

Rating Rationale

February 28, 2024 | Mumbai

Lactose India Limited

'CRISIL BB+/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.50 Crore
Long Term Rating	CRISIL BB+/Stable (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **'CRISIL BB+/Stable'** rating to the long term bank facilities of Lactose India Limited (LIL).

The rating reflects LIL's extensive industry experience of the promoters, moderate working capital cycle and moderate financial profile. These strengths are partially offset by its susceptibility to fluctuations in raw material prices, intense competition, and regulatory risks and limited product diversity constrain the scale and sustainability.

Analytical Approach

CRISIL Ratings has considered standalone financials of Lactose India Limited for the credit rating exercise.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive industry experience of the promoters:** Late Mr. S M Maheshwari had experience of over three decades in the pharmaceutical industry. His son, Mr. Atul Maheshwari (MBA graduate), set up the business in 1991. The promoters have been able to leverage their established presence in the industry and their knowledge and expertise in the products to strengthen LIL's market position as reflected in its steadily increasing revenues. The company has been working on the marketing strategy since last couple of years and has been able to associate with 70 to 80 registered customers. CRISIL Ratings believes that LIL's business risk profile will continue to benefit over the coming years from promoters' established track record.
- **Consistently growing Business risk Profile:** The business risk profile of the company has been consistently growing over the past few fiscal years. Post the association with the Kerry group, the company has focused on marketing and building up their brand name. The company has registered an average ROCE of over 10% and is further expecting an ROCE of over 15% over the medium term. The EBITDA margin is expected to be around 15% and revenue over Rs. 115 crores in the current fiscal year. Investment in Double drum drier will save the treatment cost improving the operating margin. The orderbook maintained quarterly consists of orders worth Rs. 24.45 crores till March'23 and is recurring in nature. The company is expecting to expand its international market with entry in regulated countries. Over the coming years, the topline of the company is projected to grow 10% to 15% year on year.
- **Healthy financial profile:** LIL's capital structure have been at moderate healthy level due to limited reliance on external funds yielding gearing of 0.96 times and total outside liabilities to adj tangible net worth (TOL/ANW) of 1.51 for year ending on 31st March 2023. LIL's debt protection measures have also been at a comfortable level despite leverage due to moderately healthy profitability. The interest coverage and net cash accrual to total debt (NCATD) ratio are at 2.02 times and 0.15 times for fiscal 2023. LIL debt protection measures are expected to remain at a similar level over the medium term.

Weaknesses:

- **Susceptibility to fluctuations in raw material prices, intense competition, and regulatory risks:** The bulk drugs industry is highly competitive due to presence of numerous domestic as well as global players, which exerts pricing pressure on individual entities. This necessitates the company to remain cost competitive to maintain profitability.
- **Higher working capital cycle:** Gross current assets were between 160 to 170 days over the three fiscal periods ended March 31, 2023. Its moderate working capital management is reflected in its gross current assets (GCA) of 170 days as on March 31, 2023. It is required to extend long credit period in line with the industry standards and maintaining inventory of around 4 to 5 months. Furthermore, to meet its business requirement, it holds large work in process & inventory. However, the working capital cycle is expected to improve over the coming years.

Liquidity: Adequate

Bank limit utilization is moderate at around 49.5 percent for the past 12 months ended December'23. Cash accruals are expected to be over Rs 10 crores which are sufficient against term debt obligation of Rs 6.4 crores over the medium term.

Over the medium term with rising topline, the net cash accruals are expected to be higher.

Current ratio is moderate at 1.17 times on March 31, 2023.

Outlook: Stable

CRISIL Ratings believe LIL will continue to benefit from the extensive experience of its promoter, and established relationships with clients. The consistency in the operating margin and growing topline with sustenance of working capital cycle at a decent level will remain a key monitorable.

Rating Sensitivity factors

Upward factors

- Sustained improvement in operating margin and scale, leading to higher cash accruals.
- Improvement in working capital cycle, with gross current assets improve to below 140 days.

Downward factors

- Decline in scale of operations leading to fall in revenue by 20 percent and profitability margin below 14 %.
- Large debt-funded capital expenditure weakening the capital structure.
- Witnesses a substantial increase in its working capital requirements thus weakening its liquidity & financial profile.

About the Company

LIL was incorporated in 1991. LIL is engaged in manufacturing pharmaceutical products such as lactose powder, lactulose and festal dreggis (tablet). LIL manufacturing facility is located in Vadodara, Gujarat. The installed capacity of lactose powder is 10,000 MTPA, lactulose is 2400 MTPA and tablets are 20 lakhs per day. It has been listed on Bombay Stock Exchange (BSE) since 1991.

LIL's day-to-day operations are managed by Mr. Atul Maheshwari (Managing Director), Mrs. Sangita Maheshwari (Director) and Ranjit Kshirsagar (Chief Executive Officer).

Key Financial Indicators

As on / for the period ended March 31		2023 (Audited)	2022 (Audited)
Operating income	Rs crore	65.80	45.94
Reported profit after tax	Rs crore	1.29	2.60
PAT margins	%	1.84	5.34
Adjusted Debt/Adjusted Net worth	Times	0.96	1.04
Interest coverage	Times	1.93	2.43

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Complexity Levels	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	10	NA	CRISIL BB+/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	2.15	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	April-2026	4.26	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	April-2026	3.65	NA	CRISIL BB+/Stable
NA	Term Loan	NA	NA	April-2026	29.94	NA	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

		Current		2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	50.0	CRISIL BB+/Stable		--		--		--		--	Withdrawn

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	10	Bank of Baroda	CRISIL BB+/Stable

Proposed Long Term Bank Loan Facility	2.15	Not Applicable	CRISIL BB+/Stable
Term Loan	4.26	Bank of Baroda	CRISIL BB+/Stable
Term Loan	3.65	Bank of Baroda	CRISIL BB+/Stable
Term Loan	29.94	Bank of Baroda	CRISIL BB+/Stable

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Understanding CRISILs Ratings and Rating Scales

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Nitin Kansal Director CRISIL Ratings Limited D: +91 124 672 2154 nitin.kansal@crisil.com Nilesh Agarwal Associate Director CRISIL Ratings Limited D: +91 79 4024 4531 nilesh.agarwal1@crisil.com Shubhi Verma Senior Rating Analyst CRISIL Ratings Limited B: +91 22 4040 5800 Shubhi.Verma@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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