December 17, 2021

Bal Pharma Limited: Ratings reaffirmed at [ICRA]BB+ / [ICRA]A4+; Outlook revised to positive from stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based facilities	50.00	50.00	[ICRA]BB+(Positive); Reaffirmed, outlook revised to positive from stable
Short term – Non-fund based facilities	30.00	30.00	[ICRA]A4+; Reaffirmed
Long term – Term loan	15.02	15.02	[ICRA]BB+(Positive); Reaffirmed, outlook revised to positive from stable
Total	**95.02**	**95.02**	

**Instrument details are provided in Annexure-1*

Rationale

ICRA has taken a consolidated view of Bal Pharma Limited (BPL / the company), which includes BPL and its subsidiaries (Lifezen Healthcare Private Limited, Balance Clinics LLP, Bal Research Foundation and Golden Drugs Private Limited), while assigning the credit ratings, given the common management and significant operational and financial linkages between them. Together, they are hereby referred to as BPL/the Group/the company.

The outlook revision on the long-term ratings for the company considers its improving credit profile following the continued healthy demand for its products under both Active Pharmaceutical Ingredients (API) and formulations segments in the domestic and International markets. Although supply chain constraints and commodity price inflation continue to weigh on the industry, the situation is expected to ease subsequently. The revision in outlook also takes into account the approval received by the company for the production linked incentive scheme (PLI) 2.0 scheme. This is expected to support the company's cash flows given that the BPL is expected to receive Rs. 50.0 crore as incentive over a period of six years under this scheme which will be deployed towards the capital expenditure and R&D expenses incurred by the company.

The ratings remain supported by extensive experience of the promoters in the pharmaceutical industry and the well-diversified customer base of the company across domestic and export markets. The ratings also take into account BPL's manufacturing capabilities and its established position as a manufacturer of the anti-diabetic bulk drug, Gliclazide wherein it commands healthy market share in both domestic and export markets. The ratings also factor in the USFDA and EU GMP approved facilities which are expected to support revenue growth, primarily in regulated markets. In H1 FY2022, the company posted revenues of Rs. 138.5 crore (Rs. 116.7 crore in H1 FY2021) aided by healthy business under API and formulation segments and healthy demand for its products in both domestic and international market. The company's operating margins stood at 10.4% in H1 FY2022 (PY: 10.4%) supported by relatively higher scale, improved product mix, backward integration and various cost control initiatives adopted by the company. The company has confirmed order book position of ~Rs. 50 crore which is to be executed in next three months and is expected to support the revenue growth of the company in FY2022.

The ratings remain constrained by BPL's average financial risk profile characterised by a leveraged capital structure and moderate debt protection indicators. Gearing stood at 1.9 times as on Sep 30, 2021 (2.1 times as on March 31, 2021). Interest coverage stood at 2.5 times, Total Debt/OBITDA at 3.7 times and DSCR of 1.5 times in H1 FY2022 as compared to 2.0 times, 4.6 times and 1.4 times respectively in FY2021. With moderate major capex plans, scheduled repayment of the term loans and expected equity infusion (Rs. 2.82 crore in FY2023) and cash inflows from the PLI scheme, the debt coverage indicators are expected to improve going forward. Further, the ratings factor in the high working capital intensity of operations resulting in high utilization of its working capital borrowings. The ratings also remain constrained by the intense competition in the API and formulations business with limited pricing flexibility and the nascent stage of operations of the over-the-counter (OTC) business.

Key rating drivers and their description

Credit strengths

Established position as a leading manufacturer of API for the anti-diabetic drug, Gliclazide; diversified customer base in the API and formulations segment –BPL manufactures APIs, branded formulations, intravenous infusions and ayurvedic products. The company has a healthy market presence in domestic as well as export markets. Historically, formulations have been the largest business segment for BPL (55-60%); however, over the last few years, with strong ramp up in the API division, the company's business mix has witnessed a change. Under the API division, BPL manufactures the anti-diabetic drug, Gliclazide, and exports it mainly to regulated markets and holds 20% of market share globally. The company also manufactures bulk drugs covering other therapeutic areas such as neuropathic pain, anti-allergy, anti-inflammatory, acne treatment, etc. The company derives a majority (60-70%) of its total revenues from export markets, where it has presence in over 50 countries with no dependence on a single customer or region for its revenues. Under the API segment, BPL exports to regulated and semi-regulated markets such as Japan, Australia, Spain, UK, Canada, Iceland, Slovenia, Romania, Argentina, Brazil, Germany, South Africa, Serbia, Malaysia, Thailand, Turkey, Korea, Italy, Portugal, Poland, Netherlands, etc. Under formulation segment, BPL supplies its products to semi regulated and unregulated markets such as Africa, Latin America, Middle East, South East Asia and CIS countries.

Improvement in revenues and profitability in FY2021 and H1 FY2022– BPL has shown healthy improvement in its business and financial profile since Q1 FY2021 aided by healthy demand across both API and formulations segments and resumption of timely availability of raw material after the supply chain issues faced by the company in FY2020. The company's operating margins improved to 10.4% in H1 FY2022 (PY: 10.4%) supported by relatively higher scale, improved product mix, backward integration and various cost control initiatives adopted by the company. The company has confirmed order book position of ~Rs. 50 crore which is to be executed in next three months and is expected to support the revenue growth of the company in FY2022.

Expected equity infusion in FY2023 – BPL has issued 6,50,000 warrants to one of its promoter Mr. Shailesh D. S on a preferential basis at a price of Rs. 50 per warrant (nominal value of Rs. 10 and premium of Rs. 40). In March 2021, Rs. 4.18 crore has been received from the promoters. During FY2023, the promoters are expected to infuse further Rs. 2.82 crore, leading to improved liquidity and capitalisation indicators.

Credit challenges

High revenue dependence on Gliclazide – The company generates around 60-65% of its total API revenues and 45% of total revenues from Gliclazide. Any disruption in the supply chain (as witnessed in FY2020) would impact the revenues and thereby profitability of the company. However, in FY2021 the company has tied up with domestic suppliers for sourcing raw materials and is also exploring opportunities for backward integration. Further, in a bid to diversify its revenue stream and provide fillip to the division's revenue growth, the company has increased focus on marketing the other products aggressively. BPL is working on some new products to diversify its product base. Nevertheless, BPL's API revenues are likely to be skewed towards Gliclazide in the medium term given the time lag expected in ramp up of new products.

Modest capitalisation and coverage indicators despite significant improvement in FY2021 and H1 FY2022 – BPL has relatively high debt levels for its scale of operations on account of undertaking capacity addition across its manufacturing units. BPL's total debt of Rs. 106.5 crore as on September 30, 2021. Despite the significant improvement in the performance of the company aided by healthy demand across both API and formulations segments and resumption of timely availability of raw material after the supply chain issues faced by the company in FY2020 and H1 FY2021, the capitalization and coverage indicators continue to remain moderate. Gearing stood at 1.9 times as on Sep 30, 2021 (2.1 times as on March 31, 2021). Interest coverage stood at 2.5 times, Total Debt/OBITDA at 3.7 times and DSCR of 1.5 times in H1FY2022 as compared to 2.0 times, 4.6 times and 1.4 times respectively in FY2021. However, with moderate capex plans, scheduled repayment of the term loan and the planned equity infusion, the debt coverage indicators are expected to improve going forward.

High working capital intensity – The working capital intensity stood at 36% in FY2021 (PY: 51.2%). BPL's working capital intensity has traditionally remained high primarily owing to high inventory levels. Wide product portfolio in company basket results in high overall inventory levels. The company maintains inventory of three months on an average, depending on the products supplied, vendors validation, approval from authorities etc. On the debtors' front, high receivables period from Government institutions (under its institutional business) strains the working capital position of the company. However, the company has reduced its exposure to institutional buyers and has recovered most of its pending receivables from them. BPL is working on tighter control measures to contain the inventory and receivables period.

Intense competition in domestic formulations business and API division – The pharmaceutical industry is highly competitive due to the presence of various reputed companies resulting in limited pricing power and profitability. However, BPL is having presence in niche API segments with few players present in its product categories. Also, within formulation segment BPL holds a strong position with its gliclazide (Diabend) brand and ayurvedic brand (Stonex).

Liquidity position: Adequate

The company's liquidity position is adequate with improvement in fund flow from operations in H1 FY2022 due to healthy revenue growth and improvement in OPM. ICRA expects the company to maintain its liquidity position, supported by buffer from cash balances of Rs. 1.0 crore as on September 30, 2021 and adequate cash accruals. As on September 30, 2021, the company had Rs. 3.2 crore of unutilized working capital facility out of sanctioned limits of Rs. 68.0 crore while the average working capital utilization over the last 12 months ended September 2021 remains high at 90%. The Group has debt repayment obligations of Rs. 5.1 crore in FY2022, Rs. 5.9 crore in FY2023 and Rs. 5.5 crore in FY2024. The Group has moderate capex plans for FY2022 and FY2023 and has also pruned its operating costs considerably. The company is expected to receive approximately Rs. 2.82 crore equity infusion in FY2023, there by supporting the liquidity position of the company. ICRA expects the Group to meet its near-and medium-term commitments through internal sources of cash and equity infusion through the issuance of warrants.

Rating sensitivities

Positive factors – ICRA could revise the ratings if there is a substantial growth in the company's profitability, leading to an improvement in the liquidity position and the capitalisation and coverage indicators. A specific metric that could lead to an upgrade would be interest coverage of more than 2.8x on a sustained basis.

Negative factors – The ratings may be downgraded if the revenues decline or the cash accruals are lower than expected or if any major capital expenditure or BPL's inability to infuse funds through the issuance of warrants or improve its working capital cycle weakens the liquidity profile. A specific credit metric which could lead to a downgrade could be Total Debt/OPBDIT of 4.0x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of the issuer

About the company

Bal Pharma Limited was incorporated as a private limited company in 1987 and is jointly promoted by Mr. Ghevarchand Surana of the Micro Labs Group, and the Siroya family. Micro Labs Limited holds an 8.84% (as on June 30, 2021) stake in BPL and is one of the leading players in the Indian pharmaceutical industry.

BPL manufactures active pharmaceutical ingredients (APIs), branded formulations, intravenous infusions and ayurvedic products. Its product offerings cover major therapeutic areas like diabetology, cardiology, mother and childcare, orthopaedics, neurology and post and pre-operative surgical medication. The company also carries out the contract manufacturing of bulk drugs and undertakes bulk manufacturing for supplying to government institutions. In the exports segment, BPL mainly caters to unregulated and semi-regulated markets in the formulations segment and regulated markets in the bulk drugs segment.

Key financial indicators (audited)

BPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	171.6	250.6
PAT (Rs. crore)	-12.9	4.7
OPBDIT/OI (%)	3.2%	9.8%
PAT/OI (%)	-7.5%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	4.3	3.5
Total Debt/OPBDIT (times)	22.1	4.6
Interest Coverage (times)	0.4	2.0

Source: *Company and ICRA research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Dec 17, 2021	Sep 13, 2021	Mar 15, 2021	Aug 10, 2020	Aug 23, 2019	Dec 06, 2018	Jul 18, 2017
1	Fund-based facilities	Long term	50.00	64.8	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Non-fund based facilities	Short term	30.00	21.4	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4	[ICRA]A4	[ICRA]A3+	[ICRA]A3+
3	Term loan	Long term	15.02	31.9	[ICRA]BB+ (Positive)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

Source: *BPL and ICRA research*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities	Simple
Non-fund based facilities	Very Simple
Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here .

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based facilities	NA	NA	NA	50.00	[ICRA]BB+ (Positive)
NA	Non-fund based facilities	NA	NA	NA	30.00	[ICRA]A4+
NA	Term loan	Mar 2020	10.75%	FY2026	15.02	[ICRA]BB+ (Positive)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BPL ownership	Consolidation Approach
Golden Drugs Private Limited	100.00%	Full Consolidation
Balance Clinic LLP	80.00%	Full Consolidation
Lifezen Healthcare Private Limited	51.00%	Full Consolidation
Bal Research Foundation	80.00%	Full Consolidation

Source: *Company*

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