Press Release

Zim Laboratories Limited

October 09, 2020

Rating Downgraded, Assigned and Withdrawn

Total Bank Facilities Rated*	Rs. 125.50 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Downgraded from ACUITE BBB-/Negative)
Short Term Rating	ACUITE A4+ (Downgraded from ACUITE A3)

** Refer Annexure for details*

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB+**' **(read as ACUITE double B plus)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short-term rating to **'ACUITE A4+' (read as ACUITE A four plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs. 107.31 crore bank facilities of Zim Laboratories Limited (ZIM). The outlook is **'Stable'**.

Further, Acuité has assigned the long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 18.19 crore bank facilities of ZIM. The outlook is **'Stable'**.

Acuité has withdrawn the long-term rating of '**ACUITE BB+**' **(read as ACUITE double B plus)** and the short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 31.00 crore bank facilities of ZIM.

Key Reason for Downgrade

The downgrade is on account of a significant decline in ZIM's operating performance and debt protection metric in the FY2020. The revenue declined to Rs. 274.39 crore in FY2020 from Rs. 331.79 crore in FY2019, a decline of 17.30 percent. The operating profit margin also declined to 7.91 percent in FY2020 from 13.30 percent in FY2019. The decline is primarily on account of decline in orders from countries such as Algeria and Iran due to political instability. These orders contributed 30-40 percent to the operating profit. The revenue is largely concentrated to four countries (Iran, Algeria, UAE and Bangladesh). Consequently decline in coverage indicators is also observed. Interest Coverage ratio declined to 1.95 times in FY2020 from 4.25 times in FY2019 and debt service coverage ratio declined to 1.00 times in FY2020 from 1.73 times in FY2019. Operations remain working capital intensive marked by GCA of 232 days in FY2020. Acuite believes that the pressures on the operating performance is like to remain over the near to medium term on account of continued concentration of revenue from aforementioned four countries. This will be mitigated to some extent due to policies undertaken to cut staff costs.

The Nagpur-based 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 ~42 per cent of its installed capacity in FY2020. ZIM is a closely listed company, with the promoter group holding 33.39% while Mauritius-based private equity fund AA India Development Capital Fund, held 22.03% shares as on June 30, 2020.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of ZIM to arrive at this rating.

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 of 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. Zullfiquar Kamal among others who collectively possess industry experience of more three decades.

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

- **Moderate financial risk profile**

ZIM's financial risk profile is moderate, marked by a moderate networth, low gearing and moderate debt protection metrics. ZIM's networth is moderate, estimated at around Rs. 147.94 crores as on March 31, 2020. The networth levels have seen significant improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period. The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing levels of 0.62 times as on March 31, 2018. The leverage continued to remain at a similar level and stood at 0.61 times as on March 31, 2020. The company incurred an estimated capex of Rs. 14.70 crore in FY2020 and Rs. 13.70 crore in FY2019 to expand and modernize its manufacturing facility. The company, on the other hand, generated cash accruals in the range of Rs. 14.04-27.11 crore over the same period. Thus the gearing has remain stable for the past three years. The gearing is expected to remain stable at around 0.50 times as on March 31, 2021 in the absence of any major debt funded capex. The company procures ~10 per cent of its total raw material requirements, while export constitutes ~85 per cent of its total sales, thereby providing a natural hedge to a certain extent. The company enters into forward contracts to hedge the balance forex exposure.

Acuite expects ZIM's financial risk profile to remain moderate over the medium term in the absence of any major debt-funded capex.

Weaknesses

- **Decline in operating performance**

The company has reported a significant decline in operating performance in FY2020. The revenue declined to Rs. 274.39 crore in FY2020 from Rs. 331.79 crore in FY2019, a decline of 17.30 percent. Operating profit margin also declined to 7.91 percent in FY2020 from 13.30 percent in FY2019. The decline is primarily on account of decline in orders from countries such as Algeria and Iran due to political instability. These orders contributed 30-40 percent to the operating profit. Around 80 percent of its revenue comes from export. The company exports to more than 35 countries. However, the revenue is concentrated in four countries (Iran, Algeria, UAE and Bangladesh). Contribution from these countries stood at 35.74 percent in FY2020 and 48.84 percent in FY2019. Acuite believes that the pressures on the revenue and operating margins are like to remain over the near to medium term on account of continued revenue concentration from four countries. This will be mitigated to some extent due to steps undertaken to cut costs.

Acuité believes that the ability of ZIM to improve its operating performance will be a key monitorable.

- **Moderately Working capital intensive operations**

The company's operations are working capital intensive marked by Gross Current Assets (GCA) of 232 days for FY2020 and 208 days for FY2019. This primarily on account of high inventory and receivable days, which stood at 81 days and 90 days respectively in FY2020 and 70 days and 102 days respectively in FY2019. Advances paid to suppliers and balances with government authorities form a large part of the current assets.

- **Highly competitive and fragmented 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 susceptibility to pricing pressure is also higher 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 has also signed co-development agreements in various countries. This will help the company is improving its competitive position.

Liquidity Position: Adequate
The company is expected to generate cash accruals in the range of Rs. 24.75- Rs. 31.83 crore for the period FY2021-FY2023 while its maturing debt obligations were Rs. 10.00 – Rs. 13.00 crore for the same period. The company's operations are working capital intensive marked by gross current asset (GCA) days of 232 days for FY2020. This makes the company dependent on bank borrowing for the working capital requirement. BLU stood comfortable at ~85% for 6 month period ended July 2020. The current ratio stands at 1.28 times as on 31 March 2020. The liquidity position remains adequate for ZLL on account of its comfortable cash accruals to maturing debt obligation slightly restrained by working capital intensive nature of operations

Rating Sensitivities

- An improvement in the operating performance will be a key monitorable.
- An improvement in its debt protection metric will be a key rating sensitivity.

Material Covenants
None

Outlook: Stable
Acuité believes that the outlook on Zim is 'Stable' on account of its experienced management, established track record and comfortable financial risk profile. The outlook may be revised to negative in case of further decline in its revenue and profitability, or further deterioration in debt protection indicators. Conversely, the outlook may be revised to 'Positive' if the company is able to show significant growth in revenue while maintaining its profitability and efficiently managing its working capital cycle and keeping the debt levels moderate.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	274.39	331.79
Profit after Tax (PAT)	Rs. Cr.	1.74	16.01
PAT Margin	(%)	0.63	4.83
Total Debt/Tangible Net Worth	Times	0.61	0.52
Total Debt/PBDIT	Times	1.95	4.25

Status of non-cooperation with previous CRA (if applicable)
Not applicable

Any other information

None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook

07 March, 2019	Cash Credit	Long Term	21.60	ACUITE BBB-/Negative (Reaffirmed)
	Cash Credit	Long Term	31.90	ACUITE BBB-/Negative (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BBB-/Negative (Reaffirmed)
	Term Loan	Long Term	23.50	ACUITE BBB-/Negative (Reaffirmed)
	Term Loan	Long Term	4.20	ACUITE BBB-/Negative (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	18.80	ACUITE BBB-/Negative (Reaffirmed)
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)

***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	31.90	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/ Negative)

WCDL	Not Applicable	Not Applicable	Not Applicable	3.19	ACUITE BB+/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	23.50	ACUITE BB+ (Withdrawn)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BB+ (Withdrawn)
Term Loan	March 15, 2014	Not Available	January 14, 2021	0.61	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/ Negative)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.60 (Enhanced from Rs. 21.60)	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/ Negative)
Term Loan	August 16, 2018	Not Available	January 15, 2024	15.00	ACUITE BB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-/ Negative)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00 (Enhanced from Rs. 5.00)	ACUITE A4+ (Downgraded from ACUITE A3)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Downgraded from ACUITE A3)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Withdrawn)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A4+ (Downgraded from ACUITE A3)

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About Acuité Ratings & Research:

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