

Divi's Laboratories Limited ^(Revised)
January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating¹	Rating Action
Long-term Bank Facilities	30.00 (enhanced from 25.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term Bank Facilities	355.00 (enhanced from 243.00)	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total Facilities	385.00 (Rupees Three hundred Eighty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the enhanced bank facilities of Divi's Laboratories Ltd (DLL) continue to factor in well experienced promoters having long track record of operations in the pharmaceutical industry, proven research and development capabilities with a large number of Drug Master Files (DMF) filings, well-equipped manufacturing facilities with the United States Food & Drug Administration (USFDA) and current Good Manufacturing practices (cGMP) certified production units, strong profitability margins albeit marginal decline in FY18 (FY refers to the period April 1 to March 31), strong financial performance during H1FY19, comfortable leverage position marked by low debt levels, healthy liquidity profile and positive industry outlook. The ratings also factor in successful closure of USFDA import alerts in the month of September 2017. The ratings are, however, constrained by revenue concentration from top few products, foreign exchange fluctuation risk and stretched operating cycle period. The ability of the company to diversify the product base along with sustained profitability levels, manage forex exchange fluctuation risk and successful execution of the proposed project without time and cost overrun are the key rating sensitivities.

Detailed description of the key rating drivers**Key Rating Strengths*****Experienced promoter, long track record of operations and proven strong R&D capabilities***

Dr. Murli K Divi has over 30 years of experience in the bulk pharmaceutical industry. Dr. Divi is supported by a team of experienced professionals in different departments. The company has strong chemistry skill sets, product development and process development capabilities for cost efficiency.

Well-equipped manufacturing facilities

DLL has four multi-purpose manufacturing facilities one located at Lingo jigudem, Yadadri Bhuvanagiri District (Telangana) while other three at Visakhapatnam district (Andhra Pradesh). All the units of the company are approved by US FDA and also has various certifications.

Comfortable leverage and coverage indicators

DLL continues to maintain comfortable leverage position with low debt levels represented by overall gearing ratio of 0.01x as on March 31, 2018 (same as on March 31, 2017) and satisfactory debt protection metrics with total debt/GCA below unity.

Strong liquidity

DLL also holds strong liquidity position with current investments of Rs.1,889.29 crore as on March 31, 2018 (Rs.1630.72 crore as on March 31, 2017). The total debt of the company comprise of only working capital limits in the form of Cash Credit (CC) and Overdraft (OD) wherein OD limits are FD backed. Moreover, during last 12 months ending September 2018, the company has not utilized any cash credit limits.

Proposed Capex

The company proposes to take up two brownfield projects, i.e., a SEZ unit at Unit-2 of Visakhapatnam plant and a SEZ project in the available land in Unit-I in Bhuvanagiri-Yadadri District, Telangana. The company proposes to incur capex of Rs.894.10 crore during FY19, to be funded entirely from internal accruals. The

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

works of the said projects have already commenced and the company expects to complete both the projects by FY20.

Diversified market presence with major share of revenue from regulated markets:

Major share of total operating income is accounted from exports to regulated markets such as Europe and North American markets. Total exports accounts for 87% of sales in FY18 (same during FY17) out of which majority of revenue is streamed from Europe and North American markets. DLL's clientele includes top global innovator pharmaceutical companies. Revenue of DLL is well spread among its client portfolio with top five customers contributing around 42% of sales in FY18 (against 43% of sales during FY17).

Robust operating income and profitability albeit marginal decline in FY18:

DLL's total operating income although remained strong, has declined marginally by 4.13% during FY18 over FY17. In view of the import alert, the company had to realign its production programs across its units and also incur additional expenditure for remediation of the deficiencies observed by the FDA and for engaging external regulatory consultants, subject matter specialists and consultants for resolving the issues with the FDA. On account of the same, the PBILDT margin of the company declined by 209 bps from 36.97% during FY17 to 34.88% during FY18.

Nevertheless, during H1FY19, DLL has reported TOI of Rs.2,409.15 crore (as against Rs.1,774.67 crore in H1FY18) with PAT of Rs.663.81 crore (against Rs.383.32 crore in H1FY18). The improvement in TOI and PAT reflects normalization of operations after successful compliance of audit observations raised by US-FDA for company's manufacturing sites.

Key rating weakness

Product concentration risk

The revenue concentration from top five products has remained stable over a period of time contributing 46% of sales in FY18 (43% during FY17). The product concentration from top five products has remained stable over the period despite increase in the contribution from other products. During the year, the company has focused on strengthening its position for traditional generic products like by increasing capacities at manufacturing sites.

Working capital intensive nature of operations

DLL's working capital cycle remained elongated and deteriorated from 209 days during FY17 to 224 days during FY18 primarily on account of high inventory and collection period. The company undertakes "campaign production" of large volume products and stocks the said products thus freeing the multi-purpose plants for producing other products resulting in a trend of high inventory holding period.

High exposure to forex fluctuation risk

DLL is exposed to forex risk as major revenue of the company is derived from exports. The forex risk is partly mitigated by natural hedge through the imports. Further, the company has entered into contract with major clients for a fixed exchange price, wherein any fluctuation in currency exchange rates is shared by both. During FY18, DLL has booked a net forex gain of Rs.24.60 crore as against net loss of Rs.39.10 crore on forex in FY17.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology- Pharmaceutical Sector](#)

About the Company

DLL was incorporated in 1990 by Dr Murli K Divi. DLL is engaged in manufacturing of generic APIs, Nutraceutical, Custom Synthesis (CS) of APIs and Intermediates for innovator companies. DLL have four manufacturing units and three R&D centers spread across the states of Telangana and Andhra Pradesh. With a portfolio of 122 products across diverse therapeutic areas, DLL is one of the largest pharmaceutical companies in India. Divi's revenues are derived from custom synthesis of APIs / intermediates for innovator companies, and generic exports.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	4,097.51	3,928.31
PBILDIT	1,515.03	1,370.24
PAT	1,053.27	869.58
Overall gearing (times)	0.01	0.01
Interest coverage (times)	457.71	536.17

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

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: Nivedita Ghayal

Tel: 040 40102030

Cell: +91 9908090944

Email: nivedita.ghayal@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.

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-Cash Credit	-	-	-	30.00	CARE AA+; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	355.00	CARE AA+; Stable / CARE A1+

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-Cash Credit	LT	30.00	CARE AA+; Stable	1)CARE AA+; Stable (07-Dec-18)	1)CARE AA+; Stable (29-Sep-17) 2)CARE AA+; Stable (03-May-17)	1)CARE AA+ (06-Oct-16)	1)CARE AA+ (15-Oct-15)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	355.00	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (07-Dec-18)	1)CARE AA+; Stable / CARE A1+ (29-Sep-17) 2)CARE AA+; Stable / CARE A1+ (03-May-17)	1)CARE AA+ / CARE A1+ (06-Oct-16)	1)CARE AA+ / CARE A1+ (15-Oct-15)

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

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

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

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

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

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

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

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

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

CIN - L67190MH1993PLC071691

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