

Press Release

Zim Laboratories Limited (Zim)

08 December, 2017

Rating Assigned



Total Bank Facilities Rated *	Rs. 125.50 cr
Long Term Rating	SMERA BBB-/ Outlook: Stable
Short Term Rating	SMERA A3

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs.125.50 bank facilities of Zim Laboratories Limited (Zim). The outlook is '**Stable**'.

The Nagpur-based Zim Laboratories Limited (Zim) incorporated in 1984, is engaged in the manufacturing and distribution of small formulation dosages comprising tablets, powders, capsules & pellets. In FY2015, Zim developed a new drug delivery mechanism called Oral Disintegrating strips (ODS). Zim is an EU-GMP, WHO-GMP certified and ISO 9000:2008 certified company. The company has an installed capacity of 2030 million unit per annum of tablets, 819 million unit per annum of capsules and 324 million strips per annum for ODS. The company utilised ~62 per cent of its installed capacity in FY2017. Zim is a closely held company, with the promoter group holding 52.06 per cent while the Mauritius-based private equity fund AA India Development Capital Fund, held 22.20 per cent shares as on August, 2017.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

Zim, established in 1984 is engaged in the manufacturing and distribution of small formulation dosages comprising tablets, powders, capsules & pellets. The company is promoted by Dr. Anwar Siraj Daud (Ph.D. in Pharmaceuticals and M. Pharm in Medicinal Chemistry), Mr. Riaz Ahmed Kamal, Mr. Zullfiqar Kamal among others who collectively possess industry experience of more three decades.

SMERA believes that Zim will benefit from its established position in the pharmaceutical industry, experienced management and established relationships with customers and suppliers.

Pickup in export and higher margin products

The company primarily caters to the export market and has a growing presence in many developing economies of Africa and Asia. Exports contributed to 79 percent of total revenues in FY2016-17 and 65 percent in FY2015-16. This has partly offset the significant revenue volatility in the domestic tender based business arising from sale to various government bodies, state government hospitals, railway boards and municipal corporations.

The company has also witnessed a gradual increase in the sale of higher margin products. This is reflected in the EBITDA margins which improved to 13.9 percent in FY2016-17 as compared to 9.0 percent in FY2015-16. The margins are likely to improve further with increasing acceptance and popularity of ODS in the market.

Healthy financial risk profile and debt coverage levels

ZIM's financial risk profile is healthy marked by net worth of Rs.116.87 crore as on 31 March, 2017 as against Rs.96.88 crore as on 31 March, 2016. The gearing (debt-equity) is at conservative levels and stood at 0.69 times as on 31 March, 2017 as against 1.00 times as on 31 March, 2016. The total debt of Rs.80.98 crore as on 31 March, 2017 consists of term loan of Rs.34.23 crore and short term working capital limit of Rs.46.75 crore. The interest coverage ratio is comfortable and stood at 3.66 times for FY2016-17 as against 2.23 times for FY2015-16. The DSCR stood at 2.54 times for FY2016-17 as compared to 1.65 times for FY2015-16. The Net Cash Accruals to Total debt stood at 0.34 times for FY2016-17. The Total outside liabilities to Tangible networth stood at 1.17 times for FY2016-17.

SMERA believes that the financial risk profile will remain healthy given its moderate debt funded capital expenditure plan and steady net cash accruals.

Weaknesses

Working capital intensive operations

ZIM's operations are highly working capital intensive with Gross Current Assets (GCAs) of 232 days for FY2016-17 compared to 202 days for FY2015-16. This has been primarily on account of high debtor levels of 137 days and inventory days of 64 for FY2016-17. The company had to provide for bad debts in the past. However, we don't expect fresh bad debt risks going forward. The company's liquidity profile is moderately stretched as its average working capital limit utilisation is ~85 percent in the last six months ended October 2017.

Regulatory risks in the domestic and export market

ZIM is exposed to regulatory risk in the domestic market as also in countries to which it exports i.e. Algeria, Iran, Bangladesh, and Sri Lanka which constitute ~ 78 per cent to total revenues in FY2017. However, the same is mitigated to an extent since it has been engaging with these customers and countries for the last 30 years.

Highly fragmented and competitive industry

The pharmaceutical formulations industry has a large number of players which makes this industry highly fragmented and intensely competitive. ZIM is also a moderate sized player, thereby limiting its bargaining power and pricing pressure compared to well-established and larger players. However, the company's presence in the new drug delivery systems (NDDS) segment has enabled it to partially offset competitive pressures. Further, it undertakes regular research and development to improve its product offerings and thereby its bargaining power.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Zim to arrive at the rating.

Outlook: Stable

SMERA believes that ZIM will maintain a stable outlook over the medium term owing to its experienced management and improving business profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

For FY2017, Zim reported Profit after Tax (PAT) of Rs.18.60 crore on total operating income of Rs.235.01 crore compared with PAT of Rs.5.15 crore on total operating income of Rs.268.33 crore in FY2016. The net worth stood at Rs.116.87 crore as on 31 March, 2017 as compared to Rs.96.88 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entity - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit [^]	Not Applicable	Not Applicable	Not Applicable	21.60	SMERA BBB- / Stable
Cash Credit ^{^^^^}	Not Applicable	Not Applicable	Not Applicable	31.90	SMERA BBB- / Stable
Cash Credit ^{^^}	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA BBB- / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	23.50	SMERA BBB- / Stable

Term Loan	Not Applicable	Not Applicable	Not Applicable	4.20	SMERA BBB- / Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA A3
Letter of Credit ^{^^^}	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A3
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.80	SMERA BBB- / Stable

[^]Includes sublimit of EPC/PSC of Rs.21.60 crore

^{^^}Includes sublimit of EPC/PCFC or FUBD/FBP/PSCFC of Rs.4.50 crore

^{^^^}Includes sublimit of Bank Guarantee of Rs.3.00 crore

^{^^^} Includes sublimit of EPC/FBD of Rs.31.90 crore

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ABOUT SMERA

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