Hindustan Laboratories Limited

March 12, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	15.00	CARE BBB+; Stable	Upgraded from CARE BBB; Stable
Short Term Bank Facilities	35.00 (Enhanced from 20.00)	CARE A3+	Upgraded from CARE A3

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings upgrade factors in the improvement in operational and financial performances of Hindustan Laboratories Limited (HLL) in FY24 (refers to April 01 to March 31) and 9M FY25 and CARE Ratings Limited's (CARE Ratings) expectations of sustained performance over the medium term driven by continued impetus to demand from government spending towards ensuring better availability of generic medicines and long experience of HLL's promoters' extensive experience, long standing relationship with reputed customers and experienced promoters.

The ratings, however, remain constrained by moderate scale of operations, susceptibility of profit margin to volatility in raw material prices, tender driven process for acquiring orders, presence of the business in highly fragmented and competitive and regulated nature of industry along with ongoing project execution risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in scale of operations above Rs. 500 crores while sustaining PBILDT margin above 20%.

Negative factors

- Decline in revenue below Rs. 150 crore and PBILDT margin below 15% putting pressure on cash accruals on a sustained basis
- Sizeable debt-funded capex leading to overall gearing above 0.5x and PBILDT interest cover below 8x on a sustained basis
- Substantial decline in free cash and liquid investments

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations that HLL will maintain comfortable leverage and coverage metrics over the coming years while benefitting from the experience of its promoters in the domestic pharmaceutical industry.

Detailed description of key rating drivers:

Key strengths

Experienced promoters with long track record of operations

Hindustan Laboratories Limited (HLL) is established on June 14, 2017 to take over the running business of proprietorship firm Hindustan Laboratories on a going concern basis. The firm was formed by the late Mr. Vasantrai Doshi and the proprietor Mr. Rajesh V. Doshi, the proprietor of the firm, possesses more than two and half decades of experience in the pharmaceutical industry. Besides, the firm possesses long track record of operations of around four and half decades and hence keeps getting regular orders from the government. Presently, the business is being managed by Mr. Rajesh V. Doshi, Ms. Kunjal Chandrakant Dedhia, Mr. Vijay Manharlal Gadhia, who are the directors of the company. The experience of promoters is likely to aid in the profitable scale-up of the company going forward.

Healthy product, geographical and customer diversification of revenue

HLL is a manufacturer and marketer of generic drugs with a wide product portfolio encompassing nutritional supplements, cough and cold, anti-malaria, antiseptics, anti-retinoviral drugs, etc. in tablets, capsules, ointments, powders, etc. The diversified product portfolio allows it to cater to varying requirements of customers. Additionally, it has a distribution network of more than 1000 touch-points with majority of contribution from Maharashtra, Uttar Pradesh and Madhya Pradesh, thereby indicating geographical diversification of revenue. While HLL's major customers are government departments, its largest customer has not contributed more than 20% of revenue in a year in the last three years indicating healthy customer diversification of revenue.

Healthy profitability and sizeable portfolio of free cash and liquid investments

HLL's PBILDT margin improved by ~400bps YoY to 23.39% in FY24 from 19.37% in FY23 on the back of increasing scale of operations along with better absorption of fixed costs. In light of improvement in operating margins and lower interest cost, PAT margin has increased to 18.17% in FY24 vis-à-vis 13.61% in FY23. Going forward, with planned capacity expansion and new

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

product development (Aerosol Spray) expected by August 2025, the profitability is expected to sustain above 20%. Owing to the healthy profitability and limited debt, the positive cash flows from operations have aided the company to build a sizeable liquidity reserve with unencumbered cash and liquid investments worth ~Rs. 80 crore as on Mar 31, 2024 which supports its overall financial risk profile.

Comfortable capital structure and debt coverage indicators

The capital structure stood comfortable marked by overall gearing of 0.08x as on March 31, 2024 (PY: 0.01x) and TOL/TNW at 0.35x as on March 31, 2024 (PY: 0.51x) indicating limited reliance on external funds. The tangible net worth of the company improved to Rs. 140.33 crore as on March 31, 2024 vis-à-vis Rs. 105.98 crore as on March 31, 2023 backed by accretion of profits to reserves. The debt coverage indicators marked by total debt to GCA also remained comfortable at 0.30x as on March 31, 2024 vis-à-vis 0.05x as on March 31, 2023. Given the improvement in operating profit and lower interest cost, the interest coverage ratio remained comfortable and stood at 68.12 times in FY24 (PY: 79.28 times). Going forward, with no debt-funded capex plans, the capital structure and debt coverage metrics are expected to remain comfortable.

Key weaknesses

Moderate scale of operations

HLL has recorded a notable 7.28% increase in its total income for FY24, which rose to Rs. 186.69 crore, compared to Rs. 174.20 crore in FY23. The growth was primarily attributed to a higher number of tenders executed, driven by increased demand from government departments. Looking ahead, HLL has achieved a robust sales figure of Rs. 169.85 crore for the period from April 1, 2024, to December 31, 2024. The company also maintains a healthy order book position of Rs. 18.50 crore, primarily from various government customers, providing strong near-term revenue visibility. This performance underscores HLL's continued ability to capitalize on the expanding demand from government sector projects, reinforcing its position in the market with a stable revenue outlook.

Exposure to tender-driven process for orders and dependence on Government spending

The company derives its revenue mainly from the government entities through a tender-driven process. The tender is acquired through competitive bidding process where it has to quote minimum price to acquire the orders. Furthermore, the inability of the company to pass on the volatility in raw material prices and/or quoting of very low prices to win orders could impact HLL's profitability. It also remains exposed to risks arising from inability to meet technical qualifications and/or disqualification to participate in the bids. Moreover, receivables from Government departments usually have a long tail and are exposed to the risk of delays due to policy changes, which could impact HLL's working capital cycle. Additionally, any reduction in Government spending towards procurement of generic medicines could significantly impact business prospects. CARE Ratings notes that HLL's receivable period has remained ~100 days in the last three years. However, the company has been getting credit from its suppliers which aids in meeting the working capital gap, translating into a comfortable operating cycle of 40-50 days.

Presence in highly fragmented and competitive industry

Pharmaceuticals industry is highly competitive in nature with large number of small and medium sized players having established brands and marketing setups. Intense competition in manufacturing of pharmaceutical formulation segment limits pricing flexibility, which constrains their ability for product development and geographical diversification in the regulated market. Considering the nature of the product usage and application and consequent impacts, the company is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the environmental/regulatory policies in the area of operations of the company, can have a consequence on the operations of the company. The risk is mitigated to an extent by the promoters' experience in the industry.

Liquidity: Adequate

The liquidity position remains adequate marked by projected gross cash accruals of ~Rs. 50 crore p.a. against negligible debt repayment obligations. HLL had free cash & liquid investments worth Rs. 79.72 crore as on March 31, 2024 and additional buffer of ~Rs. 15 crore from sanctioned fund-based working capital facilities which remained largely unutilised in the 12-months ending Nov 31, 2024. The company plans to incur capex of ~Rs. 45 crore towards capacity expansion and setting up of R&D centre over the next 1-2 years which is to be funded entirely from internal accruals. Further, current ratio and quick ratio remained comfortable at 3.84x and 3.66x respectively as on March 31, 2024 (vis-à-vis 2.92x and 2.78x respectively as on March 31, 2023).

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

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About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Hindustan Laboratories Limited (HLL), incorporated in 2017, is engaged in the manufacturing of formulations for nutrition supplements, cough and cold, anti-malarial, anti-invective, and anti-tuberculosis in tablets (iron and folic acid tablet, calcium tablet, paracetamol, ranitidine and other variety of tablets), capsules, liquid and syrups, ointments and medicated powder forms. It supplies to Central/State Government Health Departments and other such entities on tender basis. The company is WHO-GMP, GLP, GDP and ISO 14001 certified and has received Capacity and Quality certification from Food & Drugs Administration, Maharashtra in August 2020 for its two manufacturing plants located at Palghar, Maharashtra. The company is promoted and managed by Mr. Rajesh V. Doshi and his family members who have been involved in the industry since 1975.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	174.20	186.89	169.85
PBILDT	33.75	43.71	NA
PAT	23.70	33.96	NA
Overall gearing (times)	0.01	0.04	NA
Interest coverage (times)	79.28	68.12	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	15.00	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantee	-	-	-	-	35.00	CARE A3+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	15.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Jan-24)	1)CARE BBB; Stable (06-Jan-23) 2)CARE BBB; Stable (05-Apr-22)	1)CARE BBB; Stable (06-Apr-21)
2	Non-fund-based - ST-Bank Guarantee	ST	35.00	CARE A3+	-	1)CARE A3 (08-Jan-24)	1)CARE A3 (06-Jan-23) 2)CARE A3 (05-Apr-22)	1)CARE A3 (06-Apr-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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