Brooks Laboratories Limited

June 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	27.46	CARE BB+; Stable (Double B Plus; Outlook: Stable)	**Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**
Short term Bank Facilities	2.50	CARE A4+ (A Four Plus)	**Revised from CARE A3 (A Three)**
Total	**29.96 (Rs. Twenty Nine crore and ninety six lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Brooks Laboratories Limited (BLL) takes into account continued losses at the PBILDT and cash level, in Q4FY18, and deterioration in the capital structure and debt coverage indicators in FY18 (refers to the period April 01 to March 31). The ratings are further constrained by the modest scale of operations, concentrated revenue stream and 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.

Going forward, the ability of the company to stabilize its operations at the newly commissioned manufacturing unit in Gujarat, while achieving the envisaged income level will remain the key rating sensitivities. Further the ability of the company to improve its profitability margins and the overall solvency position, efficiently manage the working capital requirements and any new capex and funding mix for the same will also remain the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weaknesses

Continued losses in Q4FY18: The company has set up an export focussed manufacturing unit in Gujarat, the commercial operations at which commenced in April-2017. However, the company obtained the requisite regulatory approvals for export sales 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 (H.P.). Together, this led to a considerable decline in profitability with the company reporting a PBILDT loss of Rs.1.63 Cr. and a cash loss of Rs.2.35 Cr., respectively, in Q4FY18, compared to a PBILDT loss of Rs.0.65 Cr. and a cash loss of Rs.1.19 Cr. in Q4FY17. The cumulative losses incurred by the company in FY18 were more than anticipated for the year. This along with incremental availment of bank loans led to significant deterioration in the debt coverage indicators of the company for FY18.

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 FY17. 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.

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

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.

Analytical Approach: Stand alone

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]

Company Background

The company was initially incorporated as Brooks Pharmaceuticals in 2000 and subsequently rechristened as BLL in 2002. The company is engaged in the contract manufacturing of pharmaceutical formulations at its two manufacturing facilities, one each in Baddi (Himachal Pradesh) and Baroda (Gujarat). It is operating at a combined installed capacity of 5.18 crore units per annum for injections, 9.79 crore units per annum for tablets, 2.02 crore units per annum for dry syrup, 3.74 crore units per annum for liquid ampoules, 7.30 crore units per annum for liquid vials and 2.30 crore units per annum for eye/ear drops. The products manufactured by the company find application as antibacterial, anti-biotics, anti-gastric, anti-malarial, vitamins, etc. BLL also supplies generic formulations on tender basis in states like Gujarat, Jammu & Kashmir, Mumbai and West Bengal. The company's Gujarat unit has been approved by the European Union Good Manufacturing Practices (EUGMP) and National Pharmaceutical Regulatory Authority (NPRA) Malaysia.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	57.67	55.95
PBILDT	5.17	-8.64
PAT	1.67	-13.81
Overall gearing (times)	0.28	0.24
Interest coverage (times)	5.12	-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

****For detailed Rationale Report and subscription information, please contact us at www.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.

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 A3 (05-Mar-18)	1)CARE A3+ (10-Feb-17)	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB+; Stable	-	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 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

CIN - L67190MH1993PLC071691