

Rating Advisory

March 31, 2020 | Mumbai

Bajaj Healthcare Limited

Advisory as on March 31, 2020

This rating advisory is provided in relation to the rating of Bajaj Healthcare Limited

The key rating sensitivity factors for the rating include:

- Capital expenditure (capex) plans and their funding
- Working capital management
- Operating profitability

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Bajaj Healthcare Limited (BHL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If BHL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

BHL was incorporated in 1993 as a private company by the Jain and Bajaj family and was re-constituted as a closely held public limited company in 2005. The company was listed on Bombay Stock Exchange in May 2016, and manufactures active pharmaceutical ingredients (APIs) and formulations in the form of tablets, capsules and powder and also exports bulk drugs to Europe and other continents.

Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

June 10, 2019 | Mumbai

Bajaj Healthcare Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.142 Crore
Long Term Rating	CRISIL BBB/Stable (Reaffirmed)
Short Term Rating	CRISIL A3+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB/Stable/CRISIL A3+' ratings on the bank facilities of Bajaj Healthcare Limited (BHL).

The ratings continue to reflect an established market position backed by a strong and diversified clientele, and a healthy financial risk profile driven by strong network, improving total outside liabilities to adjusted network (TOLANW) ratio, and robust debt protection metrics. These strengths are partially offset by exposure to intense competition in the bulk drugs industry, and working capital-intensive operations.

Key Rating Drivers & Detailed Description

Strengths

* **Established market position:** The promoters' experience of over 25 years in the bulk drugs industry has resulted in an established relationship with customers and suppliers. Benefits from the established market position, backed by a strong and diversified customer base, should continue.

* **Healthy financial risk profile:** The network was Rs 88.3 crore, while the total outside liabilities to adjusted network ratio improved to 1.56 times as on March 31, 2019, from 2.1 times a year earlier. The debt protection metrics were robust, with interest coverage ratio of 5.3 times in fiscal 2019. The financial risk profile is expected to remain healthy over the medium term, backed by improvement in cash accrual, repayment of loans, and moderate debt-funded capital expenditure (capex; around Rs 11 crore in fiscal 2020). Future capex and its funding mix is a key rating sensitivity factor.

Weaknesses

* **Exposure to intense competition in the bulk drugs industry:** The industry has a large number of players, with the unorganised sector having a sizeable presence, leading to intense competition. This restricts the ability to bargain for better prices with customers in case of escalation in input prices, thus constraining profitability.

* **Working capital-intensive operations:** Gross current assets were high at around 150 days, driven by inventory of 39 days and receivables cycle of 90 days, as on March 31, 2019. Inventory improved from 50 days a year earlier due to moderation in raw material prices. Credit of 60-90 days is extended to customers and inventory of 35-40 days is maintained. Operations are expected to remain working capital intensive over medium term. The incremental working capital requirement, due to anticipated growth in revenue, and its funding mix are major rating sensitivity factors.

Liquidity

Liquidity is adequate. Net cash accrual of Rs 27.71 crore was adequate to meet debt obligation of around Rs.10 crore in fiscal 2019, and is expected at Rs 30-35 crore against debt obligation of Rs 10-11 crore, per fiscal over the medium term. Capex is expected at around Rs 11 crore in fiscal 2020, funded by term debt of Rs 6 crore, and is likely to remain at Rs 7-8 crore per fiscal over the medium term. Average bank limit utilisation was 87% during the 12 months through March 2019 and should improve further backed by healthy cash accrual. Cash and cash equivalents were Rs 7.86 crore as on March 31 2019, and are expected to remain at a similar level over the medium term.

Outlook: Stable

CRISIL believes BHL will continue to benefit from the extensive industry experience of its promoters and a strong customer base. The outlook may be revised to 'Positive' if there is higher-than-expected revenue growth and profitability, while the financial risk profile remains healthy. The outlook may be revised to 'Negative' if revenue and profitability decline significantly, or if the financial risk profile weakens due to a stretch in working capital requirement or large, debt-funded capex.

About the Company

BHL was incorporated in 1993 as a private limited company by the Bajaj family and was reconstituted as a closely held public limited company in 2005. The company was listed on the SME (small and medium enterprise) segment of the BSE (Bombay Stock Exchange) in May 2016. It manufactures active pharmaceutical ingredients and also formulations in the form of tablets, capsules, and powder, and exports bulk drugs to Europe, among other regions.

Key Financial Indicators

Particulars	Unit	2019	2018
Revenue	Rs crore	370	327
Profit after tax (PAT)	Rs crore	16.3	15.2
PAT margin	%	4.4	4.6
Adjusted debt/adjusted networth	Times	0.93	1.16
Interest coverage	Times	5.3	5.5

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook
NA	Bank Guarantee	NA	NA	NA	1	CRISIL A3+
NA	Letter of Credit	NA	NA	NA	16.55	CRISIL A3+
NA	Post Shipment Credit	NA	NA	NA	30	CRISIL A3+
NA	Term Loan	NA	NA	Oct-2023	34.45	CRISIL BBB/Stable
NA	Working Capital Facility	NA	NA	NA	60	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

		Current		2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	124.45	CRISIL BBB/Stable/ CRISIL A3+			04-07-18	CRISIL BBB/Stable/ CRISIL A3+	13-12-17	CRISIL BBB/Stable/ CRISIL A3+	23-09-16	CRISIL BBB/Stable/ CRISIL A3+	CRISIL BBB-/Stable/ CRISIL A3
Non Fund-based Bank Facilities	LT/ST	17.55	CRISIL A3+			04-07-18	CRISIL A3+	13-12-17	CRISIL A3+	23-09-16	CRISIL A3+	CRISIL A3

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	1	CRISIL A3+	Bank Guarantee	1	CRISIL A3+
Letter of Credit	16.55	CRISIL A3+	Letter of Credit	16.55	CRISIL A3+
Post Shipment Credit	30	CRISIL A3+	Post Shipment Credit	30	CRISIL A3+
Term Loan	34.45	CRISIL BBB/Stable	Term Loan	34.45	CRISIL BBB/Stable
Working Capital Facility	60	CRISIL BBB/Stable	Working Capital Facility	60	CRISIL BBB/Stable
Total	142	--	Total	142	--

Links to related criteria

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[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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<p>Saman Khan Media Relations CRISIL Limited D: +91 22 3342 3895 B: +91 22 3342 3000 saman.khan@crisil.com</p> <p>Naireen Ahmed Media Relations CRISIL Limited D: +91 22 3342 1818 B: +91 22 3342 3000 naireen.ahmed@crisil.com</p> <p>Vinay Rajani Media Relations CRISIL Limited D: +91 22 3342 1835 M: +91 91 676 42913 B: +91 22 3342 3000 vinay.rajani@ext-crisil.com</p>	<p>Mohit Makhija Director - CRISIL Ratings CRISIL Limited B: +91 124 672 2000 mohit.makhija@crisil.com</p> <p>Jumana Badshah Associate Director - CRISIL Ratings CRISIL Limited D: +91 22 3342 8324 Jumana.Badshah@crisil.com</p> <p>Athul Sreelatha Rating Analyst - CRISIL Ratings CRISIL Limited D: +91 22 3342 3046 Athul.Sreelatha@crisil.com</p>	<p>Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301</p> <p>For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com</p> <p>For Analytical queries: ratingsinvestordesk@crisil.com</p>

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