank guarantees to government hospitals for tender participation and provide letter of credit facilities to suppliers. CARE Ratings notes BLL has adequate free cash and cash equivalents and has been sanctioned enhanced working capital facilities to manage its extended operating cycle in the trading business.

Exposed to project execution and approvals risk for undergoing capex

BLL is establishing a manufacturing unit in Halol, Gujarat, for its formulation business, as the existing capacity is utilised at ~90%. This new unit will also enable BLL to enter the regulated markets of the USA and Europe. Although the capital expenditure of ₹75.0 crore is significant relative to the company's tangible net worth (₹175.56 crore as on March 31, 2024), the timely execution within the budgeted cost and successful commissioning after obtaining key approvals will be crucial for the company's future growth prospects. Initially, BLL will utilise the new plant for its existing clients, adhering to WHO-GMP regulations, until all required approvals are received.

Highly competitive and fragmented industry with inherent regulatory risk
BLL is involved in manufacturing pharmaceutical formulations, operating in a highly competitive industry with numerous small and large players. The pharmaceutical sector is closely monitored and regulated, presenting inherent risks and liabilities related to product and manufacturing processes. Maintaining regular compliance with the quality standards set by regulatory authorities is crucial for selling products across different geographies. BLL must ensure timely renewal of product registrations, which typically takes ~1-1.5 years in different countries, to continue its export business without interruptions.

Liquidity: Adequate
BLL has been sanctioned fund-based working capital limits of ₹200 crore, of which it is currently utilising ~₹35 crore. The company also holds free cash and cash equivalents amounting to ₹30-35 crore, including an FDR of ₹20 crore to manage short-term cash flow mismatches. The average fund-based working capital utilisation in the last 12 months, ending on January 2025, stood at 48.63%. BLL has the option to avail a term loan of ₹50 crore on a need basis, providing an additional liquidity cushion.

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

Incorporated in 1990, BLL is operated and managed by the Gupta family, who were previously involved in the pharma trading business of medical equipment. BLL specialises in pharmaceutical formulations, serving domestic and international markets in over 50 countries, including Sri Lanka, Iraq, Cambodia, the Philippines, Ghana, Ethiopia, Myanmar, CIS countries, and Latin America. Its manufacturing plant in Faridabad, Haryana, adheres to global standards, including WHO-GMP regulations, and produces a range of finished formulations such as oral solids, oral liquids, injections, ear drops, and external preparations, all sold under its own brand "BRAWN." BLL is setting up a new greenfield manufacturing unit in Halol, Gujarat, to produce formulations that meet European and US standards, with commercial production expected by FY2027. Leveraging the promoters' past experience in the trading business, BLL entered an arrangement in FY23 with a leading medical equipment company to act as its commission agent.

Brief Financials (₹ crore) Consolidated (reported)	March 31, 2023 (A)	March 31, 2024 (A)	8M FY25 (UA)*
Total operating income	324.86	318.37	224.64
PBILDT	47.96	46.71	33.07
PAT	35.38	28.78	26.92
Overall gearing (times)	0.02	0.16	0.16
Interest coverage (times)	30.39	19.45	12.11

A: Audited UA: Unaudited; Note: these are latest available financial results; *Standalone financials of BLL for 8MFY25

Status of non-cooperation with previous CRA:
ICRA Limited has migrated ratings of BLL to "Issuer Not Cooperating" category vide its press release dated November 06, 2024, due to non-payment of surveillance fee that became due to conduct the rating exercise.

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-Term Loan	-	-	-	31-10-2036	50.00	CARE A-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	200.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	95.00	CARE A-; Stable / CARE A2+

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/ ST-Working Capital Limits	LT/ST	200.00	CARE A-; Stable / CARE A2+	-	-	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	95.00	CARE A-; Stable / CARE A2+	-	-	-	-
3	Fund-based - LT-Term Loan	LT	50.00	CARE A-; Stable	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short 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-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	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	Brawn Laboratories Limited	Full	Holding company
2	Shashi Medicare Inc.	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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