Press Release

LEE Pharma Limited

March 03, 2023

Rating Assigned and Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	143.25	ACUITE BBB+ | Stable | Assigned	-
Bank Loan Ratings	214.38	ACUITE BBB+ | Stable | Downgraded	-
Bank Loan Ratings	6.75	-	ACUITE A2 | Assigned
Bank Loan Ratings	23.12	-	ACUITE A2 | Downgraded
Total Outstanding Quantum (Rs. Cr)	387.50	-	-

Rating Rationale

Acuite has downgraded its long term rating to **'ACUITE BBB+' (read as ACUITE t riple B plus)** from **'ACUITE A-' (read as ACUITE A minus)** and short term rating to **ACUITE A2' (read as ACUITE A two)** from **'ACUITE A2+' (read as ACUITE A two plus)** on the Rs.237.50 Cr bank facilities of LEE PHARMA LIMITED (LPL). The outlook is **'Stable'.**

Acuite has assigned its long term rating of **'ACUITE BBB+' (read as ACUITE Triple B Plus)** and short term rating of **'ACUITE A2' (read as ACUITE two)** on the Rs.150Cr bank facilities of LEE PHARMA LIMITED (LPL). The outlook is **'Stable'**.

Rationale for Rating Downgrade:

The rating is downgraded on account of deteriorating working capital cycle, deterioration in leverage indicators particularly Debt to EBITDA level, caused by increasing overall debt levels. The company over the last three years has incurred capex to the tune of Rs.190 crore, the continued expansion of capacity and the high incremental working capital requirements to push sales has led to higher than expected reliance on external funding sources. Acuite estimates the Debt to EBITDA levels to remain upwards of 3.6 times as on December 31, 2023 from its lowest level of 2.37 times in the last three years. The company's high reliance on working capital limits is primarily on account of lenient credit term to its customers. The Gross Current Asset (GCA) days are estimated to remain in the range of 225-245 days for FY 2023 as compared to 185 days for FY 2021. This has led to higher reliance on short term funding sources as reflected by utilization levels in excess of 90% of its working capital limits. The enhancements in working capital limits with high utilization has led to decline in current ratio to 0.97 times during FY22, which is expected to improve marginally as on March 31, 2023. The financial risk profile of the company remained above average. On the other hand, the company has reported revenue of Rs.645.28Cr during FY22 and further improved to Rs.644Cr during 9months of FY23. Acuite believes that revenue of the company is likely improve further in the medium term on account of profitable product mix and healthy demand for the company products. But, improving working capital cycle while sustaining EBITDA margins will be key monitorable.

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

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

Key Rating Drivers

Strengths

Experienced Promoters; long t rack 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, Mr. Raghu Mitra Alla) 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.
Acuité believes that the experience of the management in the industry is also likely to favorably impact the business risk profile of the company over the near to medium term.

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).

Improving scale of operations and stable profitability levels:

The operating income of the company improved to Rs. 645.28 Cr in FY2022 as against Rs.443.93 Cr in FY2021. In 9MFY2023 the revenues stood at Rs.646.07 Cr. The improvement is driven by both higher volumes and realisations. The company over the last few years has been undertaking continuous capex to increase its production capacities. The Company's installed capacity rose to 1026000 kgs/pa in FY2022 from 954000 kgs/pa in FY2021. The Company shall increase its production capacity to 132000 kgs/pa by end of FY2023.

The operating margins of LPL has remained stable in the range of 12-14 percent for the last three year ended FY2022, while the net profitability margins ranged between, 3.80-5.5 percent during the same period.

Acuite believes that revenue of the company is likely to improve further in the medium term on account of profitable product mix and healthy demand for the company products.

Moderate financial risk profile
The financial risk profile of LPL is moderate marked by moderate net-worth, moderate gearing and average debt protection metrics. The net-worth stood at RS.155.44Cr as on March 31, 2022 against Rs.119.97Cr during previous year. The improvement is on account of accretion of net profit to reserves. The gearing level (debt-equity) stood at 1.40 times as on 31 March, 2022as against 1.21 times as on 31 March, 2021. The total debt as on March 31, 2022 increased to Rs.217.53 Cr from Rs.145.23 Cr in the previous year. TOL/TNW (Total outside liabilities/Total net worth) stood at 3.27 times as on 31 March, 2022 against 2.55 times in previous year. With planned increase in long term and short term borrowing, the overall gearing is expected to deteriorated marginally in FY23.

The company is currently undertaking a capex of Rs. 75 Cr to increase its production capacity to 132000 kgs/pa by end of FY23. The project is funded by debt of Rs. 54.45 Cr and balance by internal accruals. Further, the fund based banking limits have increased from Rs.84 Cr in January, 2022 to Rs. 152 Cr in the December, 2022.

The debt protection metrics which improved marginally in FY22 is expected to moderate in the near term in view of the above planned increase in debt levels. The Interest coverage ratio and debt service coverage ratio stood at 4.30 times and 2.33 times respectively in FY22 against 3.59 times and 2.03 times respectively in FY21. The Debt to EBITDA stood at 2.60 times for FY22 as against 2.37 times for FY21. The Debt to EBITDA levels is expected to remain upwards of 3.6 times over the near to medium term.

Acuite believes LPL ability to maintain its financial risk profile over the near to medium term will remain a key rating monitorable.

Weaknesses

Working capital intensive nature of operations:
LPL's operations are working capital intensive marked by increasing gross current assets (GCA) days. The GCA days rose to 228 days as on March 31,2022 as against 210 days as on March 31, 2021 and 185 days as on March 31, 2021.
The GCA days are driven by inventory and debtor days. Inventory days stood at 134 days as on March 31, 2022 as against 110 days as on March 31,2021 and 122 days as on March 31, 2020. The debtor days ranged between 65-80 days during the same period. The creditor days ranged between 128-155 days for the three years ended FY2022 while the bank limit utilisation continued to remain high. The fund based banking limits have increased from Rs.84 Cr in January, 2022 to Rs. 152 Cr in the December, 2022 with average utilisation ranging between 80-96 percent during this period.
Acuite believes that further elongation in working capital cycle will be a key monitorable aspect.

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.

Rating Sensitivities

- Ability to restrict elongation of its working capital cycle
- Significant and sustainable improvement in the scale of operations while maintaining its capital structure and profitability levels.

Material covenants

None

Liquidity Position: Adequate

LPL's liquidity is adequate marked by generation of sufficent net cash accruals in FY22 to itsmaturing debt obligations. LPL has generated cash accruals in the range of Rs.18-48 Cr during last three years ending FY22 as against its long term debt obligations of Rs.7-19 Cr for the same period. The company is expected to generate NCAs in the range of Rs.45-85 Cr. against maturing debt obligations of Rs.19- 26 Cr. The fund based CC limit remained highly utilized at an average of nearly 80-96 per cent for the 12 months ending December 2022. Current ratio of the company was 0.97 times as on March 31, 2022 and expected to improve to 1.15 times by end of FY23. The company has low unencumbered cash and bank balances of 0.75Cr as on. March 31, 2022. Acuite believes that liquidity position of the company will remain adequate in the medium term on account of healthy Net cash accruals (NCA's) against their debt repayment obligations.

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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	645.28	443.93
PAT	Rs. Cr.	35.42	24.18
PAT Margin	(%)	5.49	5.45
Total Debt/Tangible Net Worth	Times	1.40	1.21
PBDIT/Interest	Times	4.30	3.59

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

None

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

In order to inform the investors about complexity of instruments, Acuité 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
12 Apr 2022	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	4.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	8.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	8.87	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	23.00	ACUITE A- | Stable (Assigned)
	Packing Credit	Long Term	1.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	15.09	ACUITE A- | Stable (Assigned)
	Working Capital Term Loan	Long Term	8.90	ACUITE A- | Stable (Assigned)
	Proposed Bank Facility	Long Term	25.81	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	14.66	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	23.50	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Working Capital Term Loan	Long Term	9.17	ACUITE A- | Stable (Assigned)
	Bank Guarantee	Short Term	1.50	ACUITE A2+ (Assigned)
	Term Loan	Long Term	25.00	ACUITE A- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.50	ACUITE A2 | Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+ | Stable | Downgraded
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	31.00	ACUITE BBB+ | Stable | Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	31.00	ACUITE BBB+ | Stable | Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE BBB+ | Stable | Downgraded
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB+ | Stable | Downgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.00	ACUITE BBB+ | Stable | Downgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB+ | Stable | Downgraded
Axis Bank	Not Applicable	Derivative Exposure	Not Applicable	Not Applicable	Not Applicable	Simple	1.62	ACUITE A2 | Downgraded
Axis Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2 | Downgraded
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A2 | Downgraded
HDFC Bank Ltd	Not Applicable	PC/PCFC	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB+ | Stable | Downgraded
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.75	ACUITE A2 | Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	52.20	ACUITE BBB+ | Stable | Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.50	ACUITE BBB+ | Stable | Downgraded
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	42.81	ACUITE BBB+ | Stable | Downgraded
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.19	ACUITE BBB+ | Stable | Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	28.11	ACUITE BBB+ | Stable | Assigned

Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	19.86	ACUITE BBB+ | Stable | Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	17.14	ACUITE BBB+ | Stable | Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.75	ACUITE BBB+ | Stable | Assigned
SVC Co-Op Bank Limited	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	9.17	ACUITE BBB+ | Stable | Downgraded
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	8.90	ACUITE BBB+ | Stable | Downgraded

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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.