

## Press Release

### LEE Pharma Limited

April 12, 2022



### Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.50	-	ACUITE A2+   Assigned
Bank Loan Ratings	216.00	ACUITE A-   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	237.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) on the Rs. 216.00 Cr of long-term bank facilities and short-term rating of '**ACUITE A2+**' (read as **ACUITE A Two Plus**) on the Rs.21.50 Cr of short-term bank facilities of **Lee Pharma Limited (LPL)**. The outlook is '**Stable**'.

The ratings assigned reflects the extensive experience of LPL's promoters in the pharmaceutical industry and its relationship with customers. The rating also factors in the above-average financial risk profile, marked by a moderate gearing and improving debt protection metrics. These rating strengths are partially offset by exposure to risks relating to strict regulations, foreign exchange risk and competitive and fragmented nature of the industry.

### About the Company

Incorporated in 1997 by Mr. A Venkata Reddy and his family members, Lee Pharma Limited (LPL) is engaged in manufacturing of active pharmaceuticals ingredients (APIs), bulk drugs intermediate chemicals and formulations. Based in Hyderabad (Telangana), LPL operates through 4 units, 2 in Telangana (Hyderabad & Medak) and 2 in Vizag (Andhra Pradesh). It also has a research facility, Lee Advanced Research Centre, in Medak (Telangana). The company is based out of Hyderabad (Telangana). LPL's manufacturing facilities are approved by several international regulatory bodies such as USFDA, EUGMP, and WHO GMP etc.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the LPL to arrive at the rating.

## Key Rating Drivers

### Strengths

- **Experienced Promoters; long track record with presence in multiple therapeutic segments**

LPL is promoted by Mr. A Venkata Reddy who has experience of more than 3 decades in the pharmaceutical industry. LPL's operations are overseen by Mr. A Venkata Reddy (Managing Director) and Ms. A. Ratna Kumari (Director), along with a team of qualified professionals, who have extensive experience in the pharmaceutical industry. LPL has over the years expanded its product portfolio with presence across various therapeutic segments; the most demanding ones being anti-diabetic, anti-ulcerative and anti-histamine. LPL derives around 60 percent of revenue from manufacturing of Active Pharmaceutical Ingredients (APIs) and remaining 40 percent from semi-finished and finished formulations. Promoter's extensive experience has helped LPL in securing repeated orders and establish strong relation with its key customers and suppliers. This has also aided LPL's total operating income growth trajectory as witnessed through the multi-fold growth; with total operating income increasing from Rs.238.20 Cr in FY2019 to Rs.443.93 Cr in FY2021; Y-o-Y growth of more than 30 percent each year. LPL has reported Rs.582 Cr for the period April 01, 2021 to February 28, 2022 and is expected to cross Rs.600 Cr in FY2022. The operating profit margin (EBITDA margins) have too remained stable in the range of 11.35-14 percent over the last 3 years ending FY2021. Acuité believes that LPL's business risk profile will benefit from the promoter's experience and long track record over the medium to long run.

- **Integrated presence across the value chain**

LPL has a strong and well-diversified business model supported by its generic and speciality businesses (with presence in the regulated markets), its branded formulations business (in India and export markets), and forward integration into formulations. The company has the benefit of being vertically integrated for a reasonable portion of its formulations business (~40 percent).

- **Continuous addition in installed capacity leading to healthy growth in operational metrics**

LPL has been continuously incurring capex over the last 2-3 years ending FY2021 to enhance its capacity across its 3 units (except Unit II). LPL has incurred capex of almost Rs.100 Cr until March 31, 2021 (over the past 3 years) and additional capex is expected to the tune of Rs.75-80 cr in FY2022 (Rs.72 Cr already incurred until Feb'22). LPL is further expecting to incur Rs.45-50 Cr capex in FY2023. The capex has been usually funded in debt-to-equity ratio of approx 60:40 in the past. The capex in FY2023 is expected to be funded by debt of around Rs.25-30 Cr. The capex is expected to enhance the capacity across 3 units by 30-40 percent and is expected to generate additional revenue of Rs. 250-300 Cr (if operated at 100 percent capacity). FY2019 was the year wherein LPL had any spare capacity and had to undertake capex. The above capacity addition and continuous R&D has led to healthy Y-o-Y growth in revenue over the last 3 years ending FY2021; around 35 percent each year. LPL is expected to show similar traction in FY2022 as it has already generated Rs.582 Cr of revenue until Feb'22; 32 percent growth vis-à-vis FY2021 revenue of Rs.443.93 Cr. LPL is expected to clock in additional Rs.30-40 cr in the month of March 2022. The EBITDA margins have remained in the range of 11.35-14 percent over the last 3 years ending FY2021; and it depends on the revenue mix between APIs and formulations. The EBITDA margin in FY2022 is expected to be around 12.05 percent. Acuité believes that LPL's presence in both APIs and formulations is likely to lead to high dependence on continuous capacity addition in every 2-3 years aiding growth in its operating metrics as well as being working capital intensive.

- **Improvement in debt protection metrics and capital structure despite continuous debt-funded capex**

LPL's financial risk profile is above-average marked by a healthy network and low gearing

along with improving debt protection metrics. The EBITDA margins of the company improved to 13.73 per cent in FY2021 against 11.35 in FY2020. The improvement is attributable to favorable revenue mix. The PAT margins of the company has improved to 5.45 per cent in FY2021 in comparison to 3.80 per cent in FY2020. The PAT margins in FY2021 was improved on account of improvement in the operating margins. The improvement in profitability levels has led to improvement in the debt protection metrics despite continuous debt funded capex. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.59 times and 2.03 times respectively in FY2021 as against 2.96 and 1.75 times, respectively in the previous year. The net worth of the company stood at Rs.119.97 Cr as on 31 March, 2021 as against Rs.95.72 Cr as on 31 March, 2020. The improvement is on account of healthy accretion of net profit in the reserves during the period. The gearing level (debt-equity) stood at 1.21 times as on 31 March, 2021 as against 1.13 times as on 31 March, 2020, despite the increase in long term debt for the capex. TOL/TNW (Total outside liabilities/Total net worth) stands moderate at 2.55 times as on 31 March, 2021 against 2.29 times in previous year. The total debt of Rs.145.23 Cr as on 31 March, 2021. NCA/TD (Net cash accruals to total debt) stands stable at 0.23 times in FY2021 as against 0.17 times in FY2020. Acuité believes that LPL's financial risk profile will remain above-average despite the debt-funded capex plans in FY2022 and FY2023.

- **Working capital intensive nature of operations yet efficiently managed**

LPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 180-210 days over the last 3 years ending March 31, 2021. The GCA days are majorly marked by moderate debtor days and high inventory days. These are partially offset by low creditor days. The moderate GCA cycle has led to moderate utilization of around 82 percent per cent of consolidated working capital requirement over the past 6 months ending February 2022.

## **Weaknesses**

- **Competitive and fragmented industry**

The pharmaceutical formulations and chemical compounds industry has a large number of players which makes this industry highly fragmented and intensely competitive. LPL is also a moderate sized player, thereby limiting its bargaining power and susceptibility to pricing pressure is also higher compared to well-established and larger players. However, the company's presence of over 3 decades in the industry has enabled it to partially offset competitive pressures. Further, it undertakes regular research and development to improve its product offerings. This will help the company is improving its competitive position.

- **Foreign exchange risk**

LPL imports some of its intermediates/technicals from China which constitutes ~20 percent of total purchases. Also it exports ~50-55 percent of its sales to various other countries. The profitability of the company is exposed to fluctuation in the product prices as the same constitutes a significant portion of the total sales. Hence, the margins of the LPL are exposed to volatility in the foreign exchange rate.

## **Rating Sensitivities**

### **Positive**

- Significant and sustainable improvement in the scale of operations
- Sustainable improvement in Profitability, Leverage and Solvency position of the company
- Sustainable improvement in Gross current assets (GCA) days.

### **Negative**

- Any deterioration in working capital cycle and liquidity profile
- Any deterioration in Revenue profile and leverage position

- Any weakening of financial risk profile Any delay in the on-going capex

## Material covenants

None

## Liquidity: Adequate

LPL has adequate liquidity position marked by healthy net cash accruals against its debt obligations. LPL has generated cash accruals in the range of Rs.18-34 Cr during last three years ending FY2021 as against its long term debt obligations of Rs.5-10 Cr for the same period. The company is expected to generate healthy NCAs in the range of Rs.45-85 Cr. against modest CPLTD of Rs.15-30 Cr. The company's operations are working capital intensive marked by gross current asset (GCA) days of 185 days for FY2021 due to its high inventory and moderate debtor days. This makes the company dependent on bank borrowing for working capital requirement. Average bank limit utilization for 6 months' period ended February 2022 stood at 82 percent. Current ratio stands at 1.03 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.1.35 crore in FY2021. Acuité believes that the liquidity of the LPL is likely to remain adequate over the medium term.

## Outlook: Stable

Acuité believes that the outlook of LPL will remain 'Stable' over the medium term on account of the promoter's extensive experience and established presence in the pharma industry. The outlook may be revised to 'Positive' in case the company registers significant growth in revenue and profitability while effectively managing its working capital cycle. The outlook may be revised to 'Negative' in case of significantly lower than expected net cash accruals or lengthening of the working capital cycle; thereby resulting in deterioration in the financial risk profile or liquidity position of the company.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	443.93	326.10
PAT	Rs. Cr.	24.18	12.38
PAT Margin	(%)	5.45	3.80
Total Debt/Tangible Net Worth	Times	1.21	1.13
PBDIT/Interest	Times	3.59	2.96

## 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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.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
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE A2+   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE A-   Stable   Assigned
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-   Stable   Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A-   Stable   Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+   Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+   Assigned
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+   Assigned
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A-   Stable   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.81	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	25.00	ACUITE A-   Stable   Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.50	ACUITE A-   Stable   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	4.00	ACUITE A-   Stable   Assigned

State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	8.00	ACUITE A-   Stable   Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	8.87	ACUITE A-   Stable   Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	15.09	ACUITE A-   Stable   Assigned
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	14.66	ACUITE A-   Stable   Assigned
SVC Co-Op Bank Limited	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	9.17	ACUITE A-   Stable   Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	8.90	ACUITE A-   Stable   Assigned

Total CC limits from SBI of Rs.31 Cr (Rs.7.50 Cr and Rs.23.50 Cr) includes stand-by line of credit of Rs.5.00 Cr ; EPC/PCFC is a sub-limit to CC limit of Rs.26 Cr up to Rs.25 Cr.

Term loan of Rs.8.00 Cr and Rs.4.00 Cr from SBI are GECL loans (working capital term loans)



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### About Acuité Ratings & Research

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