AUGUST 26, 2016

CARE REVISES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF NEULAND LABORATORIES LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long term Bank Facilities	255.27 [Enhanced from Rs.205.27 crore]	**CARE BBB (Triple B)**	Revised from CARE BBB- [Triple B Minus]
Short term Bank Facilities	114.40 [enhanced from Rs.94.40 crore]	**CARE A3+ (A Three Plus)**	Revised from CARE A3 [A Three]
Total Facilities	**369.67 (Rupees Three Hundred Sixty Nine Crore and Sixty Seven Lakh only)**		

Rating Rationale

The revision in the ratings assigned to the bank facilities of Neuland Laboratories Limited (NLL) factor in substantial improvement in the financial performance during FY16 (refers to the period April 1 to March 31) marked by significant growth in operating income, profit level and margins, improvement in the capital structure and debt protection metrics and moderate product mix with rise in the share of high margin products. The ratings also take cognizance of strengths from experienced promoters having long-term presence in the industry, diversified revenue and customer profile, strategic corporate reorganization to focus on its core business of manufacturing active pharmaceutical ingredients (API) and approved manufacturing facilities. The ratings are, however, constrained by the absence of long term contracts with clients, exposure to foreign exchange fluctuation risk, elongated operating cycle and highly competitive nature of the bulk industry. The ability of the company to continue to expand the scale of operation along with improvement in the profit margins and manage working capital requirement efficiently while maintaining healthy liquidity position are the key rating sensitivities.

Background

Incorporated in January 1984, NLL was set up as a private limited company by Dr D R Rao and Mr G V K Rama Rao and was reconstituted as a public limited company, with the current nomenclature, in 1994. NLL manufactures active pharmaceutical ingredients for global pharmaceutical companies and provides end-to-end solutions for the pharmaceutical industry for chemistry-related services. It supplies to pharmaceutical companies across India, Europe and North America amongst others with a presence in over 85 countries. NLL has two manufacturing facilities in Hyderabad, Telangana. The manufacturing facilities are compliant with health and regulatory agencies cGMP certifications, namely, Food and Drug Administration (USA), Health Canada (Canada), Pharmaceutical and Medical Devices Agency (Japan), Korea Food and Drug Administration (Korea), European Medicines Agency (European Union), European Directorate for the Quality of Medicines (Certificate of Suitability) and others (Rest of World). The company has a portfolio of around 75 Products with presence in 10 therapeutic segments viz.anti-asthmatic, anti-infective, anti-ulcerants, anti-fungals, cardiovascular, flouroquinolones, central nervous system (CNS) and anti diabetic. NLL is listed on BSE Limited and National Stock Exchange (NSE).

During FY16, NLL reported a total operating income of Rs.511.18 crore (Rs.469.93 crore in FY15) with a PAT of Rs.26.41 crore (Rs.15.78 crore in FY15).

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

Furthermore, during Q1FY17, the company has achieved a total operating income of Rs.149.77 crore (Rs.122.63 crore in Q1FY16) with a PAT of Rs.9.71 crore (Rs.7.30 crore in Q1FY16).

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

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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