

## Bal Pharma Limited

August 22, 2019

### Bal Pharma Limited - Update on material event; Long term rating downgraded to [ICRA]BB+ and short-term rating downgraded to [ICRA]A4+; outlook revised to Negative

#### 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+ (Negative); downgraded from [ICRA]BBB (Stable)
Short Term - Non-fund based facilities	30.00	30.00	[ICRA]A4+; downgraded from [ICRA]A3+
Long term- Term Loan	15.02	15.02	[ICRA]BB+ (Negative); downgraded from [ICRA]BBB (Stable)
<b>Total</b>	<b>95.02</b>	<b>95.02</b>	

#### Material Event

Bal Pharma Limited (BPL) has announced its quarterly results on August 13, 2019. On a standalone basis, the company reported an operating income of Rs 49.2 crore with an operating profit (OPITDA) of Rs. 1.9 crore and a net loss of Rs. 1.8 crore in Q1FY2020 against an operating income of Rs. 52.7 crore with OPITDA of Rs 4.6 crore and Profit after Tax (PAT) of Rs 2.3 crore in Q1FY2019.

#### Impact of the material event

ICRA has downgraded the long-term and short-term ratings assigned to BPL's Rs 95.02 crore limits to [ICRA]BB+/A4+ from [ICRA]BBB/A3+ and the outlook was revised to Negative from Stable.

#### Rationale

The ratings downgrade considers the weak performance of the company in Q1FY2020 as indicated by the decline in revenues to Rs 49.2 crore in Q1FY2020 from Rs 52.7 crore in Q1FY2019, and net loss of Rs 1.8 crore resulting in deteriorated liquidity and debt protection indicators for the company. The company's working capital limits remained utilised to a significant extent in the recent months. Besides, the ratings remain constrained by the company's modest scale of operations, its high gearing ratio at 1.9 times as on March 31, 2019, and its stretched working capital intensity which was at 43.9% in FY2019 due to stretched receivables and high inventory holding. The ratings also remain constrained by the intense competition in the domestic formulations business, nascent stage of operations of the over the counter (OTC) business and limited pricing flexibility under the API division.

The ratings, however, continued to take comfort from the extensive experience of the promoters in the pharmaceutical industry and well-diversified customer base of the company. The ratings also take into account BPL's established position as a manufacturer of the anti-diabetic bulk drug, Gliclazide, in which the company commands a healthy market share both in the domestic and export markets. The ratings also factor in BPL's manufacturing capabilities with a diversified product mix covering several therapeutic areas under formulations, bulk drugs and parenterals. The reaffirmation of the ratings draws comfort from the extensive experience of the promoters in the pharmaceuticals. The ratings also factor in the USFDA

and EU GMP certifications received recently for its facilities in Bangalore (Unit-II) and Rudrapur (Unit-IV), which are expected to drive revenue growth, primarily in the regulated markets.

## Outlook: Negative

The Negative outlook reflects ICRA's expectation that BPL's liquidity constraints will continue over the next six months given the net losses in Q1FY2020, and elongated receivables from its customers coupled with high inventory holding requirement. The ratings may be downgraded further if there are continued net losses in the subsequent quarters or any further stretch in working capital cycle resulting in adverse liquidity position. The outlook may be revised to stable if the company achieves healthy revenue growth and improved profitability while improving its debt-coverage indicators, while effectively managing its working capital requirements.

## Key rating drivers

### Credit strengths

**Established position as a leading manufacturer of the anti-diabetic drug Gliclazide (bulk drug)** – BPL is a leading manufacturer of the anti-diabetic drug, Gliclazide, and exports it mainly to regulated markets. The company also manufactures bulk drugs covering other therapeutic areas such as neuropathic pain, anti-allergy, anti-inflammatory, acne treatment, etc.

**Certifications from regulatory authorities of Europe and US and enhanced capacity to drive revenue growth** – The company has successfully completed regulatory audits (USFDA and EUGMP) recently for its Bangalore (Unit-II) and Rudrapur (Unit-IV) units which is expected to support the exports revenues of the company. Moreover, the enhanced capacity with the acquisition of GDPL will also aid in revenue growth.

**Diversified customer base in the formulations segment** – The company derives a major portion of its formulations revenues from the export markets, where it has presence in over 45 countries predominantly in unregulated and semi-regulated markets across Africa, Latin America, Middle East, South east Asia etc.

### Credit challenges

**Modest scale of operations** – The scale of operations of the company, at a consolidated level, remain modest with revenues of Rs. 226.0 crore in FY2019 and a net worth of Rs. 66.6.0 crore as on March 31, 2019, resulting in limited operational and financial flexibility.

**Moderate capital structure and coverage indicators** – The gearing levels of the company on a consolidated level remained high at 1.9 times as on March 31, 2019, primarily due to an increase in debt levels. The coverage indicators such as Total Debt/OPBITDA and DSCR remained weak at 6.3 times and 1.1 times, respectively in FY2019.

**High working capital intensity of operations** – The company's inventory levels have remained high over the years on account of a large inventory under its domestic formulations division and wide product portfolio. On the debtor's front, the high receivables period from government institutions leads to further strain on the working capital position of the company. The working capital intensity stood at 43.9% in FY2019.

**Intense competition in the domestic formulation business and API division** – The pharmaceutical industry is intensely competitive due to the presence of various reputed companies resulting in limited pricing power and profitability.

## Liquidity Position:

BPL's cash flows have remained under pressure given the high working capital intensive nature of its operations and regular capital expenditure as reflected by the consistently high utilisation of its working capital facilities. The company has a term loan repayment obligation of Rs 8.5 crore in FY2020 and Rs 7.9 crore in FY2021. The company's liquidity position is weak given the high term loan repayment obligation and the weak cash flow from operations due to net losses incurred in Q1FY2020.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Pharmaceutical Industry</a>
Parent/Group Support	NA
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 a 9.3% stake in BPL and is one of the leading players in the Indian pharmaceutical industry. Apart from the holdings through Micro Labs Limited, the Surana family holds another 11.5% stake in the company. Siroya family, holding a 23.5% stake in BPL, is a Dubai-based diversified group with business interests in jewellery, construction, garments, mining, umbrella manufacturing, pharmaceuticals and trading.

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

BPL has five manufacturing units (two located in Bangalore). The Unit-I is dedicated for producing formulations and the Unit-II is dedicated for manufacturing of bulk drugs and for carrying out various R&D activities. The Unit-III was into the production of intravenous fluids and is located in Pune. However, at present, the unit has been shut down. The company's Unit-IV in Excise Free Zone in Rudrapur (Uttarakhand) is targeted at regulated markets like Europe and Malaysia for formulations. The Unit-V manufactures intermediates for international customers. In FY2018, Bal Pharma Ltd. has acquired 100% stake and management control of Golden Drugs Private Limited, an Udaipur-based private limited company involved in manufacturing of bulk drugs and intermediaries (Unit-VI). The total acquisition cost stood at Rs. 14 crore, which involved purchase of 100% shareholding of the company with a purchase consideration of Rs. 20.66 per share and also towards repayment of past liabilities of the company. Apart from this, the company has entered into a joint venture (JV) with Melbourne based Akaal Pharma. As part of this JV, the new venture will be funded by Bal Pharma to develop Akaal Pharma's Intellectual Property (IP) in the veterinary field.

In FY2019, at consolidated level, the company reported a net profit of Rs. 1.9 crore on an operating income of Rs. 226.0 crore compared to a net profit of Rs. 0.4 crore on an operating income of Rs. 209.3 crore in the previous year.

## Key Financial Indicators (Audited)

	Consolidated*	
	FY2018	FY2019
Operating Income (Rs. crore)	209.3	226.0
PAT (Rs. crore)	0.4	1.9
OPBDIT/ OI (%)	8.2	8.2
RoCE (%)	7.2	6.9
Total Debt/ TNW (times)	1.9	1.9
Total Debt/ OPBDIT (times)	6.4	6.3
Interest coverage (times)	1.7	1.5

\*The consolidated financials of the Group include subsidiaries- Lifezen Healthcare Private Limited, Balance Clinic LLP, Bal Research Foundation and Golden Drugs Private Limited.

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

			Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2019 (Rs Crore)	Date & Rating August , 2019	Date & Rating in FY2019 November 2018	Date & Rating in FY2018 Jun 2017	Date & Rating in FY2017
1	Fund based facilities	Long Term	50.00	-	[ICRA]BB+(Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Non-fund based facilities	Short Term	30.00	-	[ICRA]A4+	[ICRA]A3+	[ICRA]A3+	-
3	Term Loan	Long Term	15.02	14.00	[ICRA]BB+(Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	-	-	-	50.00	[ICRA]BB+(Negative)
NA	Non-fund based facilities	-	-	-	30.00	[ICRA]A4+
NA	Term Loan	March 2013	-	March 2022	15.02	[ICRA]BB+(Negative)

Source: BPL

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