

# Ratings

## Rating Rationale

January 07, 2019 | Mumbai

## Kopran Limited

*Ratings Reaffirmed*

### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.98.5 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3+ (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments &amp; Bank Facilities

### Detailed Rationale

CRISIL has reaffirmed its 'CRISIL BBB/Stable/CRISIL A3+' ratings on the bank facilities of Kopran Limited (Kopran; part of the Kopran group).

The ratings continue to reflect the extensive experience of promoters in the pharmaceutical industry, potential benefits from the recent acquisition of the active pharmaceutical ingredient (API) manufacturing unit of Maxheal Pharmaceutical at Panoli, Gujarat, and the above-average financial risk profile despite debt funded capex. These strengths are partially offset by the working capital-intensive operations, and susceptibility to volatile input prices.

### Analytical Approach

For arriving at its ratings, CRISIL continues to fully consolidate the business and financial risk profiles of Kopran and its wholly-owned subsidiaries, Kopran Research Laboratories Ltd (KRL; rated 'CRISIL BBB/Stable/CRISIL A3+'), Kopran Lifesciences Ltd, and Kopran (HK) Ltd, Hong Kong, collectively referred to as the Kopran group, as they are in the similar line of business and have significant operational and financial linkages.

Please refer Annexure - Detail: of consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

### Key Rating Drivers & Detailed Description

#### Strengths

**\* Extensive experience of the promoters:** The four-decade-long experience of the promoters in the pharmaceutical industry, their strong relationships with key suppliers and customers, will continue to support the business risk profile. The group has been working on obtaining certifications and approvals for exports to developed markets. Benefits from the extensive experience of the promoters should continue, as demonstrated by several product launches under the formulations segment. The API manufacturing unit of Maxheal Pharmaceutical, acquired recently, should bring additional revenue of Rs 100-150 crore in the medium term further strengthening the business risk profile

**\* Above-average financial risk profile:** Financial risk profile was marked by a healthy network and moderate total outside liabilities to adjusted networth ratio of Rs 142.04 crore and 1.2 times, respectively, as on March 31, 2018, vis-à-vis Rs 100 crore and 1.6 times, respectively, as on March 31, 2016. The TOL/ANW ratio is likely to sustain at 1.12 times in the medium term, despite the large capital expenditure (capex). Debt protection metrics were healthy, with the interest coverage and net cash accrual to adjusted debt ratios at 4.4 times and 0.2 time, respectively, in fiscal 2018, and likely to sustain above 4 times and 0.2 time, respectively, in the medium term.

Capex of Rs 40-50 crore, over the medium term, will be funded via long-term debt. However, the financial risk profile is expected to remain healthy, backed by plough-back of profits into the business and conversion of inter-corporate deposits (ICDs) into equity over the short term.

#### Weaknesses

**\* Working capital-intensive operations:** Gross current assets were high at 215 days, driven by receivables and inventory of 117 and 93 days respectively, as on March 31, 2018. GCAs are expected to be remain high at 200-210 days. While significant revenue is derived from South Africa and other African countries, bulk of the sales are backed by letter of credit.

**\* Volatility in operating margin:** Operating margin has ranged between 11.2% and 14.5% over the five fiscals through March 2018, owing to volatility in raw material prices. Though the group has the ability to pass on price fluctuations to customers, it is with a lag, and any sharp volatility impacts profitability.

#### Outlook: Stable

CRISIL believes the Kopran group will continue to benefit from new product development initiatives, and its established relationships with customers and suppliers. The outlook may be revised to 'Positive' in case of sustained improvement in

working capital management, and substantial growth in revenue or profitability, resulting in higher net cash accrual. The outlook may be revised to 'Negative' if weakening of profitability, any large capex, or a stretched working capital cycle weakens the financial risk profile, particularly liquidity.

### Liquidity

Net cash accrual of Rs 25-30 crore each in fiscals 2019 and 2020, will more than suffice to cover the maturing debt of Rs 2.8 crore and Rs 4.2 crores, respectively. Bank limit utilisation averaged 87% over the 12 months through October 2018, while the moderate current ratio of around 1.4 times as on March 31, 2018, ensures adequate cushion in working capital limit. Planned capex of around Rs 50 crore in medium term, will be funded via by loan against property (LAP) of Rs 25 crore and additional term loan of Rs 10-15 crore. Accordingly CRISIL believes that NCA along with available bank limits would be sufficient to meet term debt repayment obligations and incremental working capital requirements. Further, expected conversion of ICDs into equity, previously repayable over the medium term, and long tenure of 12 years for the LAP, also support liquidity.

### About the Group

Kopran was incorporated in 1958, promoted by the Mumbai-based Somani family. The company, which is a part of the Parijat group, is managed by Mr Surendra Somani. It manufactures pharmaceutical formulations such as antibiotics, anti-malarial, analgesics, and cardiovascular and bulk drugs at its facilities in Mahad and Khopoli in Maharashtra. In fiscal 2015, the bulk drugs division was transferred to KRLL through a slump sale. Kopran Lifesciences Ltd and Kopran (HK) Ltd, Hong Kong are small entities and nearly defunct.

### Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs crore	306	310
Profit After Tax (PAT)	Rs crore	20.0	19.9
PAT Margin	%	6.4	6.3
Adjusted debt/Adjusted networkth	Times	0.9	1.0
Interest coverage	Times	4.4	3.4

Any other information: Not applicable

### Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on [www.crisil.com/complexity-levels](http://www.crisil.com/complexity-levels). Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

### 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	0.75	CRISIL A3+
NA	Cash Credit	NA	NA	NA	15.0	CRISIL BBB/Stable
NA	Letter of Credit	NA	NA	NA	15.0	CRISIL A3+
NA	Loan Equivalent Risk Limits	NA	NA	NA	5.25	CRISIL A3+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	62.5	CRISIL BBB/Stable

### Annexure: Details of Consolidation

#### Fully Consolidated Entities:

Kopran Research Laboratories Ltd, Kopran Lifesciences Ltd, and Kopran (HK) Ltd, Hong Kong

### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	82.75	CRISIL BBB/Stable/CRISIL A3+			24-05-18	CRISIL BBB/Stable/CRISIL A3+			01-12-16	CRISIL BBB-/Stable/CRISIL A3	CRISIL BBB-/Stable/CRISIL A3
						14-02-18	CRISIL BBB/Stable/CRISIL A3+			22-07-16	CRISIL BBB-/Stable/CRISIL A3	
Non Fund-based Bank Facilities	LT/ST	15.75	CRISIL A3+			24-05-18	CRISIL A3+			01-12-16	CRISIL A3	CRISIL A3
						14-02-18	CRISIL A3+			22-07-16	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	.75	CRISIL A3+	Bank Guarantee	.75	CRISIL A3+
Cash Credit	15	CRISIL BBB/Stable	Cash Credit	15	CRISIL BBB/Stable
Letter of Credit	15	CRISIL A3+	Letter of Credit	15	CRISIL A3+
Loan Equivalent Risk Limits	5.25	CRISIL A3+	Loan Equivalent Risk Limits	5.25	CRISIL A3+
Proposed Long Term Bank Loan Facility	62.5	CRISIL BBB/Stable	Proposed Long Term Bank Loan Facility	62.5	CRISIL BBB/Stable
<b>Total</b>	<b>98.5</b>	<b>-</b>	<b>Total</b>	<b>98.5</b>	<b>-</b>

## Links to related criteria

[CRISILs Approach to Financial Ratios](#)[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[Rating criteria for manufacturing and service sector companies](#)[Rating Criteria for the Pharmaceutical Industry](#)[CRISILs Bank Loan Ratings](#)[CRISILs Criteria for Consolidation](#)[The Rating Process](#)[Understanding CRISILs Ratings and Rating Scales](#)

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