

## Fourrts (India) Laboratories Private Limited

January 22, 2021

### Ratings

| Facilities/Instruments                 | Amount<br>(Rs. crore)                                  | Ratings <sup>1</sup>  | Rating Action                             |
|--|--|---|---|
| Long Term Bank Facilities              | 39   | CARE BBB+; Stable<br>(Triple B Plus; Outlook: Stable)                           | Reaffirmed; Outlook revised from Positive |
| Long Term / Short Term Bank Facilities | 40   | CARE BBB+; Stable / CARE A2+<br>(Triple B Plus; Outlook: Stable/<br>A Two Plus) | Reaffirmed; Outlook revised from Positive |
| Short Term Bank Facilities             | 25   | CARE A2+<br>(A Two Plus)  | Reaffirmed                                |
| <b>Total Bank Facilities</b>           | <b>104</b><br><b>(Rs. One hundred four crore only)</b> |   |   |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Fourrts (India) Laboratories Private Limited (Fourrts) take into consideration the vast experience of the promoters in the pharmaceutical industry, well-established operations in pharmaceutical formulations, strong distribution network with presence in domestic and export markets, low leverage, comfortable financial risk profile and strong liquidity. However, the ratings are constrained by modest profitability margins, competitive and regulated nature of the pharmaceutical industry and susceptibility of margins to raw material price fluctuation and forex fluctuations.

*Outlook: Revised from positive to Stable*

*The revision in the outlook to stable takes into the less-than-envisaged scaling up of operations and moderation in profit margins which is expected to continue at similar levels in the near-term.*

### Rating Sensitivities

#### Positive Factors

- *Scaling up of operations with TOI at around Rs.700 crore.*
- *Improvement in profitability margins on a sustained basis.*

#### Negative Factors

- *Any debt-funded capital expenditure leading to deterioration of overall capital structure.*
- *Any deterioration in overall liquidity position which is presently aided by the presence of fixed deposits.*

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Vast experience of the promoters in the pharmaceutical industry

Mr SV Veeramani, the Chairman and Managing Director, has been associated with the pharmaceutical industry for about four decades. He, along with his wife Mrs Radha Veeramani, who is also the director of the company, looks after the overall operations of the company. The top management at Fourrts is supported by experienced and well-qualified management.

##### Established operations with well-equipped manufacturing facilities

The company currently has two manufacturing facilities – Plant 1, with WHO-GMP approval, has facilities to manufacture tablets, capsules, liquids and cream and it caters to domestic as well as exports, whereas Plant 2 caters only to exports and has facilities conforming to UK MHRA standards. The company also outsources its products manufacturing based upon its requirements and various formulators. The capacity utilisation for tablets stood at 90%, whereas for capsules it was at 17%, and for creams and liquids it was at 68% and 87%, respectively

##### Presence in domestic market across multiple therapeutic segments

In the domestic market, Fourrts has well-established position in gastro, diabetes and specialist divisions which are among the growing therapeutic segments. Gastro division has been the leading therapeutic segment in Fourrts's portfolio contributing

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

around average of 28% of the total sales followed by Specialist division (27%). Fourrts area of expertise is in nutraceuticals and major products cater to this segment.

#### **Strong distribution network**

Fourrts markets its products in domestic as well as exports market with majority of the revenue from domestic market. Around 70% of Fourrts revenues are generated from domestic sales. For the domestic market, the company has over 1000 representatives which enables it to market its products. The distribution network consists of 23 super stockists and around 1,200 stockists across the country. Fourrts exports its products to around 50 countries in the world in Africa, South-East Asia, Latin America and Eastern Caribbean. Over the years, Fourrts has been growing its presence in international markets with focus on regulated markets of Europe, Australia and now planning for United States of America.

#### **Healthy debt coverage indicators and comfortable capital structure**

Fourrts has a comfortable capital structure with overall gearing of 0.71x as on March 31, 2020. Interest coverage ratio was comfortable at 8.49x and total debt to Gross Cash Accruals stood at 3.40x for FY20 (refers to the period April 1 to March 31). The company's debt includes working capital borrowings, loans against fixed deposits and loans from the promoters. Adjusting for available cash, the Net debt of the company as on March 31, 2020 was Rs. 34.89 crore (as on March 31, 2019: Rs.25.10 crore)

#### **Liquidity: Adequate**

Liquidity is marked by adequate accruals against low repayment obligations and cash & cash equivalents of Rs.77.88 crore as on March 31, 2020. The average inventory holding period for the company is around 30-40 days. The average collection period has increased from around 88 days in FY19 to 101 days in FY20 on account of addition of new customers with credit periods extending up to 120 days. The average maximum working capital utilization has been around 88% for the 12-month period ended November 2020. The company did not avail moratorium for its bank facilities.

#### **Key Rating Weaknesses**

##### **Modest profitability margins**

FY19 marked a huge growth in the revenue of the company. The company saw an increase in the revenue of 27%. During FY20, the company registered a marginal growth in TOI of 3.78%, while the PBILDT and PAT saw a decline of 19% and 10%, respectively. The drop in PBILDT margins from 10.07% in FY19 to 7.84% in FY20 is mainly attributed to increase in material and utility costs during the year.

##### **Susceptibility of margins to foreign exchange fluctuations and raw material price fluctuations**

The company engages in export of its products to about 50 countries, with export income constituting 30% of the net sales in FY20 (FY19: 31%), while around 10% of the purchases of the raw materials are imported, mainly from China. In the absence of any other hedging mechanism (apart from some natural hedge), the profitability margins of the company remain susceptible to any adverse fluctuations in the foreign currency rates. Pharmaceutical industry is affected by surge in the raw material prices. In FY20, the company's profitability margins fell due to the increasing trend in the raw material prices.

##### **Nature of industry being very competitive and highly regulated**

Fourrts is engaged in the manufacturing of generic formulations and contract-based pharmaceutical formulations. The domestic generic formulation industry consists of numerous contract manufacturers, MNCs as well as established domestic brands with some of these players also having a pan-India presence with concentration of market share among the leading players in the formulations segment. This leads to intense competition, which restricts the company's revenue growth and pricing flexibility.

Fourrts is exposed to regulatory risk since the players in the pharmaceutical industry need to manufacture products that meet the set quality standards of the various regulators. Good manufacturing practice (GMP) has to be followed for the control and management of manufacturing and quality control testing of drugs. Fourrts's operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. With presence in both domestic and export markets, Fourrts has to follow the regulations from domestic and export country regulations as well.

##### **Prospects and COVID impact**

The industry being regulated as it is, there is a threat of pricing pressure. The National Pharmaceutical Pricing Authority had notified ceiling prices for certain formulations, it does not affect the company's operations as majority of its products are under decontrolled categories. With the COVID-19 pandemic, international logistics has taken a hit. The same is also felt by Fourrts in the form of delays in shipments and delivery. For FY21, the company recorded a revenue of Rs.345 crore till

November 30, 2020, and its profitability is expected to see a slight moderation. Going forward, the ability of the company to profitably scale-up its operations, while maintaining the overall solvency position, will remain the key rating sensitivities.

**Analytical approach:** Standalone

#### Applicable Criteria

[CARE's Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's methodology for Pharmaceutical sector](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for manufacturing companies](#)

[Financial ratios –Non-Financial Sector](#)

[Liquidity Analysis – Non Financial Sector](#)

#### About the Company

Fourrts was founded by Mr S V Veeramani as a partnership firm in 1977. It was incorporated as a Private Limited Company in 1979 as Fourrts (India) Laboratories Private Limited (Fourrts). Fourrts is engaged in the manufacturing and sale of generic formulations, cardiovascular, anti-diabetic, nutraceuticals and anti-malarials. The company has two manufacturing facilities which are situated in Chennai. Plant 1 was established in 1985 and Plant 2 in 2013. As of March 31, 2020, the company had installed capacity to manufacture 2400 million pieces of tablets, 600 million pieces of capsules, 2 million litres of liquids and 0.25 million kilograms of creams. Fourrts also does contract manufacturing majorly for its export customers. Fourrts employs over 2,000 people as on March 31, 2020. The company has around 23 super stockists, 1,200 stockists and 1,000 medical representatives across the country as on March 31, 2020.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income       | 515.47   | 534.97   |
| PBILDT                       | 51.92    | 41.93    |
| PAT                          | 24.92    | 22.56    |
| Overall gearing (times)      | 0.73     | 0.71     |
| Interest coverage (times)    | 13.21    | 8.49     |

A: Audited

**Status of non-cooperation with previous CRA:** CRISIL has revised the rating of Fourrts to 'CRISIL B; Stable; CRISIL A4' from 'CRISIL BB+; Stable/ CRISIL A4+' as per PR dated November 11, 2020. The ratings of Fourrts were put on Issuer Not Cooperating by CRISIL vide PR dated January 30, 2019.

**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 – Not applicable

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments/Facilities

| Name of the Instrument                                 | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|--|------------------|-------------|---------------|-------------------------------|---|
| Fund-based - LT-Cash Credit                            | -                | -           | -             | 39.00                         | CARE BBB+; Stable                         |
| Non-fund-based - ST-Letter of credit                   | -                | -           | -             | 15.00                         | CARE A2+                                  |
| Non-fund-based - ST-Bank Guarantees                    | -                | -           | -             | 10.00                         | CARE A2+                                  |
| Fund-based - LT/ ST-Packing Credit in Foreign Currency | -                | -           | -             | 40.00                         | CARE BBB+; Stable / CARE A2+              |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities                 | Current Ratings |                                |                              | Rating history                            |  |   |   |
|---------|--|-----------------|--------------------------------|------------------------------|---|--|---|---|
|         |  | Type            | Amount Outstanding (Rs. crore) | Rating                       | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020    | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1.      | Fund-based - LT-Cash Credit                            | LT              | 39.00                          | CARE BBB+; Stable            | -   | 1)CARE BBB+; Positive (25-Oct-19)            | -   | -   |
| 2.      | Non-fund-based - ST-Letter of credit                   | ST              | 15.00                          | CARE A2+                     | -   | 1)CARE A2+ (25-Oct-19)                       | -   | -   |
| 3.      | Non-fund-based - ST-Bank Guarantees                    | ST              | 10.00                          | CARE A2+                     | -   | 1)CARE A2+ (25-Oct-19)                       | -   | -   |
| 4.      | Fund-based - LT/ ST-Packing Credit in Foreign Currency | LT/ST           | 40.00                          | CARE BBB+; Stable / CARE A2+ | -   | 1)CARE BBB+; Positive / CARE A2+ (25-Oct-19) | -   | -   |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable**

**Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument                                 | Complexity Level |
|---------|--|------------------|
| 1.      | Fund-based - LT-Cash Credit                            | Simple           |
| 2.      | Fund-based - LT/ ST-Packing Credit in Foreign Currency | Simple           |
| 3.      | Non-fund-based - ST-Bank Guarantees                    | Simple           |
| 4.      | Non-fund-based - ST-Letter of credit                   | Simple           |

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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