

March 20, 2020

To
BSE Limited
Phiroze Jeejeebhoy Towers,
25th Floor, Dalal Street,
Mumbai - 400 001

Scrip Code: 524558

To
The National Stock Exchange of India Ltd
Exchange Plaza,
Bandra Kurla Complex
Bandra (E), Mumbai - 400 001

Scrip Code: NEULANLAB; Series: EQ

Dear Sirs,

Sub: Intimation under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that the Company has been assigned the following credit rating:

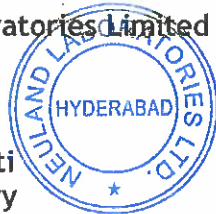
Name of the Agency	Type of Credit Rating	Rating
India Ratings and Research Private Limited	Term Loan	IND A-/Stable
	Fund-Based Limits	IND A-/Stable/IND A2+
	Non-Fund Based Limits	IND A2+

This is for your information and records.

Yours faithfully,
For Neuland Laboratories Limited



Sarada Bhamidipati
Company Secretary



India Ratings Assigns Neuland Laboratories 'IND A-'; Outlook Stable

20

MAR 2020

By [Abhinav Aakash](#)

India Ratings and Research (Ind-Ra) has assigned Neuland Laboratories Limited (NLL) a Long-Term Issuer Rating of 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loan			December 2025	INR917	IND A-/Stable	Assigned
Fund-based limits				INR2,200	IND A-/Stable/IND A2+	Assigned
Non-fund-based limits				INR1,314	IND A2+	Assigned
Proposed term loan*				INR69	Provisional IND A-/Stable	Assigned

* The rating is provisional and shall be confirmed upon the sanction and execution of loan/transaction documents for the above instruments to the satisfaction of Ind-Ra.

Analytical approach: The agency has taken a consolidated view of NLL and its wholly owned subsidiaries Neuland Laboratories Inc., USA and Neuland Laboratories K.K., Japan while arriving at the ratings. NLL manufactures and sells active pharma ingredients (API) while the subsidiaries mainly provide marketing support services to NLL.

KEY RATING DRIVERS

Business Mix Transformation towards High-Margin Segments: NLL has three business segments 1) prime API 2) niche API and 3) contract manufacturing solutions (CMS). Over the years, NLL has shifted its focus from the high-volume, low-margin prime API segment to high-margin, low-volume segments such as niche API and CMS. The revenue contribution from the prime API segment reduced to 48% in 9MFY20 (FY19: 55%) from 71% in FY14 while that from the niche API and CMS business segments increased to 22% (25%) from 18% and to 24% (14%) from 11%, respectively. According to the management, revenue contribution from the niche API and CMS will be at 25% and 35%, respectively, over the next three years while that from prime API would be 40%. With this transformation, NLL expects EBITDA margin of 18%-20% over the next three-to-four years.

In the high-margin CMS segment, the entire revenue is derived from the regulated markets of the US, Europe and Japan. NLL's pipeline in the CMS segment grew rapidly to 74 molecules in 3QFY20 (pre-clinical: 19, phase-I: 7, phase-II: 6, phase-III: 10, development: 17 and commercialisation: 15) from 21 molecules in FY16. NLL has increased focus on phase-III and development stage molecules as they are the probable candidates to drive the company's revenue growth. Over the past few years, NLL has added many projects either in phase-III (3QFY20: 10, FY16: 4) or development stages (17, 2), which could contribute significantly to revenues in the medium term.

NLL is working on lifecycle management (development of efficient and cost-effective manufacturing processes) in the prime API segment to reduce production costs/solvent consumption/cycle times of existing products, and for customer retention. These measures will help the company in further margin improvement.

Overall Healthy Sales and Operating Performance: NLL reported robust performance in 9MFY20, with sales growth of 15.6% yoy to INR5,711 million. The CMS segment's sales grew 116% yoy to INR1,349 million while niche API's and prime API's was flattish yoy and fell 5.4% yoy at INR1,256 million and to INR2,729 million, respectively, in 9MFY20. The gross margin expanded 418bp yoy to 48.5% in 9MFY20, due to stable raw material prices that led to an EBITDA margin expansion of 449bp yoy to 12.6%. Ind-Ra expects NLL's EBITDA margins to improve further in the near-to-medium term, due to higher focus on niche API and CMS segment and the overall cost-optimisation measures taken.

NLL's consolidated revenue grew 26.4% yoy to INR6,668 million in FY19, due to robust revenue growth in prime API (up 27.6% yoy to INR3,675 million) and niche API (up 56.5% yoy to INR1,675 million) segments. However, the CMS segment's revenue fell 12.6% yoy to INR913 million, due to a shift in scheduled deliveries from 4QFY19 to FY20 and a lower offtake of a commercialised product. Also, the gross margin contracted 973bp yoy to 45.1% in FY19 (FY18: 54.8%; FY17: 54.6%) and EBITDA margin fell 81bp yoy to 8.8% (9.6%, 18.4%), due to an increase in raw material prices sourced from China.

Credit Metrics and Debt Structure: The agency expects NLL's net adjusted leverage (net adjusted debt/EBITDAR) to improve to 2.24x in FY20 (FY19: 3.47x FY18: 6.04x) and further to 2.06x in FY21, led by a rise in the operating profitability. The gross interest coverage (operating EBITDA/interest expenses) improved to 4.95x

in 9MFY20 (FY19: 3.73x). NLL had INR652.28 million of long-term rupee loan and USD0.417 million of foreign currency borrowing outstanding at end-1HFY20. 0.2 million of NLL's shares owned by the promoter are pledged against the consortium loan facility. Ind-Ra believes NLL has sufficient financial flexibility to absorb a partially debt-funded capital expenditure of INR550 million planned for FY20 (INR350 million incurred till date) and INR900 million for FY21. Ind-Ra expects NLL's return on capital employed adjusted for goodwill and capital work in progress to be 13% by FYE20 (FYE19: 6%).

Liquidity Indicator - Adequate: NLL had free cash balances of INR240 million at FYE19 (FYE18: INR33 million). Its average utilisation of fund-based limits was 67% over the 12 months ended December 2020. In FY19, the cash flow from operations turned positive to INR464 million (FY18: INR100 million) although free cash flow remained negative due to the regular capex. The agency expects the cash flow from operations to keep improving over the next few years while free cash flow may also improve in FY20. The net working capital cycle also improved to 134 days in FY19 (FY18: 183 days), driven by a fall in inventory days to 126 (150). NLL, on the basis of an approval received from Telangana State Industrial Infrastructure Corporation Limited, has entered into a joint development agreement with a developer for the development of an IT park at the company's land situated at Nanakramguda, Hyderabad. This investment property carries a book value of INR298.13 million; the management expects that a much higher fair value (i.e. 4x-5x of the current book value) might accrue to NLL when the construction is completed. This asset sale amount can be then used to provide for the guided capital expenditure.

Regulatory Risk: Regulated markets such as the US and Europe contributed around 56% to NLL's total sales in FY19. NLL has two United States Food and Drug Administration (USFDA) approved API facilities (unit 1 and unit 2). These facilities have successfully cleared 14 consecutive USFDA audits. NLL had acquired a manufacturing facility (i.e. unit 3) in December 2017. It is a multiproduct manufacturing facility with five production blocks for API as well as advanced intermediate manufacturing. In FY19, NLL started the commercialisation of products (intermediate for captive consumption) from block 1 of unit 3. A USFDA inspection is likely to take place post the filing of a drug master file from unit 3. Ind-Ra highlights that any non-compliance or data integrity issues pertaining to the manufacturing facility could hamper new product approvals from several regulatory agencies or result in a shutdown of the facility.

Limited Coronavirus Impact till 1QFY21: China remains a major source for the procurement of intermediates and APIs for Indian pharmaceutical companies. NLL directly import 27% of raw material from China and sources the rest from India and Europe. NLL has only two vendors in the Wuhan province while the rest are located in other regions in China. The company has adequate inventory to meet the requirements in 4QFY20 and is taking necessary measures to prevent any disruptions in supplies for 1QFY21. Considering direct and indirect dependency on raw material from China, the agency expects NLL's gross margin to be impacted depending on the severity of coronavirus spread and the consequent supply chain obstructions across different regions in China.

Robust Standalone Performance: NLL's standalone revenue rose 15.5% yoy to INR5,708 million in 9MFY20 (FY19: INR6,668 million), EBITDA surged 81.1% yoy to INR715 million (INR579 million) and EBITDA margin expanded 384bp yoy to 12.5% (8.7%). The interest coverage improved to 4.93x in 9MFY20 (FY19: 3.69x).

RATING SENSITIVITIES

Negative: Future developments that may individually or collectively lead to a negative rating action include a dip in the profitability or liquidity or an increase in the net debt levels due to large debt-funded acquisitions and/or capex leading to the net adjusted leverage sustaining above 2.5x.

Positive: The strengthening of the business profile, coupled with an improvement in the operating profitability, leading to the net leverage reducing below 1.5x on a sustained basis could be positive for the ratings.

COMPANY PROFILE

NLL was set up as a private limited company in 1984 by Dr. D R Rao and it was reconstituted as a public limited company, with the current name, in 1994. NLL is pure-play API manufacturer for several domestic and international pharmaceutical companies. The company has two USFDA-approved facilities that manufacture over 75 APIs addressing 36 therapies. NLL's APIs are primarily marketed in highly regulated markets such as the US, Europe and Japan (accounting for over 75% of its sales).

FINANCIAL SUMMARY (Consolidated)

Particulars	9MFY20	FY19	FY18
Revenue (INR million)	5,711	6,668	5,274
EBITDA (INR million)	718	584	504
EBITDA margin (%)	12.6	8.75	9.56
Operating EBITDAR/Gross interest expense (x)	4.95	3.73	2.66
Net debt/Operating EBITDAR (x)	-	3.47	6.04
Total debt (INR million)	-	2,495	3,371
Free cash and cash equivalents (INR million)	-	240	33
Source: Company, Ind-Ra			