Brooks Laboratories Limited

March 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	27.46	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	2.50	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total Facilities	**29.96 (Rs. Twenty Nine crore and Ninety Six lakh only)**		

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 losses at the PBILDT and cash level, weak debt coverage indicators and modest scale of operations. The ratings are further constrained by the high reliance on the external borrowings to meet the working capital requirements, concentrated revenue stream and highly competitive & regulated nature of the industry. The ratings, however, derive strength from the experienced and resourceful promoters, established track record of operations, comfortable capital structure and reputed clientele.

Going forward, the ability of the company to profitably scale-up its operations to achieve the envisaged income and profit levels while improving its overall solvency position and efficiently managing the working capital requirements will remain the key rating sensitivities. Furthermore, continued need based financial support from the promoters and any new capex and funding mix for the same impacting the credit profile will also remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Losses at the PBILDT and cash level: The company had set up an export focussed manufacturing unit in Vadodra, Gujarat, the commercial operations at which commenced in April-2017. However, the company obtained the requisite regulatory approvals post February-2018. Owing to this delay, the company derived only a small amount of domestic sales in FY18 from this unit. The overall domestic demand also remained lower leading to a ~3% decline in total income from FY17. However, the company incurred increased operational expenses pertaining to the new unit as well as the capacity enhancement & upgradation undertaken for the manufacturing of injections at its existing unit, in Baddi (Himachal Pradesh). This led to losses at the PBILDT level, which, coupled with high interest and depreciation expenses led to losses at the net level in FY18. The company also reported a cash loss of Rs.11.12 Cr. in FY18. The debt coverage indicators also remained weak on account of losses at the PBILDT and cash level.

Post commencement of sales from the Vadodara unit from July-2018, the PBILDT losses have reduced from Rs. 7.03 Cr. in 9MFY18 (UA) to Rs. 5.52 Cr. in 9MFY19 (UA). The company also reported a reduced cash loss of Rs.7.76Cr. in 9MFY19 (UA) as compared to cash loss of Rs.8.77 Cr. in 9MFY18 (UA).

Modest scale of operations: The scale of operations of the company continued to remain modest, with a total operating income of Rs. 55.86 crore in FY18. The same declined by ~3% from FY17 on account of lower demand caused by the implementation of the GST (Goods and Service Tax) regime in July-2017. Further, the total operating income of BLL decreased from Rs. 42.51 cr. in 9MFY18 (UA) to Rs. 40.30cr. in 9MFY19 (UA) on account of deliberate reduction in execution of government contracts.

Customer concentration risk: The customer base of the company is concentrated with top five customers of the company contributing ~64% of the total income in FY18 (PY: ~64%). 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 generic formulations and contract based pharmaceutical formulations. The industry is characterized by a high level of competition having presence of a large number of small and big players.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 and Mr Deepak Mahajan have an industry experience of around two decade each. Furthermore the other directors of the company, Dr D.S. Maity and Ms. Sonia Gupta, have an industry experience of two and a half decades and around one and a half decades respectively. To fund various business requirements, share warrants of Rs.8.12 Cr. have been issued to the promoters' relatives in September-2018, out of which Rs.3.91 Cr. has been received against these, as on December 31, 2018. The same has been used to meet various operational & financial requirements of the company.

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.

Comfortable capital structure: The capital structure of the company remained comfortable with long term debt to equity ratio and overall gearing ratio at 0.17x and 0.24x respectively, as on March 31, 2018. However, the same deteriorated from 0.09x and 0.11x respectively, as on March 31, 2017, on account of additional term loans availed during FY18 and higher working capital borrowings outstanding at the end of the year along with erosion of the networth as a result of losses at the net level. The capital structure of the company continued to remain comfortable as on December 31, 2018 with debt to equity ratio and overall gearing ratio of 0.15x and 0.24x respectively, as compared to 0.14x and 0.21x respectively, as on December 31, 2017.

Liquidity position

The operating cycle of the company shortened to around (-) 4 days as on March 31, 2018 from ~17 days as on March 31, 2017 mainly on account of stretched average creditors days. In order to meet its liquidity requirements, the company stretched payments to its suppliers, leading to high average creditors days of 125 days as on March 31, 2018. The average utilization of the working capital limits also remained moderately high at ~84% in the twelve month period ended January-2019. The company has a debt repayment obligation of Rs.2.18 Cr. for FY19 which is proposed to be met through realization of past debtors, past GST refunds, and funds raised from the issuance of share warrants (Rs. 3.91 crore as on December 31, 2018). In FY20, the company has a debt repayment obligation of Rs.2.73 Cr., which is proposed to be met through the internal accruals of the company. Going forward, the ability of the company to achieve the envisaged income & profitability levels and continued need based financial support from the promoters will remain the key rating sensitivities. The current ratio and quick ratio also stood weak at 0.71x and 0.42x respectively, as on March 31, 2018 (Previous Year: 0.84x and 0.52x respectively).

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
CARE's methodology for manufacturing companies
CARE's methodology for pharmaceutical sector

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, 2.02 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 5.18 crore units per annum for dry powder injection and 25 crore units per annum for injections as on December 31, 2018. The products manufactured by the company find application in various therapeutic segments including antibacterial, anti-biotics, anti-gastric, 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 derived 40% of its income in FY18 from this segment. The company also engages in export sales to Yemen, Afghanistan etc. while some domestic sales are also being made under self-owned brand. The proportion of income from these two segments, however, remains low. 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)	FY17 (A)	FY18 (A)
Total operating income	57.65	55.86
PBILDT	5.15	-8.75
PAT	1.67	-13.81
Overall gearing (times)	0.11	0.24
Interest coverage (times)	5.11	-3.54

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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 Sudeep Sanwal
Tel: 0172-4904002
Cell: +91 9958043187
Email: sudeep.sanwal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over nearly 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.

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	-	-	-	2.50	CARE A4+
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	December-2025	17.46	CARE BB+; 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 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.	Non-fund-based - ST-BG/LC	ST	2.50	CARE A4+	1)CARE A4+ (07-Jun-18)	1)CARE A3 (05-Mar-18)	1)CARE A3+ (10-Feb-17)	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Stable	1)CARE BB+; Stable (07-Jun-18)	1)CARE BBB-; Negative (05-Mar-18)	1)CARE BBB; Stable (10-Feb-17)	-
3.	Fund-based - LT-Term Loan	LT	17.46	CARE BB+; Stable	1)CARE BB+; Stable (07-Jun-18)	1)CARE BBB-; Negative (05-Mar-18)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@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

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
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

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

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

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

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

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

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

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