



Rating Rationale

Lake Chemicals Pvt Ltd

24 Mar 2018

Brickwork Ratings revises the ratings for the Bank Loan Facilities of ₹. 5.92 Crores of Lake Chemicals Pvt Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Mar, 2017)	Present
Fund based					
Cash Credit	1.00	1.00	Long Term	BWR BB+ Pronounced as BWR Double B Plus Outlook: Stable	BWR BBB- Pronounced as BWR Triple B Minus Outlook: Stable Upgraded
Term Loan	1.15	0.92 [#]			
PSC/PCFC	1.00	1.00	Short Term	BWR A4+ Pronounced as BWR A Four Plus	BWR A3 Pronounced as BWR A Three Upgraded
FDBP	0.50	0.50			
Non Fund Based					
ILC/FLC	2.00	2.00	Short Term	BWR A4+ Pronounced as BWR A Four Plus	BWR A3 Pronounced as BWR A Three Upgraded
Bank Guarantee	0.50	0.50			
Total	6.15	5.92	INR Five Crores and Ninety Two Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Outstanding Amount

Complete details of Bank facilities is provided in Annexure-I

Ratings: Upgraded

Brickwork Ratings (BWR) has upgraded the ratings for the long term and short term bank loan facilities of Lake Chemicals Pvt Ltd (LCPL or 'the Company')

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of Lake Chemicals Pvt Ltd upto FY17, nine months provisional results upto 31st Dec, 2017, projections upto FY19 and informations/clarifications provided by the Company



The rating revision positively factors the extensive experience of the promoters and long track record of the company in pharmaceuticals industry, reputed and well established clientele portfolio, healthy financial risk profile, efficient working capital management.

The ratings however, remains constrained by the small scale of operations, exposure to intense competition in the bulk drugs industry, margins vulnerable to foreign exchange fluctuations owing to significant export revenues.

The ability of the firm to increase its scale of operations, maintaining good relationship with the customers and maintaining healthy financial risk profile would be the key rating sensitivities.

Description of Key Rating Drivers

- **Credit Strengths:**

- **Extensive experience of the promoters and long track record of the company in pharmaceuticals industry:** LCPL is promoted by Mr. Manoj Palrecha - Managing Director and Mr. Kamlesh Surana - Director who have over 25 years of experience in the pharmaceutical industry.
- **Reputed and Well established Clientele portfolio:** The company has been exporting to major pharmaceutical players like Laboratorios Bago in Argentina, Chemo AG in Switzerland, Soubeiran Chobet in Brazil etc., as well as supplying to Emcure Pharmaceuticals, Sun Pharma Laboratories, Intas Pharmaceuticals, Micro Labs Limited etc in India since several years and generates repeat business from these customers due to LCPL's consistent product quality.
- **Healthy financial risk profile:** The financial risk is supported by adequate net worth of Rs. 32.94 Crore, moderate profit margins with net margin of 25.60%, and robust debt protection metrics with interest coverage ratio of 45 times in fiscal 2017.
- **Efficient working capital management:** The company has efficient working capital management with Gross Asset days of 80 days as on March 31, 2017. It has efficient collections with more than 90% of its debtors aged less than 3 months over the last three years.

- **Credit Risks:**

- **Small scale of operations at present:** The company is a marginal player in bulk drug manufacturing industry with a turnover of ~Rs. 36.00 crore concentrating on Ophthalmic and Psychotropic Drugs.



- **Exposure to intense competition in the bulk drug industry:** The bulk drug industry has a large number of players, with the unorganised sector having a sizeable presence, leading to intense competition.
- **Margins vulnerable to foreign exchange fluctuations owing to significant export revenues:** Any adverse movement in the price of raw materials could have an adverse impact on the firm's margins, considering the limited ability to pass on the price hike owing to highly competitive intensity. The price fluctuations also impact the realisations of the company. Despite exports contributing to major portion of sales, the company does not have any firm hedging policies in place and consequently, its operations remain exposed to fluctuations in foreign exchange. Till date, however, the company has not recorded any significant losses on account of forex fluctuations.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Lake Chemicals Pvt Ltd** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Incorporated in 1992, Lake Chemicals Pvt Limited, is an WHO – GMP certified Pharmaceutical Company engaged in manufacturing of Ophthalmic and Psychotropic Drug in its manufacturing facility located at Attibele KIADB Industrial Area, Bangalore. The Directors of the Company are Mr. Manoj Palrecha and Mr. Kamlesh Surana, while Mr. D. B. Siroya and Mr. Manoj Palrecha are major shareholders of the Company. The Directors of the company are experienced while, Mr. Manoj Palrecha having an experience of 30 years in the pharmacy industry.

Company Financial Performance

The Company has reported net sales of Rs. 35.35 Crs and PAT of Rs. 9.04 Crs in FY17 against net sales of Rs. 38.52 CRs and PAT of Rs. 7.89 Crs in FY16. Tangible Net Worth stood at Rs. 32.94 Crs as on March 31, 2017 as against Rs. 35.84 Crs as on March 31, 2016.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2018)			Rating History		
		Type	Amount (₹ Crs)	Rating	Mar 24, 2017	FY16	FY15
1	Cash Credit	Long Term	1.00	BWR BBB- Outlook: Stable Upgraded	BWR BB+	NIL	NIL
2	Term Loan		0.92				
3	PSC/PCFC	Short Term	1.00	BWR A3 Upgraded	BWR A4+	NIL	NIL
4	FDBP		0.50				
5	ILC/FLC		2.00				
6	Bank Guarantee		0.50				
Total			5.92	₹ Five Crores and Ninety Two Lakhs Only			

Key Financial Indicators

Key Parameters	Units	2017	2016	2015
Result Type				
Operating Revenue		35.35	38.52	35.48
EBITDA		9.41	10.53	7.58
PAT		9.05	7.89	4.73
Tangible Net worth		32.94	35.84	27.95
Total Debt/Tangible Net worth		0.06	0.05	0.08
Current Ratio		3.59	4.10	2.98

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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For print and digital media



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.