

## Brooks Laboratories Limited

March 25, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	29.41	CARE B; Stable (Single B; Outlook: Stable )	Reaffirmed
Short Term Bank Facilities	1.00	CARE A4 (A Four )	Reaffirmed
<b>Total Bank Facilities</b>	<b>30.41</b> <b>(Rs. Thirty Crore</b> <b>and Forty-One</b> <b>Lakhs Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Brooks Laboratories Limited (BLL) continue to remain constrained by the modest scale of operations, fluctuating profitability margins and concentrated revenue stream. The ratings are further constrained by the highly competitive & regulated nature of the industry. The ratings, however, derive strength from the experienced promoters, established track record of operations, comfortable capital structure and reputed clientele.

#### Rating Sensitivities

##### *Positive factors*

- Sustained improvement in scale of operations with total operating income increasing to close to Rs.100 crore and continued profitable at the PBILDT and cash levels
- Maintenance of the comfortable overall solvency position and efficient working capital management

##### *Negative factors*

- Continued losses at the PBILDT and cash level.
- Any major debt funded capex or increase in dependence on working capital borrowings resulting in significant deterioration of the capital structure.

### Detailed description of the key rating drivers

#### **Key Rating Weaknesses**

**Modest (though increasing) scale of operations:** The scale of operations of the company continued to remain modest. The operating income increased by ~22% in FY20 on account of higher demand from the export market and domestic customers. This was especially attributable to the increase in demand at the new Vadodra unit which is continuously adding new sales geographies (and regulatory approvals for the same). In 9MFY21 (UA), the total operating income of the company increased further by ~24% to Rs. 63.31 cr from Rs. 51.07 cr in 9MFY20 (UA) on account of increased capacity utilization, better market reach of the company's products and improved realizations.

**Fluctuating profitability margins:** The company continues to incur high operational expenses like those for obtaining of regulatory approvals, selling in new geographies etc. at the new Vadodra unit while sales from the unit have not yet picked up to cover these. This has led to continued losses at the PBILDT level in FY20 and FY19. Consequently, the company also remained in losses at the net level. Further, the company reported a cash loss of Rs. 6.87 cr. in FY20 as compared to Rs. 8.45 cr. in FY19 (PY: Rs. 11.12 cr.). Subsequently, though the company reported profits at the PBILDT level in H1FY21 (Prov.), it reported losses at the PBILDT level in Q3FY21 (Prov.), owing to sluggish demand and lower realizations. For the period 9MFY21 (Prov.), however, the company has reported profits at the PBILDT level (of Rs.5.13 cr.), compared to losses reported at the PBILDT level in 9MFY20 (Prov.).

**Customer concentration risk:** The customer base of the company remains concentrated with top five customers of the company contributing ~47% of the total operating income in FY20 (PY: ~77%). Any adverse change in procurement policies of these customers may affect the business of the company.

**Highly regulated and competitive nature of the industry:** The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across

various geographies. BLL is engaged in the manufacturing of pharmaceutical formulations. The industry is characterized by a high level of competition having presence of a large number of small and big players.

### Key Rating Strengths

**Experienced management:** BLL is currently being managed by all the directors collectively. Mr Atul Ranchal, Mr Rajesh Mahajan, Mr Rajnish Kumar Bedi, Mr Deepak Mahajan and Mr. Suresh Garg have an industry experience of around two decade each. Furthermore, Ms. Sonia Gupta, has an industry experience of nearly one and a half decade.

**Established track record of operations and reputed clientele:** BLL has an industry presence of nearly two decades now, leading to established relationships with the customers as well as suppliers. The company is engaged in the manufacturing of pharmaceutical formulations and is supplying to various reputed players. BLL has floated a Joint Venture (JV) named Brooks Steriscience Ltd, with another India based pharmaceutical player, Steriscience Private Limited. BLL plans to carve out its Vadodra facility and shift it to this JV. Around 73% stake will be held by BLL itself, while remaining stake will be with the JV partner. The JV will focus on making the plant (Vadodra) U.S. Food and Drug Administration (USFDA) compliant, attaining additional regulatory approvals along with adding some new products. Turnaround of the Vadodra unit and requirement of funding support from BLL to this JV, in the future, will remain a monitorable. BLL has also floated another JV (with BLL's share at ~45%) named SteriBrooks Penems Pvt. Ltd, also with Steriscience Private Limited, for marketing the products of the JV-Brooks Steriscience Pvt Ltd, in the export markets.

**Comfortable capital structure:** The capital structure of the company continued to remain at a comfortable level as marked by debt to equity and overall gearing ratios of 0.15x and 0.27x, as on March 31, 2020 (PY: 0.16x and 0.30x, respectively).

**Liquidity: Stretched:** The current ratio and quick ratio of the company stood weak as reflected by current ratio and quick ratio of 0.80x and 0.50x, respectively as on March 31, 2020 (PY: 0.65x and 0.44x respectively). The company had unencumbered cash & bank balance of Rs.0.40 crore only as on March 31, 2020. The company has a total debt repayment obligation of Rs. 2.10 cr. in FY21, proposed to be met through the internal accruals and cash flows generated. The company availed the moratorium extant RBI guidelines for debt obligations due in March-August-2020 period pertaining to one of the banks. The company has availed additional Covid facilities amounting to Rs. 4.70 cr. The average operating cycle of the company stood at approximately (-) 2 days as on March 31, 2020 [(-) 20 days as on March 31, 2019], with the gross operating cycle of ~131 days in FY20 (almost at the same level as last year). The creditor days for the company have historically remained high (125-153 days) in the last three years. The average utilization of the working capital limits also remained high at ~90% for the 12 months period ended August- 2020.

In the manufacturing JV floated- Brooks Steriscience Ltd (for the carved out Vadodra plant), the JV partner- Steriscience Pvt Ltd has already infused ~Rs.10 Cr. in the form of OCRPS (Optionally Convertible Redeemable Preference Shares). As on date, the JV has taken some excess space in the Vadodra plant from BLL on rent basis and is carrying out a capex to set-up additional line of injectibles. The JV has planned a capex of ~Rs22.3 cr., in the first phase, proposed to be funded through the funds expected from the dilution of 27% stake in the JV. The JV has spent ~Rs.7 cr. cr. on the capex, till March 09, 2021.

**Analytical approach:** Standalone

### Applicable Criteria

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

[Criteria for Short Term Instruments](#)

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

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

[Rating Methodology – Pharmaceutical Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

### About the Company

The company was initially incorporated as Brooks Pharmaceuticals in 2000 and subsequently rechristened as BLL in 2002. BLL is engaged in the contract manufacturing of pharmaceutical formulations at its two manufacturing facilities, one each in Baddi (Himachal Pradesh) and Vadodra (Gujarat). It is operating at a combined installed capacity of 2.30 crore units per annum for liquid injection vials, 13.82 crore units per annum for tablets, 2.01 crore units per annum for dry syrup, 5.76 crore units per annum for liquid injection ampoules, 2.30 crore units per annum for eye/ear drops and 5.19 crore units per annum for dry powder injection from Baddi Plant and 2.50 crore units per annum for injections from Vadodara Plant, as on March 31, 2020. The products manufactured by the company find application in various therapeutic segments including antibacterial, anti-biotics, antigastric, anti-malarial, life-saving drugs etc. BLL also supplies generic formulations on tender basis in states like Gujarat, Jammu & Kashmir, Mumbai and West Bengal. The company also engages in export sales to Yemen, Afghanistan etc.

while some domestic sales are also being made under self-owned brand. BLL's plant in Gujarat has obtained the EU-GMP (European Union Good Manufacturing Practices) certification in December-2017. Further, both of BLL's manufacturing plants are WHO-GMP certified by the World Health Organisation (WHO) headquartered in Geneva.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	57.62	70.06
PBILDT	-5.78	-2.19
PAT	-14.81	-24.38
Overall gearing (times)	0.30	0.28
Interest coverage (times)	Nm	Nm

A: Audited

Nm: Not meaningful

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	1.00	CARE A4
Fund-based - LT-Cash Credit	-	-	-	15.00	CARE B; Stable
Fund-based - LT-Term Loan	-	-	-	14.41	CARE B; 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 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.	Non-fund-based - ST-BG/LC	ST	1.00	CARE A4	1)CARE A4 (30-Sep-20) 2)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 3)CARE A4; ISSUER NOT COOPERATING* (07-May-20)	-	1)CARE A4+ (19-Mar-19) 2)CARE A4+ (07-Jun-18)	1)CARE A3 (05-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	15.00	CARE B; Stable	1)CARE B; Stable (30-Sep-20)	-	1)CARE BB+; Stable (19-Mar-19)	1)CARE BBB-; Negative

					2)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 3)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-May-20)		2)CARE BB+; Stable (07-Jun-18)	(05-Mar-18)
3.	Fund-based - LT-Term Loan	LT	14.41	CARE B; Stable	1)CARE B; Stable (30-Sep-20) 2)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 3)CARE BB-; Stable; ISSUER NOT COOPERATING* (07-May-20)	-	1)CARE BB+; Stable (19-Mar-19) 2)CARE BB+; Stable (07-Jun-18)	1)CARE BBB-; Negative (05-Mar-18)

**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-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	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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