

Alpa Laboratories Limited

April 20, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long- term/ Short-term Bank Facilities	12.00	CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Assigned
Short term Bank Facilities	3.00	CARE A3 (A Three)	Assigned
Total	15.00 (Rupees Fifteen crore only)		

Rating Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Alpa Laboratories Limited (ALL) derive strength from experienced and qualified management with long track record of operations in the pharmaceutical industry, diversified product mix with established clientele base and in-house testing and research facilities. The ratings, further, derive strength from its healthy profitability margins, comfortable capital structure, strong liquidity and healthy growth prospect for over-the-counter (OTC) drugs and nutraceuticals products.

These strength, however, partially offset to an extent on account of its modest scale of operations with high regulatory risk, vulnerability of profit margins to raw material prices and foreign exchange rate and working capital intensive operations. The ratings are, further, constrained on account of risk associated with investment in real-estate project undertaken by ALL under its wholly owned subsidiary, Norfolk Mercantile Private Limited (NMPL).

Ability of the company to increase its scale of operations while maintaining its healthy profitability and efficient management of working capital would be the key rating sensitivities. Moreover, any further exposure to non related business including real estate development shall also remain crucial from credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and qualified management with established track record of operations

Mr. Paresh Chawla, Managing Director, has more than three decades of experience in the pharmaceutical industry. He looks after finance and marketing functions of the company. Mr. M.S. Chawla, Director, looks after overall administration of the ALL having about 52 years of experience in the industry and Mr P.C. Shah, having more than four years of experience and looks after quality check and assessment of pharma products.

Being present in the industry since 1968, the company has established track record of operations with established client base in domestic market as well as in overseas market and sells its products under the registered trade mark 'Alpa'.

Diversified product mix with established clientele base along with in-house testing and research facilities

ALL manufactures over 400 pharmaceutical formulations for human and veterinary use in various forms such as Injections (both liquid and dry), tablets, capsules, eye/ear drops, ointment & creams. The product ranges a wide variety of ethical, generic and over the counter (OTC) drugs in various Finished Dosage Forms for both human and veterinary use. Diversified product portfolio reduces risk of product concentration thereby diversifying the revenue stream.

The company sells its products in both domestic and international market, in domestic market the products is sold to established companies channelized through distributors in various states and further sold through retail chemists, retail pharmacy stores and hospitals as well receives orders on tender basis from Gujarat, Maharashtra, Uttar Pradesh, Madhya Pradesh and Rajasthan government. The company also generates 31.06% of total sale in FY17 from export to Nigeria, South and Central America, Africa, Russia, Ukraine and Kazakhstan and so on.

Apart from manufacturing own products, ALL also undertakes contract manufacturing wherein it manufactures bulk drugs, drug intermediates and formulations on contract basis for well known companies such as Pfizer, Cipla Ltd., Cadila Healthcare Ltd. etc. with Pfizer being the main customer. ALL has long standing relationship with these customers and receives regular orders from them.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Healthy profitability margins with comfortable solvency position with high net worth base

The profitability margins stood healthy with PBILDT and PAT margin of 15.29% and 7.99% respectively during FY17 as against 20.96% and 12.96% respectively during FY16 backed by steady profits from core pharmaceutical business apart from sizable other operating income in form of interest and dividend from investments.

The capital structure of the ALL stood comfortable with an overall gearing of 0.10 times as on March 31, 2017, due to higher proportionate increase in tangible net worth along with decrease in total debt pertaining to accretion of profit to reserve as well as lower utilization of working capital bank borrowings.

Furthermore, debt indicators of the ALL also stood comfortable with total debt to GCA of 1.52 times as on March 31, 2017 and interest coverage ratio stood comfortable at 6.40 times in FY17.

Healthy growth prospect for OTC drugs and nutraceuticals products

Over-the-counter drugs and nutraceutical product market is now a days one of the prominent industries in the country and also export driven. The strong growth is anticipated due to increase in healthcare industries and increase in the investment of government to develop healthcare industries.

Further, the increasing consumer spending on functional food and beverages has been presenting lucrative prospects for the global nutraceuticals market. Consumers, especially those across developed nations, are currently exploring healthier lifestyle choices to curb the incidence of chronic and lifestyle diseases. The robust healthcare development demonstrated across emerging economies of the region and increasing disposable income of people will accelerate the nutraceuticals market in Asia Pacific. This will have a positive impact for ALL resulting in increase in scale of operations as well increase in export business.

Working capital intensive nature of operations

The liquidity of ALL stood strong marked by healthy investments of Rs. 59.84 crore with low utilization of 37.20% fund based limit and 2.12% of non-fund based limits for the last 12 months ending February, 2018. Further, ALL has elongated operating cycle of 144 days in FY17 owing to higher collection period.

Key Rating Weaknesses**Modest scale of operations**

During FY17, TOI has increased by 19.88% over FY16 mainly due to increase in quantity sold and stood moderate at Rs 71.58 crore. The company has registered a total operating income of Rs.47.45 crore with healthy PBILDT and PAT margin of 19.86% and 11.93% in 9MFY18

Risk associated with investment in real-estate project undertaken by NMPL and prospective merger with it

ALL has also incorporated a 100% subsidiary concern, NMPL which was incorporated in 2014 and is engaged in the business of real estate activities. It is undertaking a project for residential complex for the envisaged cost of Rs.4.5 crore to be funded through ALL. The project is on completion stage and RERA registration has been done. Further ALL also has 18% stake in Seabright Landmark Projects LLP (SLP) which is also engaged in real-estate activities.

Thus, ALL is exposed to risk associated with investment in form of Investment as well as loans and advances to NMPL and SLP. During FY17, ALL has made loans and advances of Rs.8.40 crore and investment of Rs. 17.50 crore into its subsidiary company, NMPL as well as SLP which constitute 25.89% of the tangible net worth as on March 31, 2017.

High regulatory risk

ALL is engaged in the business of manufacturing of mainly final products in pharmaceutical industry which is highly fragmented and competitive. Further, the industry is highly regulatory nature of the industry with various approvals and accreditation required from respective Indian department. Furthermore, it also generates income from export market where the regulations are stringent and where it has to follow compliances of related to different countries also.

Vulnerability of margins to raw material prices and foreign exchange rate

The profitability of the company is exposed to volatile raw material prices as raw material prices which constitutes around 50-60% of TOI in last three financial years and has witnessed a fluctuating trend. Further, margins are vulnerable to foreign exchange rate as the company derives its revenue through export sale also. In FY17 31.06% of its TOI was through export sale against 34.45% in FY16. ALL keeps its export receivables un-hedged which exposes it to foreign currency fluctuation risk.

Analytical Approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short term Instruments](#)

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

[Rating Methodology- Pharmaceutical Sector](#)

Background of the Company

Alpa Laboratories Limited (ALL) was formed in 1968 as a partnership concern by Mr. M.S Chawla, Mr Purushottam R. Patel and Mr P.C. Shah. Further in 1988, the constitution was changed to private Limited company and subsequently in 2000, the company was converted into public limited company and resumed its current name. ALL is engaged in manufacturing of pharmaceutical formulation covering varies range of products in human use such as capsules, creams, gels and ointments , ear and eye drops, injections, tablets, in veterinary use includes boluses, injections and intra-mammary infusions and sells these products under the registered trade name 'Alpa'.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	59.71	71.58
PBILDT	12.51	10.95
PAT	7.74	5.72
Overall gearing (times)	0.26	0.10
Interest coverage (times)	8.65	6.40

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Analyst Contact

Name: Mr Abhishek Jain

Tel: 0141-4020213/14

Mobile: +91 9251265875

Email: abhishek.jain@careratings.com

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

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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/ ST-Cash Credit	-	-	-	12.00	CARE BBB-; Stable / CARE A3
Non-fund-based - ST-Bank Guarantees	-	-	-	3.00	CARE A3

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	12.00	CARE BBB-; Stable / CARE A3	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	3.00	CARE A3	-	-	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**

32, Titanium, Prahaladnagar Corporate Road,

Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**

Unit No. 1101-1102, 11th Floor, Prestige Meridian II,

No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**JAIPUR****Mr. Nikhil Soni**

304, Pashupati Akshat Heights, Plot No. D-91,

Madho Singh Road, Near Collectorate Circle,

Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**NEW DELHI****Ms. Swati Agrawal**

13th Floor, E-1 Block, Videocon Tower,

Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**CHANDIGARH****Mr. Anand Jha**

SCF No. 54-55,

First Floor, Phase 11,

Sector 65, Mohali, Chandigarh - 160062

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**

Unit No. O-509/C, Spencer Plaza, 5th Floor,

No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**KOLKATA****Ms. Priti Agarwal**

3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)

10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**PUNE****Mr. Pratim Banerjee**

9th Floor, Pride Kumar Senate,

Plot No. 970, Bhamburda, Senapati Bapat Road,

Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

CIN-L67190MH1993PLC07169