Makers Laboratories Limited

February 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term Loan	8.70	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities-Fund based	3.80	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Total	12.50 (Rs. 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 product portfolio satisfactory capital structure and debt protection metrics and long-standing supplier network . The rating also takes cognizance of poor financial performance in FY 19 and H1FY20, moderate scale of operations with concentration on acute therapies segment, vulnerability accruing from volatility in raw material prices, exposure to regulatory risk , moderate working capital cycle and ongoing project risk.

Rating Sensitivities

Positive factors

- Improvement in PBILDT margins to 10% on sustained basis

Negative factors

- Reduction in PBILDT margins below 4% on sustained basis
- Deterioration in capital structure to above 0.8x

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. 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. He has been instrumental in turning around Ipca from a sick unit in 1975 to a profitable International Pharmaceutical company. Mr. Nilesh Jain and Mr. Sahil Parikh are whole-time Directors in MLL and handle day to day operations of the Company. Mr. Sahil Parikh is a graduate in B.Sc. (Bio-Chemistry) from Gujarat University. He has also done Diploma in Management Studies from Ahmadabad Management Association. He has two decades of experience in the Pharma Industry, wherein he has overlooked production, quality control, projects and general management. Mr. Nilesh Jain is a Commerce Graduate (B. Com) and M.M.S. (Masters in Management Studies) from Mumbai University. He has nearly 23 years of experience in the field of Materials Management, Marketing Management, Business Development and General Management. The management is ably supported by a team of well-qualified professionals down the line.

Diversified business segments backed by approved manufacturing facilities

The company 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 the excise free zone of Himachal Pradesh and Uttarakhand. The facilities of their vendors have all the necessary certifications in place including CGMP. It also manufactures injectables (Anti-malarials) at its facility in Naroda, Ahmedabad on a loan license basis which solely caters to Ipca. The manufacturing facility of MLL is CGMP certified.

Diversified product portfolio albeit concentration to acute therapies limits growth in absence of major R&D capability

MLL markets its products in major general health therapeutic segments like Anti-Malarial, Antibiotic, Antibacterial, Anti-Inflammatory, Analgesic, Anti- Diabetics and other common diseases. The company's top formulation brands comprise of Duramol (Paracetamol), Artemak-AB (α-β Arteether), Loroquin (Chloroquine), Nimuwin (Nimuselide), Coffwin (Anti cough Range) and Exylin (Amoxycillin range).The company generates a stable stream of revenue from a diversified product portfolio with the top 10 products contributing 38.01% of the net sales in FY19 (35.83% of the net sales in FY18). The company also

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

generates income from job-work done solely for Ipca towards manufacturing of Anti-Malarial Injectables amounting to Rs. 7.75 crore during FY19 against Rs. 6.34 crore during FY18.

Improved operational performance from the injectables division

The company operates one manufacturing facility consisting of the injectables division in Naroda, Ahmedabad which manufactures Anti-malarials primarily for Ipca Laboratories Limited. The same is done on a loan license basis by the company which generates Rs. 6-7 crore per annum. The revenue for aforementioned sales was Rs. 7.75 crore during FY19 (Rs.6.34 crore during FY18). The company has an installed capacity for manufacturing 46.80 million vials of anti-malarial injectables. The company usually operates its capacity in a single shift; however with additional orders can work from 1.50-2 shifts (thus making the capacity utilisation in excess of 100%). For FY 19 capacity utilisation was 117% as against 79% during FY18. This has further improved to 121% till November 2019. The plant operates for nearly 360 days a year.

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. The company's major P2P vendors are Meghmani LLP, Pinnacle Life Sciences Pvt Ltd, Vital Laboratories Pvt Ltd, Aarti Drugs Ltd, Smayan Healthcare Pvt Ltd and Acme Formulation, among others. The company procures majority of its API from Farmson Analgesics and Ipca Laboratories Ltd, among others. MLL has a sound supply chain operating PAN India backed by a strong distribution network of super stockists. In FY19, the Company made changes to its distribution model from Direct to Distributor to Direct to Stockist.

Key Rating Weaknesses

Small scale of operations, financial performance impacted due to supply disturbance and change in distribution model

The company generates a stable stream of revenue from a relatively moderate scale of operations. The Total operating Income (TOI) has declined marginally over the last 3 years from Rs. 58.54 crore in FY17 to Rs. 57.82 crore in FY18 and Rs. 49.08 crore in FY19. The decline in FY19 was primarily due to decline in generic sales volumes owing to supply disturbance from one of MLL's major loan license manufacturer; Ankur Drugs and Pharma Limited (ADPL); during October to December 2018. ADPL was liquidated during Q3FY19, due to which nearly 40-50% of the products supplied to MLL were not available. Since, the company operates in an industry which is governed by regulations, immediate diversification of purchases could not be done. Post the liquidation of ADL, MLL has identified 2 new LLMs, MCW Healthcare Private Limited (MCW) and Jay Formulations (JF), to compensate for the loss of production caused by liquidation. Post the acquisition of various licenses from FDA by the new LLMs, the commercial production by MCW commenced from June 2019 and the commercial production by JF commenced from August 2019.

The Company used to earn a rental income of Rs. 0.13 crore per month from leasing its properties for commercial use (which amounted to Rs. 1.94 crore in FY19). The same as since stopped as the lease arrangement was discontinued in the month of March 2019.

As a result of the factors mentioned above, the margins also declined with PBILDT margins at 9.51% in FY 19 as against 10.83% in FY18. The decline continued in H1FY20 due to as transition to Direct to Stockist model and consequently an increase in distribution costs like marketing personnel etc. The Company has now split into two Divisions namely Bulk formulation & Retail formulation Bulk division will cater to the requirement of Doctors who require generic formulations in bulk pack for dispensation whereas retail division will cater to the chemists through stockists. These two divisions have their own marketing team. The total filed strength was 32 persons as of March 31, 2019 which later increased to 49 in H1FY20 and is further expected to increase to 55 people in FY20.

Satisfactory capital structure

The company has a sound capital structure marked by the overall gearing remaining below unity at 0.15x as on March 31, 2019 (0.03x as on March 31, 2018 and 0.01x as on March 31, 2017). The company's debt profile comprises of working capital bank borrowings, and term loan availed in FY19 for funding the new ophthalmic facility. The Total Debt to GCA, of the company has therefore deteriorated to 1.70x in FY19 as against 0.29x during FY18 as have other debt coverage indicators.

Moderate working capital cycle

The operating cycle has elongated to 126 days in FY19 from 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 and raw materials. Nevertheless, the company realizes its payments from clients in a timely manner manifested by y-o-y improvement in the debtor's period (63 days during FY19).

Ongoing Project Risk

*T*he company has executed capex amounting to Rs. 13.20 crore during FY19-FY20 for the new ophthalmic division to be set up in Naroda, Ahmedabad for manufacturing vials for Ipca, for both the domestic and export markets. The said capex has been funded through a term loan of Rs. 8.70 crore and balance of Rs. 4.50 crore through internal accruals, with a debt-equity of 1.93:1. The project was scheduled to be completed by September 2019 . The company has completed almost entire capex with Rs. 1 crore of lab and balancing equipment pending. The facility and equipment are awaiting qualification and the first commercial batch is expected to be made around Feb 2020. The facility is expected to contribute significantly to the revenue from FY22. The ability to stabilize the project remains key rating monitorable

Vulnerability to Volatility in raw material prices and forex fluctuation risk
The raw material cost is the major cost component which accounted for 74% of the total cost of sales in FY19 (71% during FY18). Of this, 52% is accounted by cost of goods traded by the company on a P2P basis. The balance 48% pertains to raw materials procured indigenously for the injectables division. The volatility in input prices subjects the profitability of the company to risk associated with adverse movement of prices. The company primarily operates in the domestic market with no forex inflows compared to moderate forex outflow over the years. The company has no hedging mechanisms in place for the same. Resultantly, the company is exposed to risk associated with volatility in movement of foreign exchange rates.

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. The time taken to obtain approval varies across countries and authorities, usually taking a minimum of six months to several years from the date of application. Any delay or failure in getting approvals for new product launch could adversely affect the business prospect of the company.

Liquidity : Adequate. The company's utilization on working capital bank borrowings has been low with average utilization being 13% during the past 12 months ended November, 2019. The current ratio and quick ratio stand at 2.01xand 0.98x respectively as on March 31, 2019. The company's cash profit stood at Rs.3.75 crore during FY19 and at Rs.0.83 crores at H1 FY20 against which the the company has repayment of Rs. 0.40 crore due in February 2020.

Analytical approach:
Standalone. Although the analytical approach is standalone, the same takes into cognizance MLL's association with IPCA, with common promoters and operational linkage.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology- Manufacturing Companies
Rating Methodology-Pharmaceutical Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings
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) (Rated CARE AA; Stable/CARE A1+ on December 18, 2019) 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 Procure to Pay (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-malarial) solely for Ipca. The company adheres to all the requisite quality norms in order to ensure the best quality for its products.
MLL is listed on the Bombay Stock Exchange (BSE). The company has executed capex amounting to Rs.12.50 crore for setting up a division in Naroda, Ahmedabad for Ophthalmic products solely for Ipca. This unit is expected to commence manufacturing in FY20.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	57.82	49.08
PBILDT	6.26	4.67
PAT	3.06	2.45
Overall gearing (times)	0.04	0.15
Interest coverage (times)	17.42	18.16

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
Fund-based - LT-Term Loan	-	-		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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	8.70	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-19)	-	-
2.	Fund-based - LT-Cash Credit	LT	3.80	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Jan-19)	-	-

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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