



Press Release
Balpharma Limited
May 22, 2024

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	98.50	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	36.50	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	157.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs 135 Cr. bank facilities of Balpharma Limited (BAL). The outlook is '**Stable**'.

Acuite has also assigned its long-term rating of **ACUITE BBB-** (read as **ACUITE triple B minus**) on the Rs 22 Cr. bank facilities of BalPharma Limited (BAL). The outlook is '**Stable**'.

Rationale for reaffirmation and assigned:

The rating reaffirmation considers the long operational track record of Balpharma Limited, stable growth in operating revenue albeit a decline in operating profit margins, moderate financial risk profile and adequate liquidity position. The company's revenue improved to Rs.304.33 Cr. in FY2023 against Rs.283.88 Cr. in FY2022 and is further estimated to improve in FY2024 to ~Rs.337.75 Cr. , owing to growth in sale volumes. Fluctuation in raw material prices and price competition in the API segment led to decline in operating profit margin to 8.39 percent in FY2023 from 9.62 percent in FY2022. However, it is estimated to improve to ~8.80 percent in FY2024. The rating further draws comfort from the diversified revenue profile, and moderate financial risk profile marked by moderate network, gearing levels and coverage indicators. However, the rating is constrained by intensive nature of working capital operations and risks associated with the government's regulations.

About 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, Sangli, Rudrapur and Udaipur. Presently the company is managed by professional board managing director Mr. Shailesh Siroya. The company generates 70 percent of its revenue from overseas markets and remaining 30 percent from domestic market.

About the Group

Balpharma group consist of Balpharma Limited and its subsidiaries namely Lifezen Healthcare Private Limited, Bal Research Foundation, Balance Clinic LLP and Golden Drugs Private

Limited. The group is primarily engaged in the manufacturing and selling of pharmaceutical products and related services. The group caters to both domestic and international markets.

Unsupported Rating

Not applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated the business and financial risk profiles of BALPharma Limited, 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.

Key Rating Drivers

Strengths

Established track record of operations:

BalPharma Limited (BAL) has an established track record of more than 35 years in the business of manufacturing of bulk drugs and formulations. The company has business segments namely API & formulation with 50 percent & 35 percent contribution to revenue in FY2023. Moreover the group has a diversified product profile that includes 200 generic formulations in 20 different therapeutic segments and 22+ APIs. The group caters to both regulated and semi-regulated markets. Currently, the group has presence in 80 countries which includes India, Japan, Australia, European nations among others. The group has five operational manufacturing units across India in Bangalore, Rudrapur, Sangli and Udaipur. In addition, the company's facilities have received approvals from various International regulatory authorities such as India, EU GMP Malta, WHO GMP, MCAZ Zimbabwe TFDA Tanzania, PPB Kenya, NAFDAC Nigeria, SBDMA Yemen, NDA Uganda, FDHACA Ethiopia, PMPB Malawi, FDA Philippines and MOH Sudan etc. among others. BAL has qualified under GOI's production linked incentive scheme (PLI) and is expected to receive incentives of around Rs. 30 Cr. over the next five years. Acuite believes that BAL will continue to benefit from its established track record of operations and diversified business segment over the medium term.

Moderate financial risk profile:

The company's financial risk profile remained moderate, primarily marked by moderate net worth, marginal deterioration in gearing level and debt protection metrics. The net worth of the company has improved to Rs.49.42 Cr. as of March 31, 2023, from Rs.46.67 Cr. as of March 31, 2022, due to the accretion of profits to reserves for FY2023 and infusion of equity capital worth Rs.0.13 Cr. in FY2023. The gearing levels moderated to 2.65 times as of March 31, 2023 against 2.22 times as of March 31, 2022. Marginal deterioration in gearing is due to increase in total debt to Rs.131.00 Cr. in FY2023 from Rs.103.64 Cr. in FY2022. The total debt of Rs.131.00 Cr, consists of long-term debt of Rs.38.28 Cr. and short-term debt of Rs.92.72 Cr. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 5.00 times as of March 31, 2023 against 4.33 times as of March 31, 2022. Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood moderate at 2.14 times and 1.32 times respectively, as of March 31, 2023 against 2.67 times and 1.59 times respectively, as of March 31, 2022. Debt to EBITDA stood high at 4.97 times as of March 31, 2023 as it deteriorated from 3.56 times as of March 31, 2022 due to a decline in absolute EBITDA. Acuite believes that 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.

Weaknesses

Working capital intensive operations:

Working capital operations of BAL are intensive, as evident from the gross current assets (GCA) of 273 days in FY2023 against 236 days in FY2022. The elongation in GCA days is due to the stretch in inventory days, which mostly consist of raw materials. The company maintains higher inventory due to higher lead-time for the raw materials. Besides, compliance with regulatory requirements for stock maintenance and diversification into multiple products are also leading to stretch in Inventory days. Debtor days stood at 113 in FY2023, against 98 days in FY2022. Intensive working capital cycle has led to higher reliance on the fund-based working capital limits, which were utilized at an average of ~87 percent in past 12 months ending March 31, 2024. The creditor days of the group stood at 166 in FY2023, against 143 days in FY2022. Acuité believes that the working capital cycle will continue to remain intensive over the medium term due to nature of pharmaceutical industry.

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

- Further elongation in working capital operations leading to deterioration in liquidity position.
- Sustainable growth in revenue while improving the profitability margins.

Liquidity Position : Adequate

Liquidity position of the company is adequate as reflected from sufficient Net cash accruals (NCA) against the maturing debt repayment obligations. The company has registered NCA of Rs.11.75 Cr. during FY2023, which would comfortably meet the maturing debt obligations of Rs.5.88 Cr. Besides, the group also has unencumbered cash and bank balances of Rs.1.49Cr, providing additional support to liquidity. Average utilization of the fund based working capital limits stood high at ~87 percent for the past 12 months period ending March, 2024. Going forward, company is expected to generate cash accruals in the range of Rs.20-25 Cr. over the medium term, while repayment obligations are expected to be in the range of Rs.7.00-Rs.9 Cr. for the same period. Acuite believes that the liquidity position of the company will remain adequate on the back of healthy cash accruals generation.

Outlook: Stable

Acuité believes the outlook on group will remain 'Stable' over the medium term backed by its experienced management and moderate 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 working capital operations leading to stretch in liquidity profile or financial risk profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	304.33	283.86
PAT	Rs. Cr.	2.62	5.70
PAT Margin	(%)	0.86	2.01
Total Debt/Tangible Net Worth	Times	2.65	2.22
PBDIT/Interest	Times	2.14	2.67

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

Not Applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Apr 2023	Bank Guarantee (BLR)	Short Term	2.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	0.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	50.72	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	9.28	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	13.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	5.50	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	12.50	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	12.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Assigned)
	Packing Credit	Long Term	5.00	ACUITE BBB- Stable (Reaffirmed)
	Packing Credit	Long Term	2.00	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.16	ACUITE BBB- Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	0.33	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.39	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.26	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	7.36	ACUITE BBB- Stable (Reaffirmed)
23 Feb 2022	Bank Guarantee (BLR)	Short Term	2.50	ACUITE A3 (Assigned)
	Cash Credit	Long Term	13.50	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	21.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	25.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	12.50	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3 (Assigned)
	PC/PCFC	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.16	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	3.22	ACUITE BBB- Stable (Assigned)
		Long		ACUITE BBB- Stable

	Term Loan	Term	10.12	(Assigned)
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Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.50	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	60.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	19.00	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A3 Reaffirmed
Canara Bank	Not avl. / Not appl.	Packing Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.38	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	01 Apr 2022	Not avl. / Not appl.	01 Mar 2027	Simple	1.19	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	01 Apr 2023	Not avl. / Not appl.	01 Sep 2027	Simple	1.14	ACUITE BBB- Stable Reaffirmed
STCI Finance Ltd.	Not avl. / Not appl.	Term Loan	01 Jan 2025	Not avl. / Not appl.	01 Dec 2029	Simple	7.36	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	01 Apr 2021	Not avl. / Not appl.	31 Mar 2025	Simple	1.14	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	01 Apr 2024	Not avl. / Not appl.	01 Sep 2028	Simple	1.29	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not avl. / Not appl.	Term Loan	01 Apr 2024	Not avl. / Not appl.	01 Sep 2028	Simple	3.00	ACUITE BBB- Stable Assigned

STCI Finance Ltd.	Not avl. / Not appl.	Term Loan	01 Jan 2025	Not avl. / Not appl.	01 Dec 2029	Simple	12.64	ACUITE BBB- Stable Assigned
South Indian Bank	Not avl. / Not appl.	Term Loan	01 May 2018	Not avl. / Not appl.	01 Dec 2030	Simple	3.63	ACUITE BBB- Stable Assigned
South Indian Bank	Not avl. / Not appl.	Term Loan	01 Apr 2018	Not avl. / Not appl.	01 Oct 2033	Simple	2.73	ACUITE BBB- Stable Assigned

***Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

1. Balpharma Limited
2. Golden Drugs Private Limited
3. Balance Clinic LLP
4. Bal Research Foundation
5. Lifezen Healthcare Private Limited

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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