Press Release
LEE Pharma Limited
June 19, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	357.63	ACUITE BBB+ | Stable | Upgraded	-
Bank Loan Ratings	29.87	-	ACUITE A2 | Upgraded
Total Outstanding Quantum (Rs. Cr)	387.50	-	-

Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE BBB+' (read as ACUITE t riple B plus)** from **'ACUITE BB+' (read as ACUITE Double B plus)** and short-term rating t o **ACUITE A2' (read as ACUITE A two)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.387.50 Cr. bank facilities of LEE PHARMA LIMITED (LPL). The outlook is **'Stable'**.

Rationale for rating upgrade:
Rating upgrade of Lee Pharma Limited (LPL) considers stable improvement in operating performance, moderate financial risk profile and adequate liquidity position. LPL's operating revenue improved to Rs.899.62 Cr. in FY2024 (Prov.) from Rs.820 Cr. of FY2023 and operating margin in FY2024 improved to 14.24 percent from 13.46 percent in the previous year. This improvement is attributable to increase in production capacity, improving orders and profitable product mix. The rating, further, draws comfort from the financial risk profile which remained moderate despite the debt funded capex. Going forward, the company's ability in scaling up the operating performance post the completion of capex and maintaining the profitability levels will be a 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.

Unsupported Rating
Not applicable

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. This has also aided LPL's total operating income growth trajectory as witnessed through a compounded annual growth rate of ~12 percent over the past 3 years. Acuité believes that the experience of the management in the industry is also likely to favourably 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).

Moderate financial risk profile:
LPL's financial risk profile is moderate marked by a healthy networth and moderate gearing levels along with moderate debt protection metrics. The EBITDA margins of the company improved to 14.24 per cent in FY2024 (Prov.) against 13.46 per cent in FY2023. The improvement is attributable to favourable revenue mix. The PAT margins of the company has improved to 4.72 per cent in FY2024 (Prov.) in comparison to 4.25 per cent in FY2023. The improvement in profitability levels aided the debt protection metrics to remain in the comfortable levels, despite continuous debt funded capex. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.09 times and 1.47 times respectively as of March 31, 2024(Prov) as against 3.40 times and 1.61 times respectively in the previous year.

The net worth of the company stood at Rs.255.95 Cr. as on 31 March, 2024 (Prov.) as against Rs.187.72 Cr. as on 31 March, 2023. The improvement is due to infusion of equity of Rs.27 Cr. along with accretion of net profit to reserves. The gearing level (debt-equity) stood at 1.66 times as on 31 March, 2024 (Prov.) as against 1.67 times as on 31 March, 2023, despite the increase in long term debt for the capex. The total debt as on 31 March, 2024 (Prov.) stood at Rs.425.22 Cr. against Rs.313.26 Cr. as on 31,March 2023. TOL/TNW (Total outside liabilities/Total net worth) stands moderate at 2.98 times as on 31, March 2024 (Prov.) against 3.55 times in previous year. NCA/TD (Net cash accruals to total debt) stands stable at 0.15 times in FY2024 (Prov.) as against 0.16 times in FY2023. Acuite believes LPL ability to maintain its moderate financial risk profile over the near to medium term will remain a key rating monitorable.

Weaknesses

Working capital intensive nature of operations:
LPL's working capital operations are intensive, marked by current assets (GCA) of 241 days as on 31, March 2024 (Prov.) against 230 days as on 31, March 2023. 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 beyond 140 days for FY2024 (Prov.). The debtor days stood at 102 days in FY2024 (Prov.) against 69 days of FY2023. The intensive GCA cycle

has led to high utilization of ~92 percent per cent of consolidated working capital limits over the past 12 months ending December 2023. Acuité believes that the working capital cycle will continue to remain intensive over the medium term due to nature of pharmaceutical industry.

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/technical 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

- 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

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.61.76 Cr. during FY2024 (Prov.) against the maturing debt obligations of Rs.28.72 Cr. Besides, LPL also has unencumbered cash and bank balances of Rs.3.56 Cr. as on March 31, 2024 (Prov.), which provides additional support to liquidity. Average utilization of the fund based working capital limits stood high at ~92 percent for the past 12 months period ending December, 2024. Going forward, company is expected to generate cash accruals in the range of Rs.80-100 Cr. over the medium term, while repayment obligations are expected to be in the range of Rs.45.00-Rs.55 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 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 elongation 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 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	899.62	820.18
PAT	Rs. Cr.	42.42	34.88
PAT Margin	(%)	4.72	4.25
Total Debt/Tangible Net Worth	Times	1.66	1.67
PBDIT/Interest	Times	3.09	3.40

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
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.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
31 May 2024	Bank Guarantee (BLR)	Short Term	1.50	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A2)
	Cash Credit	Long Term	35.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Cash Credit	Long Term	45.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Cash Credit	Long Term	20.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Cash Credit	Long Term	31.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Cash Credit	Long Term	20.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A2)
	Letter of Credit	Short Term	15.00	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A2)
	PC/PCFC	Long Term	1.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Proposed Letter of Credit	Short Term	6.75	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A2)
	Proposed Short Term Bank Facility	Short Term	1.62	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A2)
	Proposed Term Loan	Long Term	52.20	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	14.19	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	1.50	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	19.86	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	17.14	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	11.75	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	28.11	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Term Loan	Long Term	42.81	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Working Capital Demand Loan (WCDL)	Long Term	9.17	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Working Capital Term Loan	Long Term	8.90	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB+ | Stable)
	Bank Guarantee (BLR)	Short Term	1.50	ACUITE A2 (Downgraded from ACUITE A2+)
	Cash Credit	Long Term	23.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	12.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	31.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
		Long		ACUITE BBB+ | Stable (Downgraded from

	Cash Credit	Term	14.00	ACUITE A- | Stable)
	Cash Credit	Long Term	20.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Cash Credit	Long Term	31.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Derivative Exposure	Short Term	1.62	ACUITE A2 (Downgraded from ACUITE A2+)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Downgraded from ACUITE A2+)
	Letter of Credit	Short Term	15.00	ACUITE A2 (Downgraded from ACUITE A2+)
03 Mar 2023	PC/PCFC	Long Term	1.00	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Proposed Letter of Credit	Short Term	6.75	ACUITE A2 (Assigned)
	Proposed Term Loan	Long Term	52.20	ACUITE BBB+ | Stable (Assigned)
	Term Loan	Long Term	19.86	ACUITE BBB+ | Stable (Assigned)
	Term Loan	Long Term	17.14	ACUITE BBB+ | Stable (Assigned)
	Term Loan	Long Term	11.75	ACUITE BBB+ | Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Term Loan	Long Term	28.11	ACUITE BBB+ | Stable (Assigned)
	Term Loan	Long Term	42.81	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Term Loan	Long Term	14.19	ACUITE BBB+ | Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	9.17	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Working Capital Term Loan	Long Term	8.90	ACUITE BBB+ | Stable (Downgraded from ACUITE A- | Stable)
	Bank Guarantee (BLR)	Short Term	1.50	ACUITE A2+ (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	7.50	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	23.50	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	20.00	ACUITE A- | Stable (Assigned)
	Cash Credit	Long Term	23.00	ACUITE A- | Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A2+ (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A2+ (Assigned)
	PC/PCFC	Long Term	1.00	ACUITE A- | Stable (Assigned)
12 Apr 2022	Proposed Long Term Bank Facility	Long Term	25.81	ACUITE A- | Stable (Assigned)

	Term Loan	Long Term	25.00	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	4.00	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	15.09	ACUITE A- | Stable (Assigned)
	Term Loan	Long Term	14.66	ACUITE A- | Stable (Assigned)
	Working Capital Term Loan	Long Term	9.17	ACUITE A- | Stable (Assigned)
	Working Capital Term Loan	Long Term	8.90	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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.50	ACUITE A2 | Upgraded (from ACUITE A4+)
Axis Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	31.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	60.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
SVC Co-Op Bank Limited	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	45.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	35.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
Axis Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A2 | Upgraded (from ACUITE A4+)
HDFC Bank Ltd	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A2 | Upgraded (from ACUITE A4+)

HDFC Bank Ltd	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.00	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
Not Applicable	Not avl. / Not appl.	Proposed Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.75	ACUITE A2 | Upgraded (from ACUITE A4+)
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.62	ACUITE A2 | Upgraded (from ACUITE A4+)
Not Applicable	Not avl. / Not appl.	Proposed Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	18.42	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
SVC Co-Op Bank Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Mar 2026	Simple	12.28	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
Axis Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	11 Jan 2030	Simple	12.50	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 May 2030	Simple	35.30	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
SVC Co-Op Bank Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Mar 2027	Simple	5.70	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
	Not avl. /		Not avl. /	Not avl.	01 Oct			ACUITE BBB+ | Stable |

Axis Bank	Not appl.	Term Loan	Not appl.	/ Not appl.	2026	Simple	12.36	Upgraded (from ACUITE BB+)
Axis Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Dec 2027	Simple	9.75	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Jan 2028	Simple	21.85	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
SVC Co-Op Bank Limited	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Dec 2029	Simple	20.31	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
SVC Co-Op Bank Limited	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.01	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)
Canara Bank	Not avl. / Not appl.	Working Capital Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	01 Nov 2027	Simple	8.15	ACUITE BBB+ | Stable | Upgraded (from ACUITE BB+)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022–49294017 mohit.jain@acuite.in Katta Akhil Analyst-Rating Operations Tel: 022-49294065 akhil.katta@acuite.in	Varsha Bist Associate Vice President-Rating Administration Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit https://www.acuite.in/faqs.htm to refer FAQs on Credit Rating.