Rating Advisory

February 03, 2020 I Mumbai

Advisory as on February 03, 2020

This rating advisory is provided in relation to the rating of Beta Drugs Limited.

CRISIL vide its publication dated January 31, 2020 highlighted the aspect of non-co-operation by Beta Drugs Limited.

Beta Drugs Limited has now initiated cooperation, has confirmed timeliness in debt servicing for January 2020 and has also provided ‘No Default Statement’ dated February 03, 2020.

You may access the Rating Rationale as appended below.

Rating Rationale

May 30, 2019 | Mumbai

Beta Drugs Limited

'CRISIL BB+/Stable' assigned to bank debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.8 Crore**
Long Term Rating	**CRISIL BB+/Stable (Assigned)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its **'CRISIL BB+/Stable'** rating to the long-term bank facilities of Beta Drugs Limited (BDL).

The rating reflects the extensive experience of the promoter in the pharmaceutical industry, and BDL's reputed and diversified clientele, above-average financial risk profile, and sound operating efficiencies. The strengths are partially offset by modest scale of operations and intense competitive pressure, large working capital requirement, and exposure to the risk of unfavourable regulatory changes.

Key Rating Drivers & Detailed Description

Strengths

*** Extensive experience of the promoter and diversified clientele**

Benefits from the promoter's experience of more than two decades and his strong understanding of local market dynamics, and healthy relationships with customers and suppliers should continue to support the business. Customers mainly include renowned pharmaceutical companies such as Zydus Healthcare Limited, Intas Biopharmaceuticals Ltd, Torrent Pharmaceuticals Limited, Cadila Healthcare Limited, and Hetero Drugs Limited.

*** Above-average financial risk profile**

Financial risk profile is above average. Due to low reliance on external funds, gearing and total outside liabilities to tangible networth ratios were low at 0.23 time and 0.51 time, respectively, as on March 31, 2018. Networth was healthy at Rs 32.88 crore, supported by an initial public offering (IPO) raised in September 2017 and moderate accretion to reserve. Debt protection metrics were comfortable because of heathy profitability: net cash accrual to total debt and interest coverage ratios were 9.56 times and 1.31 times, respectively, in fiscal 2018. The metrics are likely to remain healthy over the medium term.

*** Sound operating efficiencies**

Operating efficiencies are healthy and should remain so over the medium term because of high economies of scale and experienced management. Operating margin and return on capital employed were 18.88% and 28.60%, respectively, in fiscal 2018.

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Weaknesses

*** Modest scale of operations and intense competitive pressure**

Intense competition continues to constrain scalability: revenue was modest at Rs 50.22 crore in fiscal 2018. Although revenue grew 23% year-on-year in fiscal 2018 and is expected to improve over the medium term, backed by higher demand and expansion in the export market, scale should remain modest. Revenue was around Rs 45 crore in the nine months through December 2018 and is expected at around Rs 60 crore for the full fiscal. Furthermore, around 25% of the products are manufactured under own brand (Adley) and the remaining 75% under other companies' brand names; this limits bargaining power.

*** Large working capital requirement**

Operations are working capital intensive and should remain so over the medium term: gross current assets were around 228 days as on March 31, 2018, driven, in turn, by inventory and debtors of 25 and 105 days, respectively. Credit extended to customers is moderately high. Creditors of 60-90 days relieves some of the pressure on working capital.

*** Exposure to regulatory risks and raw material price volatility**

The pharmaceutical industry is a closely monitored and regulated industry, and as such, there are inherent risks and liabilities associated with the products and their manufacturing. Furthermore, the price of key raw material (active pharmaceuticals ingredients) is volatile in nature. Therefore, susceptibility to the risk of variations in commodity price persists.

Liquidity

Liquidity should remain adequate over the medium term, despite working capital-intensive operations. Net cash accrual, expected at Rs 9.0-11.0 crore in fiscal 2019, should comfortably cover debt obligation of Rs 1.30 crore. Utilisation of bank limit averaged 52% in the 12 months through January 2019. Current ratio was 2.51 times as on March 31, 2018, and is expected to remain high over the medium term. The ongoing large capital expenditure is being funded through an IPO.

Outlook: Stable

CRISIL believes BDL will continue to benefit from its promoter's extensive experience and established relationships with clients. The outlook may be revised to 'Positive' if ramp-up in revenue and stable profitability strengthen financial risk profile. The outlook may be revised to 'Negative' if a decline in profitability, stretch in working capital cycle, or any large debt-funded capital expenditure weakens capital structure.

About the Company
Incorporated in 2005, BDL manufactures oncology products: anti-cancer tablets, capsules, and injections (including the lyophilised variant). The manufacturing facility is in Solan (Himachal Pradesh). Mr Vijay Batra is the promoter.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	50.22	40.87
Profit after tax (PAT)	Rs crore	7.96	4.27
PAT margin	%	15.85	10.45
Adjusted debt/adjusted networth	Times	0.23	1.35
Interest coverage	Times	9.56	8.90

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	Cash Credit	NA	NA	NA	5.0	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Jan-2025	3.0	CRISIL BB+/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	8.00	CRISIL BB+/Stable		--		--		--		--	--

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
Cash Credit	5	CRISIL BB+/Stable	--	0	--
Term Loan	3	CRISIL BB+/Stable	--	0	--
Total	8	--	Total	0	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for the Pharmaceutical Industry
CRISILs Bank Loan Ratings

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