Makers Laboratories Limited

March 24, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	12.00	**CARE BBB+; Stable** (Triple B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**12.00 (Rs. Twelve Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The 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) and long-standing experience of promoters in the Pharmaceutical industry, diversified product portfolio, satisfactory capital structure & debt protection metrics and long-standing supplier network. The ratings also take account of acquisition of Resonance Specialties Limited by MLL in September, 2020 and its impact on MLL's financial and business risk profile. The rating also takes cognizance of decline in profitability in FY20, moderate scale of operations with concentration on acute therapies segment, vulnerability accruing from volatility in raw material prices, exposure to regulatory risk, moderate working capital cycle and ongoing project risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in PBILDT margins to 11% on sustained basis.
- Sustainable improvement in scale of operations above Rs.100 crore on standalone basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Reduction in PBILDT margins below 5% on sustained basis
- Deterioration in capital structure with overall gearing above 0.80x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in the industry

The promoters of IPCA Laboratories Limited (IPCA) have promoted MLL. Mr. Premchand Godha, the Managing Director of IPCA is also the promoter of MLL. He is a Chartered Accountant with over 4 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. Mr. Nilesh Jain and Mr. Saahil Parikh are whole-time Directors in MLL and handle day to day operations of the Company. Mr. Saahil Parikh is a graduate in B.Sc. (Bio-Chemistry) from Gujarat University. He has also done Diploma in Management Studies from Ahmadabad Management Association. He has two decades of experience in the Pharma Industry, wherein he has overlooked production, quality control, projects and general management. Mr. Nilesh Jain is a Commerce Graduate (B. Com) and M.M.S. (Masters in Management Studies) from Mumbai University. He has nearly 23 years of experience in the field of Materials Management, Marketing Management, Business Development and General Management. The management is ably supported by a team of well-qualified professionals down the line.

Diversified business segments backed by approved manufacturing facilities

The company primarily markets branded generic pharmaceutical formulations and 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 certifications in place including CGMP. It also manufactures injectables (Anti-malarial) at its facility in Naroda, Ahmedabad on a loan license basis which solely caters to IPCA. The manufacturing facility of MLL is CGMP certified. In February, 2021, the company had commissioned new plant for ophthalmic/eye-drop manufacturing facility at GIDC, Naroda, Ahmedabad at the total capital outlay of Rs.15 crore. Said plant is yet to stabilize and start full commercial operations for export orders. Approvals, registration for export and inspection activity is expected to get complete by Q2FY23. The company is currently undertaking batch production for IPCA to cover fixed cost of the division. During 9MFY22, the company has launched few branded generic products to strengthen its product portfolio.

Improved operational performance from the injectables division

The company operates one manufacturing facility consisting of the injectables division in Naroda, Ahmedabad which manufactures Anti-malarials primarily for IPCA Laboratories Limited. The same is done on a loan license basis by the company which generates Rs.8-9 crore per annum. The revenue for aforementioned service was Rs.8.93 crore during FY21 (Rs.8.31 crore during FY20). The company has an installed capacity for manufacturing 46.80 million vials of anti-malarial injectables. The company usually operates its capacity in a single shift; however, with additional orders can work from 1.50-2 shifts (thus

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

making the capacity utilisation in excess of 100%). For FY21, MLL's Ahmedabad plant was operating at optimal capacity. The plant operates for nearly 360 days a year.

Diversified product portfolio albeit concentration to acute therapies limits growth in absence of major R&D capability
MLL markets its products in major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti-Inflammatory, Analgesic, Anti- Diabetics and other common diseases. The company's top formulation brands comprise of Duramol (Paracetamol), Artemak-AB (α-β Arteether), Loroquin (Chloroquine), Nimuwin (Nimuselide), Coffwin (Anti cough Range) and Exylin (Amoxycillin range). The company generates a stable stream of revenue from a diversified product portfolio with the top 10 products contributing 29% of the net sales in FY21 (35% of the net sales in FY20). The company also generates income from job-work done solely for IPCA towards manufacturing of Anti-Malarial Injectables amounting to Rs.10.11 crore during FY21 against Rs. 9.23 crore during FY20.

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 Laboratories Limited, has established a strong and dependable supplier network. The company's major P2P vendors are Meghmani LLP, Pinnacle Life Sciences Pvt Ltd, Vital Laboratories Pvt Ltd, Aarti Drugs Ltd, Smayan Healthcare Pvt Ltd and Acme Formulation, among others. The company procures majority of its API from Farmson Analgesics and IPCA Laboratories Ltd, among others. MLL has a sound supply chain operating PAN India backed by a strong distribution network of super stockists. In FY19, the Company made changes to its distribution model from Direct to Distributor to Direct to Stockist**.**

Improvement in operating margins in FY21 and 9MFY22
MLL's operating margins improved from 5.73% in FY20 to 7.91% in FY21. Operating margins were low during FY20 as the company was in process of changing its distribution model and had liquidated some inventory on lower margins. However, MLL has stabilised its distribution network. MLL has incurred commission and distribution charges of Rs.1.87 crore in FY21 as against 2.79 crore in FY20. During FY21, MLL has witnessed significant price increase of key raw materials and API. Since the company operates in price regulated and competitive market, MLL was not able to pass on increase in raw material prices to customers. Further, MLL had incurred one-time cost for ophthalmic division and acquisition of Resonance Specialities Limited. Once the raw material prices stabilised, the company has started passing this increase to customers. Thus, operating margins improved to 10.99% for 9MFY22. Going forward, operating margins of the company are expected to remain ~10.5%-11%.

Comfortable capital structure; modest debt coverage indicators
The company has a sound capital structure marked by the overall gearing remaining below unity at 0.32x as on March 31, 2021 (0.29x as on March 31, 2020). The company's debt profile comprises of working capital bank borrowings, and term loan availed in FY19-20 for funding the new ophthalmic facility. MLL is raising funds through Rights issue of Rs.14.75 crore to fund its upgradation capex. Considering same, TNW of the company is expected show sharp improvement in FY23, leading to sharp improvement in capital structure of the company.
Debt coverage indicators continues to remain modest. The Total Debt to GCA of the company has deteriorated to 6.98x (PY: 5.93x), total debt to CFO at 9.21x (PY: 3.19x) and interest coverage at 2.21x (PY: 4.17x) in FY21 on account of debt-funded capex for ophthalmic division and deterioration in operating performance due to COVID-19 pandemic. Debt coverage indicators of the company are expected to show marginal improvement backed by stabilization of operations, although will remain modest.

Key Rating Weaknesses
Small scale of operations
MLL's scale of operations continues to remain small with annual turnover around Rs.50 crore. For FY21, MLL's TOI contracted by 13% to Rs.44.64 crore on account of COVID-19 pandemic. Revenue of generic drugs declined by 17% to Rs.35.37 crore in FY21 from Rs.43.03 crore in FY20. MLL's generic formulations are mainly used by dispensing doctors, nursing homes and hospitals. Due to lockdown restrictions, fear getting infected with the virus and conversion of several hospitals into COVID hospitals, non-COVID footfall reduced at hospitals and dispensaries. Thus, leading to impact on sales of the company. However, with gradual relaxations in lockdown, MLL's sale of generic drugs have picked up. For 9MFY22, MLL's TOI improved by 31.25% on YoY basis to Rs.44.15 crore (9MFY21: Rs.33.63 crore). Further, MLL also undertakes job work from IPCA for anti-malarial injectables. Job work income stood at Rs.8.93 crore for FY21 (FY20: Rs.8.31 crore).
MLL has changed its distribution policy from 'Direct to Distributor' to 'Direct to Chemist'. MLL 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. Further, the company is in talks with a marketing company to improve distribution network.

Moderate working capital cycle
The operating cycle has marginally moderated from 93 days in FY20 to 102 days in FY21. While MLL, now shifted to Direct to Stockist model and has improved collection period during FY20, due to COVID in FY21, the collections period again went up. Further, this change in model also improved inventory position as earlier inventory used to stuck at distributor level. The inventory period deteriorated marginally to 102 days during FY 21 as compared to 91 days during FY 20. Consequently, MLL's average working capital utilization remained moderate at 62% for 12-month period ending in December, 2021.

Vulnerability to Volatility in raw material prices and forex fluctuation risk
The raw material cost is the major cost component which accounted for 51% of the total cost of sales in FY21 (62% during FY20). Of this, 72% is accounted by cost of goods traded by the company on a P2P basis. The balance 28% pertains to raw materials procured indigenously for the injectables division. The volatility in input prices subjects the profitability of the company to risk associated with adverse movement of prices. The company primarily operates in the domestic market with no forex inflows compared to moderate forex outflow over the years. The company has no hedging mechanisms in place for the same. Resultantly, the company is exposed to risk associated with volatility in movement of foreign exchange rates.

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.

Upgradation and capacity expansion project
The proposed project is primarily for upgradation of facility with respect to modernisation and GMP compliance. The upgradation will enable the plant to be offered for WHO-GMP certification and also for various ROW country markets, thus providing scope for exports. Plant and machinery will majorly comprise of an automated ampoule and vial combi line, New HVAC and Water systems. The project will also marginally enhance the manufacturing capacities of the Unit, the major advantage being flexibility and inter-changeability between vials and Ampoules manufacturing which is currently not possible. Thus, on a per day basis, the manufacturing capacity for vials would increase from approx. 48,000 units to 1,00,000 units and the capacity for ampules would increase from 1,76,900 units to 2,61,000 units. Total cost of the project is Rs.11.22 crore and is proposed to be funded entirely through proceeds from Rights issue of Rs.14.75 crore. However, the company has already commenced project with purchase orders of machinery placed with suppliers. Purchase orders are placed using LCs/advances to suppliers/ICDs. Therefore, MLL may utilize proceeds from Rights issue to repay these borrowings.

Liquidity: Adequate
MLL's liquidity profile is marked by modest cash and bank balance of Rs.0.25 crore and current ratio at 1.08x as on March 31, 2021. MLL's working capital limits are utilized till the extend of 62% of sanctioned limits. Hence, proving little cushion for meeting incremental working capital requirement from existing line of credit. For FY22, MLL has gross repayment of Rs.2.57 crore against expected cash accruals of Rs.3.93 crore. MLL is also undertaking capex of ~Rs.12 crore for improvement in manufacturing process at Naroda, Ahmedabad plant through receipt of Right issue of Rs.14.75 crore. Hence, considering above, MLL's liquidity profile remains adequate in near term.

Analytical approach:
For arriving at the ratings, CARE has considered the standalone financial of MLL and deriving support from its linkages with IPCA Laboratories Limited. Both the entities have sizable common shareholding pattern.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Pharmaceutical

About the Company
Makers Laboratories Limited (MLL), incorporated in July 1984, is an Indian Pharmaceutical company manufacturing Branded Generics. The promoters of IPCA Laboratories Limited (IPCA) have promoted MLL. Mr. 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 in order 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 Resonance Specialities Limited, a chemical manufacturing and marketing company. MLL has acquired 45.48% stake in RSL for cash consideration of Rs. 22.37 crore. MLL has took over board of RSL on December 21, 2020.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	51.27	44.64	44.15
PBILDT	2.94	3.53	4.85
PAT	-0.12	-1.62	1.78
Overall gearing (times)	0.29	0.32	NA
Interest coverage (times)	4.17	2.21	NA

A: Audited, UA: Unaudited, NA: Not 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	February, 2024	7.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE BBB+; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	7.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Mar-21)	1)CARE BBB+; Stable (11-Feb-20)	1)CARE BBB+; Stable (04-Jan-19)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (22-Mar-21)	1)CARE BBB+; Stable (11-Feb-20)	1)CARE BBB+; Stable (04-Jan-19)

* Long Term / Short Term

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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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