CRISIL
Ratings

Rating Rationale

July 25, 2024 | Mumbai

Lactose India Limited

Rating reaffirmed at 'CRISIL BBB-/Stable'; Rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.60 Crore (Enhanced from Rs.50 Crore)**
Long Term Rating	**CRISIL BBB-/Stable (Reaffirmed)**

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 reaffirmed its 'CRISIL BBB-/Stable' rating on the long-term bank facilities of Lactose India Ltd (LIL).

CRISIL Ratings believes that with the support of higher exports and incremental capacity utilization of both lactose and lactulose, the revenue profile of the company is expected to grow by 20% year on year over the medium term. The liquidity and financial risk profile shall continue to grow at a comfortable level.

The rating continues to reflect LIL's extensive industry experience of the promoters, consistently growing business profile and above average financial profile. These strengths are partially offset by its susceptibility to fluctuations in raw material prices, intense competition, and regulatory risks, modest scale of operations and working capital intensive operations.

Analytical Approach

CRISIL Ratings has considered standalone financials of LIL for the credit rating exercise.

Key Rating Drivers & Detailed Description

Strengths:

- **Extensive experience of the promoters:** LIL was set up by the promoter, Mr Atul Maheshwari in 1991. His father, late Mr SM Maheshwari had experience of over three decades in the pharmaceutical industry. Longstanding presence of the promoters and their strong expertise have helped the company strengthen its market position, as reflected in the steady growth in revenue. The company has been working on the marketing strategy for the last couple of years and is now associated with 70-80 registered customers.

- **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 direct sales. The company has registered an average ROCE of over 10% and is expecting a ROCE of over 15% over the medium term.

  The company was able to achieve a revenue of Rs. 113.9 crores in fiscal 2024 with an EBITDA margin of 17.1%. There is a revenue growth of 75% from fiscal 2023 to fiscal 2024 because of direct sales and minimum job work and also the increase in the capacity utilization of their manufacturing capacities.

  Investment in Double drum drier will save the treatment cost improving the operating margin. The orderbook maintained quarterly consists of orders worth Rs. 25 to 30 crores on average and is recurring in nature.

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- **Above average financial profile:** Capital structure is aided by low reliance on external debt, as reflected in moderate gearing of 0.81 time and total outside liabilities to adjusted net worth (TOL/ANW) ratio of 1.4 times, respectively, as on March 31, 2024. The estimated adjusted net worth remained at Rs. 47 crores as of March 31, 2024. Debt protection metrics are comfortable too, despite leverage due to the term debt obligation. Interest coverage and net cash accrual to total debt ratios are estimated at 3.72 times and 0.32 time, respectively, for fiscal 2024. With better accretion to reserves, the financial risk profile is expected to improve further over medium term.

Weaknesses:

- **Susceptibility to fluctuations in raw material prices, intense competition and regulatory risk:** Presence of numerous domestic as well as global players has led to intense competition in the bulk drugs industry. Players such as

LIL need to remain cost competitive to maintain their profitability.

- **Modest scale of Operations:** The revenue increased to Rs. 113.9 crores in fiscal 2024 from Rs. 65 crores in the previous fiscal 2023 backed by incremental capacity utilization and direct sales, however, remains modest. The modest scale limits pricing flexibility and profitability. However, the business profile of the company is growing on a year-on-year basis. The ability of the company to grow its operations and maintain profitability will remain monitorable.

- **Working capital Intensive operations:** The Gross current asset days have remained between 160 to 170 days for the past few fiscal years till fiscal 2023. It is required to extend a long credit period in line with the industry standards and maintain inventory of around 4 to 5 months. Furthermore, to meet its business requirements, it does large work in process & inventory. However, the working capital cycle is expected to improve over the coming years.

  However, the working capital cycle of the company has improved in fiscal 2024 with an estimated GCA days of 113 days, from fiscal 2023 with GCA of 170 days. The inventory built up was higher in fiscal 2023 due to the shift of the company from job work for the Kerry group to direct sales and higher utilization of their manufacturing facilities. However, the management has worked in controlling the inventory days to around 60 to 65 days and debtor days are maintained around 60 days. The working capital cycle is expected to be on a similar level over the medium term.

Liquidity: Adequate
Bank limit utilization is moderate averaging around 56% for the 12 months ended May 31, 2024. An expected cash accrual of Rs 18-22 crore should suffice to cover the term debt obligation of Rs 6.2-7.7 crore over the medium term. Current ratio is moderate estimated at 1.40 times on March 31, 2024.

Outlook: Stable
CRISIL Ratings believes LIL will continue to benefit from the extensive experience of its promoters and their established relationships with clients in the pharmaceutical industry. Steady operating margin and growing topline, along with sustenance of working capital cycle at a healthy level, remains a key monitorable.

Rating Sensitivity factors
Upward factors:
- Sustained growth in revenue and operating margin, leading to cash accrual of over Rs 20 crore
- Sustained working capital cycle, with GCAs consistently below 120 days.

Downward factors:
- Decline in revenue (by 20%) and operating margin below 14%, leading to lower cash accrual
- Large debt-funded capital expenditure, weakening the capital structure
- Substantial increase in working capital requirement, weakening financial risk profile and liquidity.

About the Company
LIL was incorporated in 1991. The company manufactures products such as lactose powder, lactulose and pharmaceutical tablets at its manufacturing facility in Vadodara, Gujarat. The unit has an installed capacity of 10,000 million tonne per annum (MTPA) for lactose powder, 2400 MTPA (lactulose) and 20 lakh tablets per day. It has been listed on Bombay Stock Exchange (BSE) since 1991.

Daily operations are managed by Mr Atul Maheshwari (Managing Director), Mrs Sangita Maheshwari (director) and Mr Ranjit Kshirsagar (Chief Executive Officer).

Key Financial Indicators

As on/for the period ended March 31	Unit	2024 (Provisional)	2023 (Audited)
Operating income	Rs.Crore	113.89	65.80
Reported profit after tax	Rs.Crore	6.78	1.29
PAT margin	%	6.0	1.84
Adjusted debt/Adjusted networth	Times	0.81	0.96
Interest coverage	Times	3.72	1.93

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.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	13	NA	CRISIL BBB-/Stable

NA	Proposed Working Capital Facility	NA	NA	NA	3.89	NA	CRISIL BBB-/Stable
NA	Proposed Working Capital Facility	NA	NA	NA	10	NA	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Apr-2026	2	NA	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Apr-2026	3.65	NA	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Apr-2026	25.33	NA	CRISIL BBB-/Stable
NA	Term Loan	NA	NA	Apr-2026	2.13	NA	CRISIL BBB-/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	60.0	CRISIL BBB-/Stable	10-07-24	CRISIL BBB-/Stable		--		--		--	Withdrawn
			--	28-02-24	CRISIL BB+/Stable		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	**13**	**Bank of Baroda**	**CRISIL BBB-/Stable**
Proposed Working Capital Facility	**3.89**	**Bank of Baroda**	**CRISIL BBB-/Stable**
Proposed Working Capital Facility	**10**	**Not Applicable**	**CRISIL BBB-/Stable**
Term Loan	**2**	**Bank of Baroda**	**CRISIL BBB-/Stable**
Term Loan	**3.65**	**Bank of Baroda**	**CRISIL BBB-/Stable**
Term Loan	**25.33**	**Bank of Baroda**	**CRISIL BBB-/Stable**
Term Loan	**2.13**	**Bank of Baroda**	**CRISIL BBB-/Stable**

Criteria Details

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

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