

Press Release

Zim Laboratories Limited

March 07, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 125.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Negative
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 125.50 crore bank facilities of Zim Laboratories Limited (Zim). The outlook is '**Negative**'.

The Nagpur-based Zim, incorporated in 1984, is engaged in the manufacturing and distribution of small formulation Zim dosages comprising tablets, powders, capsules and pellets. In FY2015, Zim developed a new drug delivery mechanism called Oral Disintegrating strips (ODS). Zim is 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 FY2018. 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, 2018.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

Zim is promoted by Dr. Anwar Siraj Daud (Ph.D. in Pharmaceuticals and M. Pharm in Medicinal Chemistry), Mr. Riaz Ahmed Kamal and Mr. Zulfiquar Kamal, among others who collectively possess industry experience of more three decades. Acuite believes that Zim will benefit from its established position in the pharmaceutical industry, experienced management and established relationships with customers and suppliers.

- **Healthy financial risk profile and debt coverage levels**

Zim's financial risk profile is healthy marked by net worth of Rs.134.74 crore as on 31 March, 2018 as against Rs.117.24 crore as on 31 March, 2017. The gearing (debt-equity) is at conservative levels of 0.62 times as on 31 March, 2018 as against 0.69 times as on 31 March, 2017. The total debt of Rs.83.33 crore as on 31 March, 2018 consists of term loan of Rs.31.58 crore, Rs. 4.37 crore unsecured loan and short term working capital limit of Rs.51.75 crore. The interest coverage ratio is comfortable and stood at 4.66 times for FY2018 as against 3.82 times for FY2017. The DSCR stood at 2.39 times for FY2018 as compared to 2.60 times for FY2017. Net Cash Accruals to Total Debt stood at 0.34 times for FY2018. The Total outside liabilities to Tangible Net Worth stood at 1.17 times for FY2018 as against 1.12 times in FY2017. Acuite 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 230 days for FY2018 compared to 231 days for FY2017. The inventory and debtor days stood at 80 and 121 respectively for FY2018 as against 64 days and 137 days in FY2017. The company's liquidity profile is moderately stretched as its average working capital limit utilisation is ~70 percent in the last six months

ended January 2019.

• 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 including Algeria, Iran, Bangladesh and Sri Lanka; which constitute ~ 63 per cent to total revenues in FY2018. 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.

Outlook: Negative

Acuite believes that the outlook on Zim is 'Negative' as the credit profile is expected to be impacted by higher than expected deterioration in debt protection metric, high interest costs due to elongation in working capital cycle. The rating may be downgraded in case of continued moderation in liquidity profile and its profitability margins, higher than expected debt funded capex leading to further deterioration in debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant growth in revenue while efficiently managing its working capital cycle and keeping the debt levels moderate.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	271.96	235.03	268.28
EBITDA	Rs. Cr.	36.06	32.38	29.55
PAT	Rs. Cr.	18.29	18.67	5.15
EBITDA Margin	(%)	13.26	13.78	11.02
PAT Margin	(%)	6.72	7.94	1.92
ROCE	(%)	16.58	14.22	17.72
Total Debt/Tangible Net Worth	Times	0.62	0.69	0.98
PBDIT/Interest	Times	4.66	3.82	2.23
Total Debt/PBDIT	Times	1.93	2.24	3.76
Gross Current Assets (Days)	Days	230	231	202

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
08-Dec-2017	Cash Credit [^]	Long Term	21.60	ACUITE BBB- / Stable (Assigned)
	Cash Credit ^{^^^^}	Long Term	31.90	ACUITE BBB- / Stable (Assigned)
	Cash Credit ^{^^}	Long Term	4.50	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	23.50	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	4.20	ACUITE BBB- / Stable (Assigned)
	Letter of Credit	Short Term	13.00	ACUITE A3 (Assigned)
	Letter of Credit ^{^^^}	Short Term	3.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	18.80	ACUITE BBB- / Stable (Assigned)

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

^{^^}Includes sublimit of EPC/PCFC or FUBF/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

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit [^]	Not Applicable	Not Applicable	Not Applicable	21.60	ACUITE BBB- / Negative (Reaffirmed)
Cash Credit ^{^^^^}	Not Applicable	Not Applicable	Not Applicable	31.90	ACUITE BBB- / Negative (Reaffirmed)
Cash Credit ^{^^}	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB- / Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE BBB- / Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.20	ACUITE BBB- / Negative (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Assigned)
Letter of Credit ^{^^^}	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.80	ACUITE BBB- / Negative (Reaffirmed)

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

^{^^}Includes sublimit of EPC/PCFC or FUBF/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

Contacts

Analytical	Rating Desk
<p>Vinayak Nayak Head – Rating Operations Tel: 022-49294071 vinayak.nayak@acuите.in</p> <p>Salome Farren Analyst - Rating Operations Tel: 02249294025 salome.farren@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

Acuite Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.