

## Brooks Laboratories Limited

September 30, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	29.41 (enhanced from 27.46)	<b>CARE B; Stable (Single B; Outlook: Stable)</b>	<b>Revised from CARE D; Issuer Not Cooperating (Single D) and removed from INC</b>
Short-term Bank Facilities	1.00 (reduced from 2.50)	<b>CARE A4 (A Four)</b>	<b>Revised from CARE D; Issuer Not Cooperating (Single D) and removed from INC</b>
<b>Total Facilities</b>	<b>30.41 (Rs. Thirty crore and Forty One lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Brooks Laboratories Limited (BLL) takes into account the lender clarification stating that instances of delays in servicing of the debt obligation (for both term loan and working capital facilities) were on account of technical issues on the bank's part. The ratings, derive strength from the experienced and resourceful promoters, established track record of operations, comfortable capital structure and reputed clientele. The ratings, however, continue to remain constrained by the continued losses at the PBILDT and cash level leading to weak debt coverage indicators. The ratings are further constrained by the concentrated revenue stream and highly competitive & regulated nature of the industry.

### Rating Sensitivities

#### *Positive Factors*

- Sustained improvement in scale of operations with total operating income increasing to close to Rs.100 crore and profitability at the PBILDT and cash levels.
- Maintaining 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 deterioration of overall gearing ratio to above 1x.
- Any significant funding support to the Vadodra unit after the proposed carve-out.
- Significant reduction or discontinuance of the funding support from the promoter going forward.

### Detailed description of the key rating drivers

#### **Key Rating Strengths**

**Clarification from the lender on instances of delays observed in the past:** As per the account statements shared by the company at the time of last review, there were instances of delays in servicing of the debt obligation (for both term loan and working capital facilities) by the company in the past, for which penal interest was also charged by the bank. However, the lender has now provided clarification stating that these delays had been due to technical issue in the bank's system. Further, the company has also shared additional account statements. Instances of delays observed in those statements (and penal interest charged) also have been confirmed by the lender to be on account of technical issues in the bank's system and delay in implementation of the moratorium offered by RBI in light of Covid-19.

**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, Mr. Suresh Garg and Ms. Sonia Gupta, have an industry experience of nearly two decades and around one and a half decades respectively. Promoters have supported the operations in the past through regular fund infusion. BLL received Rs. 15.33 Cr. in FY20 from rights issue of shares to the promoter in FY20. Further, the company also raised Rs.8.12 Cr. through issue of share warrants to the promoters' relatives with Rs.5.55 Cr. received in FY19 and the remaining Rs.2.57 Cr. in FY20.

**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 Private 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 key rating sensitivity. BLL has also floated a second JV (with BLL's share at ~44%) named SteriBrooks Penems Pvt. Ltd, also with Steriscience Private Limited, for marketing the products of the first JV in the export markets. The operations of both entities are yet to begin.

**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).

#### Key Rating Weaknesses

**Modest; albeit, increasing scale of operations:** The scale of operation of the company has increased at a CAGR (Compound Annual Growth Rate) of 12% on a year-on-year basis to Rs. 70.06 cr. in FY20 from Rs. 55.86 cr. in FY18. The same 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 Q1FY21 (Unaudited), however, the total operating income of the company declined by ~26%, on a year-on-year basis, to Rs. 12.58 cr. on account of logistics and supply chain disruptions in light of Covid-19 which affected dispatches during the quarter.

**Losses at the PBILDT and cash level, leading to weak debt coverage indicators:** 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 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.)

The losses at the PBILDT level continued in Q1FY21 (UA) also, with the company reporting losses of Rs.0.13 Cr. during the period, compared to losses of Rs.0.06 Cr. in the same period last year. This was mainly on account of lower quantity sold while expenses did not decrease proportionately. The cash losses reported by the company also increased in Q1FY21 (UA), compared to the same period last year [Rs.0.91 Cr., compared to 0.88 Cr. in Q1FY20 (UA)]. Losses at the PBILDT and cash level have led to weak debt coverage indicators for the company.

**Customer concentration risk:** The customer base of the company is 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.

**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. 2.87 cr. in FY21, proposed to be met through the internal accruals and cash flows generated. The company has availed the moratorium extant RBI guidelines only for debt obligations due in March-August-2020 period pertaining to one of its two term loans and the working capital limits.

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. BLL received Rs. 15.33 Cr. in FY20 from rights issue of shares to the promoter in FY20. Further, the company also raised Rs.8.12 Cr. through issue of share warrants to the promoters' relatives with Rs.5.55 Cr. received in FY19 and the remaining Rs.2.57 Cr. in FY20. The funds infused have lent support to the liquidity profile of the company. Continuity of timely and need based funding support by the promoters (and/or related parties) shall remain a key rating sensitivity going forward.

**Analytical Approach:** Standalone

**Applicable Criteria**

[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](#)

[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 derived 3% of its income in FY20 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.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

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

**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	-	-	December-2025	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 D; ISSUER NOT COOPERATING* (25-Aug-20) 2)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 D; ISSUER NOT COOPERATING* (25-Aug-20) 2)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)
3.	Fund-based - LT-Term Loan	LT	14.41	CARE B; Stable	1)CARE D; ISSUER NOT COOPERATING* (25-Aug-20) 2)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 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. This classification is available at [www.careratings.com](http://www.careratings.com). 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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