

Brooks Laboratories Limited (Revised)

May 07, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	27.46	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Revised from 'CARE BB+; Stable' (Double B Plus; Outlook: Stable) on the basis of best available information
Short term Bank Facilities	2.50	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Revised from 'CARE A4+' (A Four Plus) on the basis of best available information
Total	29.96 (Rs. Twenty Nine crore and ninety six lakh only)		

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Brooks Laboratories Limited (BLL) to monitor the ratings vide e-mail communications/letters dated March 25, 2020, March 20, 2020, February 20, 2020, February 13, 2020, February 4, 2020, January 27, 2020, January 23, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on BLL's bank facilities will now be denoted as **CARE BB-; Stable/CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of continued losses at the PBILDT and cash level. The ratings are further constrained by customer concentration risk, modest scale of operations and highly regulated and competitive nature of the industry. The ratings however, derive strength from the experienced management, established track record of operations and reputed clientele, and comfortable capital structure.

Detailed description of the key rating drivers
Key Rating Weaknesses

Continued losses at the PBILDT and cash level: The company incurred losses of Rs.5.49 cr. at the PBILDT level in FY19, which, coupled with high interest and depreciation expenses led to losses at the net level in FY19. The company also reported a cash loss of Rs.8.45 Cr. in FY19. The debt coverage indicators also remained weak on account of losses at the PBILDT and cash level. In 9MFY20, the company continued to report losses, with a loss of Rs.2.80 cr. at the PBILDT level which declined from Rs.5.52 cr. in 9MFY19 mainly on account of increase in income. The cash losses for the company also reduced in 9MFY20 to Rs.5.28 Cr. from Rs.7.76 Cr. in 9MFY19.

Modest scale of operations: The scale of operations of the company continued to remain modest, with a total operating income of Rs. 57.96 crore in FY19. The same increased by ~4% from FY18. Further, the total operating income of BLL remained modest at Rs.51.07 cr. in 9MFY20 increasing by ~27% from Rs. 40.30 cr. in 9MFY19 (UA).

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

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. This is especially pertinent for the pharmaceutical industry in light of the ongoing spread of COVID-19, with continuously changing rules and regulations for the industry both in the domestic as well as the international market. 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.

Key Rating Strengths

Experienced management with established track record of operations and reputed clientele: 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. The operations of the company have been supported by regular fund infusion in the form of share warrants and rights issue. 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 0.16x and 0.30x respectively as on March 31, 2019 as compared to 0.17x and 0.24x respectively, as on March 31, 2018. The debt to equity ratio stood comfortable as on December 31, 2019 at 0.14x which stood almost at the same level as on December 31, 2018 at 0.15x. However, the overall gearing ratio deteriorated marginally as on December 31, 2019 to 0.29x as compared to 0.23x as on December 31, 2018 on account of higher working capital borrowings outstanding as on December 31, 2019. The company has availed moratorium from one of its banks that CARE was able to contact, in light of COVID-19, as per the extant Reserve Bank of India (RBI) guidelines.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[Criteria for short term instruments](#)

[Rating Methodology – 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, 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 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)	FY18 (A)	FY19 (A)
Total operating income	55.86	57.96
PBILDT	-8.75	-5.49
PAT	-13.81	-14.80
Overall gearing (times)	0.24	0.30
Interest coverage (times)	-3.54	-1.85

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A4+ on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of best available information
Fund-based - LT-Term Loan	-	-	December-2025	17.46	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of best available information

*Issuer did not cooperate; Based on best available information

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	2.50	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A4+ on the basis of best available information	-	-	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	10.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not	-	-	1)CARE BB+; Stable (19-Mar-19) 2)CARE BB+;	1)CARE BBB-; Negative (05-Mar-18)

				cooperating; Revised from CARE BB+; Stable on the basis of best available information			Stable (07-Jun-18)	
3.	Fund-based - LT-Term Loan	LT	17.46	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of best available information	-	-	1)CARE BB+; Stable (19-Mar-19) 2)CARE BB+; Stable (07-Jun-18)	1)CARE BBB-; Negative (05-Mar-18)

*Issuer did not cooperate; Based on best available information

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.

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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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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.