Makers Laboratories Limited

January 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	12.50	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Assigned
Total Facilities	**12.50 (Rupees twelve crore and fifty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Makers Laboratories Limited (MLL) derives comfort from the promoter's association with Ipca Laboratories Limited (Ipca) and long-standing experience of promoters in the Pharmaceutical industry, diversified business segments with improved operational performance during H1FY19 from the Injectables division, diversified product portfolio, sound capital structure corroborated by satisfactory debt-protections metrics, long-standing supplier network, satisfactory financial performance during FY16-FY18 (refers to the period from April 1 to March 31) in consort with stable industry prospects over the medium to long term. The rating also takes cognizance of moderate scale of operations with concentration on acute therapies segment, debt-funded capex during FY19-FY20, vulnerability accruing from volatility in raw material prices, elongated working capital cycle, exposure to regulatory risk and moderate working capital cycle. The ability of the company to improve its scale of operations and thereby, effectively managing its working capital requirements while improving its operations efficiencies and complete the envisaged capex without any cost or time overrun and derive benefits therefrom are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record in the industry: The promoters of Ipca Laboratories Limited (Ipca) have promoted MLL as well. Mr. Premchand Godha, the Managing Director of Ipca is also the promoter of MLL. He is a Chartered Accountant with over 4 decades of experience in the Pharma Industry. Mr. Sahil Parikh, the CEO and whole-time Director of MLL has two decades of experience in the Pharma Industry. Furthermore, apart from the shares with public, majority of shareholders of Ipca are also the shareholders of MLL. The management of MLL is ably supported by a team of well-qualified professionals down the line.

Diversified business segments backed by approved manufacturing facilities: MLL primarily markets branded generic pharmaceutical formulations and generic formulations in the Indian market. The company procures its products on principal to principal (P2P) basis from various companies situated in Himachal Pradesh and Uttarakhand. It also manufactures injectables (Anti-malarials) at its CGMP certified facility in Naroda, Ahmedabad on a loan license basis which solely caters to Ipca.

Diversified Product Portfolio: MLL markets its products in major general health therapeutic segments with top formulation brands comprising of Duramol (Paracetamol), Artemak-AB (α-β Arteether), Loroquin (Chloroquine among others. The company has a well-diversified product portfolio with the top 10 products contributing 35.83% of the net sales in FY18 (36.82% of the net sales in FY17). The company also generates income from job-work done solely for Ipca towards manufacturing of Anti-Malarial Injectables which generates Rs. 6-7 crore per annum.

Improved operational performance during H1FY19 from the Injectables division: MLL has one manufacturing facility with installed capacity of 46.80 million units for manufacturing of anti-malarial Injectables in Naroda, Ahmedabad primarily for Ipca. The same is done on a loan license which generated revenue of Rs. 6.34 crore during FY18 (Rs. 8.17 crore during FY17). The capacity utilization of the unit in a single shift at 79.04% during FY18 which improved to 131.43% during H1FY19 on account of higher number of orders executed backed by increase in demand.

Long-standing supplier relations with PAN India supply chain: The company, by virtue of its long presence in the Pharma Industry and association with Ipca Laboratories Limited, has established a strong and dependable supplier network operating PAN India backed by a strong distribution network of 20 Consignment agents and 15 Super Stockiest. The company's major P2P vendors are Pinnacle Life Sciences Pvt Ltd, Vital Laboratories Pvt Ltd, Aarti Drugs Ltd, Smayan Healthcare Pvt Ltd and Ankur Drugs and Pharma Ltd, among others.

Satisfactory financial performance during FY16-FY18 and H1FY19: The company's financial performance has been satisfactory over the last 3 years with improvement in profitability margins. However, the Total operating Income (TOI) has declined marginally over the last 3 years from Rs. 61.88 crore in FY16 to Rs. 58.54 crore in FY17 to Rs. 57.82 crore in FY18 due to the GST impact and impact of resultant inventory realization with stockiest in FY18 and revamping of the company's product portfolio by replacing certain lower margin products with products carrying higher margins. Nevertheless, the PBILDT margin improved from 8.25% in FY16 to 9.66% in FY17 to 10.83% in FY18 attributable to relatively lower operating costs and inclusion of higher margin products in the company's portfolio. The company has reported a TOI of Rs. 29.50 crore during H1FY19 as against Rs. 29.38 crore during H1FY18.

Sound capital structure with satisfactory debt-protection metrics: The company has a sound capital structure marked by the overall gearing remaining below unity at 0.03x as on March 31, 2018 (0.04x as on March 31, 2017 and 0.01x as on March 31, 2016) on account of low reliance on working capital bank borrowings. The TDGCA of the company remained satisfactory and stable at 0.29x during FY18 (0.28x during FY17 and 0.05x during FY16). The interest coverage ratio has improved from 14.33x during FY17 to 20.70x during FY18 on account of growth in PBILDT level coupled with relatively lower finance costs.

Stable Industry Prospects: The credit profile of most of the Indian pharmaceutical companies is expected to remain stable over the medium term in light of healthy prospects for the domestic although the growth towards export markets remains challenged. The exports to emerging markets would augment the growth for Indian Pharmaceutical Industry (IPI) on the back of patent expiries and increasing government emphasis on generics in these markets. On the other hand, the domestic market is expected to grow steadily, albeit at a lower rate due to many drugs coming under the ambit of price regulator National Pharmaceutical Pricing Authority (NPPA).

Liquidity analysis: MLL has a satisfactory liquidity position with current ratio and quick ratio at 1.77x and 0.92x respectively as on March 31, 2018. The company's Gross Cash Accruals stood at Rs. 4.50 crore during FY18. The company has managed its operations by utilizing internal accruals due to which, its reliance on working capital bank borrowings was on the lower side at about 30% during last 12 months ending November 30, 2018. Further the company has made investments in mutual funds amounting to Rs. 1.00 crore as on March 31, 2018. The company has no term loan obligation during FY19.

Key Rating Weaknesses

Moderate scale of operations with concentration on acute therapies segment: Despite operating in the same line of activity for more than 2 decades, the total operating income of MLL has remained moderate at Rs. 57.82 crore during FY18 and the revenue stream has remained almost stable during the last three years ending March 2018. The company generates over 89% of its TOI from contract manufacturing activities and balance 11% from job-work done for Ipca for manufacturing of Injectables (anti-malarials). MLL markets its products in major acute therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti- Inflammatory, Analgesic, Anti- Diabetics and other common diseases.

Project risk accruing from envisaged debt-funded capex: The company has envisaged capex of Rs. 13.20 crore during FY19-FY20 for setting up of the new Ophthalmic division for manufacturing vials solely for Ipca, for both the domestic and overseas markets; which is expected to be funded through term loan of Rs. 8.70 crore and balance Rs. 4.50 crore from internal accruals, with a debt-equity mix of 1.93:1. The plant is expected to commence operations from April 2020. The ability of the company to complete the envisaged project within the stipulated time without any cost or time overruns would have a bearing on the company's revenue generation and liquidity and would hence, be critical from credit risk point of view.

Vulnerability to Volatility in raw material prices: The raw material cost is the major cost component which accounted for 71% of the total cost of sales in FY18. The volatility in input prices subjects the profitability of the company to risk associated with adverse movement of prices.

Exposure to regulatory risk: The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for conducting business activities. The approval process for a new product registration is complex, lengthy and expensive. Any delay or failure in getting approvals for new product launch could adversely affect the business prospect of the company.

Elongated working capital cycle: The working capital cycle, although improved from 94 days in FY16 to 84 days in FY17 has elongated to 105 days in FY18 owing to stretched inventory days due to high level of inventory maintained by the company in the form of finished goods for meeting seasonal demand.
Analytical approach: Standalone. Although the approach is standalone, the same takes cognizance of MLL's association with Ipca as Ipca's promoters have promoted MLL as well.

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology – Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Makers Laboratories Limited (MLL), incorporated in July 1984, is an Indian Pharmaceutical company manufacturing Branded Generics. The promoters of Ipca Laboratories Limited (Ipca) have promoted MLL. Mr. Premchand Godha, the Managing Director of Ipca is also the promoter of MLL. MLL primarily markets Branded Generic Formulations and Generic Formulations in the domestic Market under major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti- Inflammatory, Analgesic, Anti- Diabetics and other common diseases. The company gets it products manufactured on principal to principal (P2P) basis in the facilities of various companies situated in Himachal Pradesh and Uttarakhand. Additionally, the company also handles job-work for manufacturing of Injectables (anti-malarials) solely for Ipca. The company adheres to all the requisite quality norms in order to ensure the best quality for its products.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	58.54	57.82
PBILDT	5.66	6.26
PAT	3.70	3.06
Overall gearing (times)	0.04	0.04
Interest coverage (times)	20.70	17.42

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.*

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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-Term Loan	-	-	April 2023	8.70	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	3.80	CARE BBB+; 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.	Fund-based - LT-Term Loan	LT	8.70	CARE BBB+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	3.80	CARE BBB+; Stable	-	-	-	-

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