

Press Release

Balpharma Limited

February 23, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	27.00	-	ACUITE A3 Assigned
Bank Loan Ratings	78.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	105.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has assigned a long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs 105.00 Cr bank facilities of BalPharma Limited (BAL). The outlook is '**Stable**'.

The ratings reflect the healthy business profile of the group supported by its long operational track record and its diversified revenue profile. In addition, the group caters to both regulated and semi-regulated markets such as European and African nations. The ratings also factor in group's average financial risk profile marked by its modest networth and moderate capital structure. These rating strengths are partially offset by the company's working capital intensive nature of operations and regulatory risk.

About the Company

The company was incorporated in 1987 by the Bangalore based Siroya family. The company is engaged in manufacturing of bulk drugs, generic formulations and Ayurvedic products. The company has 5 operational production units in Bangalore, Pune, Rudrapur and Udaipur. Presently the company is managed by Mr. Shailesh Siroya. The company generates 64 percent of its revenue from overseas markets and remaining 36 percent from domestic market.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of BALPharma Ltd, Lifezen Healthcare Private Limited(LHPL), Bal Research Foundation(BRF), Balance Clinic LLP(BCL) and Golden drugs Private Limited (GDPL) together referred to as the BAL group to arrive at the rating. The consolidation is in view of the similarities in the lines of business and common management. In addition LHPL, BRF, BCL and GDPL are subsidiaries of BAL. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

Sound Business Profile

BalPharma Ltd (BAL) has three business segments namely API, formulation and Ayurveda with 52%, 47% and 1% contribution to revenue. Moreover the group has a diversified product profile that includes 200 generic formulations in 20 different therapeutic segments and 150 APIs. The group caters to both regulated and semi-regulated markets. Currently the group has presence in 80 countries which includes USA, UK, Australia, European nations and Ethiopia among others. The group has five operational manufacturing units across India. In addition, the company's facilities have received approvals from different regulators such as USFDA, EU GMP, WHO GMP among others. BAL has qualified under GOI's production linked incentive scheme (PLI) and is expected to receive incentives of around Rs 50 Cr over the medium term. This will help the group to improve its overall business and financial risk profiles over medium term.

Average financial risk profile

The financial risk profile of the group is marked by moderate net worth, high gearing and comfortable debt protection metrics. The net worth of the group stood at Rs. 42.28 Cr in FY2021 as compared to Rs.35.08 Cr in FY2020. The gearing of the group stood at 2.60 times as on March 31, 2021 as compared to 3.38 times as on March 31, 2020 due to capital infusion. The group has a high reliance on working capital limit because of high working capital requirement. TOL/TNW stood at 4.42 times in FY21 as against 5.50 times in FY20. Interest coverage ratio (ICR) stood comfortable at 2.12 times in FY2021 as against 0.54 times in FY 2020. The debt service coverage ratio (DSCR) stood at 1.48 times in FY2021 as against 0.37 times in FY2020. The net cash accruals against total debt (NCA/TD) stood at 0.13 times in FY2021 as compared to negative 0.04 times in previous year. Acuité believes the financial risk profile of the group will improve over the medium term backed by expected receipt of incentives from GOI under PLI scheme and gradual repayment of term loans.

Improvement in scale of operation and profitability margin

The group had witnessed healthy revenue growth as revenue stood at Rs 251.14 Cr in FY21 as against Rs 171.57 Cr in FY20. This improvement is driven by increase in sale of API because of high demand from overseas markets. The scale of operation is likely to improve in FY22 as the group has posted revenue of Rs 138 Cr in H1FY22 as against Rs 116 Cr in H1FY21. The profitability margin of the group had also witnessed an improvement as EBITDA margin stood at 10.48 percent in FY21 as against 3.48 percent in FY20. This is on account of decline in employee cost because of adoption of cost cutting techniques. The profit margin of the group is expected to remain comfortable during FY22 as the group has already registered EBITDA margin of 10.5 percent in H1FY22.

Weaknesses

Working capital intensive operations.

The group has high working capital intensity as evident from its high gross current asset (GCA) days of 234 days in FY21 as against 336 days in the previous year. The improvement is due to decline in inventory days to 98 days in FY21 as against 149 days in FY20. Debtor days stood at 98 days in FY21 as against 106 days in FY20. Acuité believes that the operations of the group will continue to be working capital intensive because of high inventory level and stretched receivables from leading pharma companies.

Regulatory Risk

Pharma Industry is highly competitive and regulated in nature as government intervention is very high. Moreover the manufacturing facilities of group have to be regularly monitored and approved by various regulatory authorities across the globe. Hence any prohibitions or restriction imposed by regulatory authorities on the manufacturing facilities in future can significantly affect operation of the group.

Rating Sensitivities

- Sustained improvement in financial risk profile
- Stability in revenue growth and profit margins

Material covenants

None

Liquidity profile: Adequate

The company has adequate liquidity profile as reflected from net cash accrual which stood at Rs 14.23 Cr in FY21 against current maturity of Rs 5.27 Cr. Going forward, the net cash accruals are expected to be in the range of Rs 14-26 Cr as against current maturity of around Rs.8 Cr from FY22-FY24. The utilization of fund based limit stood at 93 percent during last 12 months ended December 2021. In addition, GCA days stood at 234 days in FY21 as against 336 days in FY20. Current ratio stood 1.05 times in FY21 as against 0.98 times in FY20. Acuité believes the group will maintain adequate liquidity position over the medium term on account of steady accruals.

Outlook: Stable

Acuité believes the outlook on group will remain 'Stable' over the medium term backed by its experienced management and average financial risk profile. The outlook may be revised to 'Positive' if the group is able to improve its scale of operations significantly along with sustained improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity profile or financial risk profile.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	251.14	171.57
PAT	Rs. Cr.	4.71	(12.89)
PAT Margin	(%)	1.88	(7.51)
Total Debt/Tangible Net Worth	Times	2.60	3.38
PBDIT/Interest	Times	2.12	0.54

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	21.00	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3 Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 Assigned
Canara Bank	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.16	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	01-01-2019	10.75	30-11-2023	3.22	ACUITE BBB- Stable Assigned
TATA Capital Financial Service Ltd.	Not Applicable	Term Loan	25-12-2020	11.19	25-03-2025	10.12	ACUITE BBB- Stable Assigned

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About Acuité Ratings & Research

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