

Press Release

Zim Laboratories Limited

September 21, 2021

Rating Upgraded



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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating to '**ACUITE A3** (read as **Acuite A three**)' from '**ACUITE A4+** (read as **Acuite A four plus**)' on the Rs.125.50 crore bank facilities of Zim Laboratories Limited. The outlook is '**Stable**'.

Reason for rating upgrade

The rating upgrade is on account of significant improvement in the profitability margins and business risk profile in FY2021 which is expected to be sustained over near to medium term. Also, the operating performance of the company in the current year is stable. The performance of the company has improved during FY2021 despite COVID-19 pandemic as the company achieved a revenue of Rs.306.08 Crore in FY2021. Moreover, the company has witnessed a sharp improvement in its capital structure and debt protection ratios due to sustenance of healthy profitability margin. Acuite believes that efficient working capital management will remain critical to sustained growth in the scale of operations.

About the Company

A Nagpur based pharmaceutical company, ZIM Laboratories Limited was incorporated in 1984 and promoted by Dr. Anwar Siraj Daud. It is engaged in manufacturing of small formulation dosages encompassing tablets, powders, capsules, and pellets in sustained and controlled release forms with exports in more than 45 plus countries. It is a listed entity, with the promoter group holding 33.26% as on June 30, 2021. The domestic business is mainly comprised of supply of medicine to Government Corporation on tender basis. The Company is 3 Star Export House Status Holder from DGFT, Ministry of Commerce & Industry, and GOI.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced Management and established track record of operation**

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. Zulfiquar 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.

Acuité believes that ZLL will sustain its existing business profile backed by established track record of operations and experienced management.

- **Improved operating performance**

The revenues stood at Rs. 303.71 Cr in FY2021. It recorded revenues of Rs. 274.39 Cr in FY2020 and Rs. 331.79 Cr in FY2019. The EBITDA Margins improved significantly from 7.91 per cent in FY2020 to 10.94 per cent in FY2021. The improvement in the margins is due to repeated orders from large clients from Iran and Bangladesh. This improvement in the operating margins is also on account of better staff cost management. This primarily is on account of registration of new products in newer geographies. The company has also signed co-development agreements against which they have already received some contract fees. Once the development is complete then the company will get rights to market products in geographies other than the home country of the co-development partner, which is expected in FY2022-FY2023. The Pat Margin improved from 0.63 per cent in FY2020 to 1.85 per cent in FY2021 indicating significant profitability in the business.

- **Moderate Financial risk profile**

ZIM's financial risk profile is moderate marked by net worth of Rs.154.57 crore as on 31 March, 2021 as against Rs.147.94 Crore as on 31 March, 2020. This improvement is on the account of healthy accretion to reserves in FY2021.

The gearing (debt-equity) is at conservative levels and stood at 0.52 times as on 31 March, 2021 as against 0.61 times as on 31 March, 2020. The total debt of Rs. 81.07 crore consists of term loan of Rs. 16.97 crore, NCD of Rs. 19.50 crore and short term working capital limit of Rs. 44.60 crore. The interest coverage ratio improved and stood at 3.13 times for FY2021 as against 1.95 times for FY2020 on account of improvement in profitability. The DSCR stood at 1.54 time for FY2021 as compared to 1.00 times for FY2020. The Net Cash Accruals to Total debt stood at 0.31 times for FY2021 and 0.16 times as on FY2020. The Total outside liabilities to Tangible net worth has improved and stood at 1.04 times for FY2021 as against 1.12 times in FY2020. Improvement in TOL/TNW is on account of growth in net profit in FY2021, ensuring healthy net worth of the company

Acuite believes that the financial risk profile of the company is likely to remain moderate over the medium term, on account of low gearing and moderate debt protection metrics.

Weaknesses

- **Working capital intensive operation**

The company's operations are working capital intensive marked by Gross Current Assets (GCA) of 210 days for FY2021 as compared to 232 days for FY2020. This primarily on account high inventory, receivables and other current assets like advances paid to suppliers and balances with government authorities. The inventory and debtor days which stood at 73 days and 81 days respectively in FY2021 and 81 days and 90 days respectively in FY2020.

Acuite expects the working capital operations of the company to remain intensive over the medium term on account of its high inventory period.

- **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 ~ 77 per cent to total revenues in FY2021. 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.

Rating Sensitivity

- Substantial improvement in the scale of operation, while maintaining the profitability margin
- Stretched working capital cycle and deterioration in liquidity position

Material Covenants

None

Liquidity position - Adequate

The liquidity position of company is adequate as evident from NCA of Rs.20.23 Cr. in FY2021 against debt obligation of Rs.12.74 Cr. The company is expected to generate cash accruals in the range of Rs. 27.00- Rs. 37.00 crore for the period FY2022-FY2024 while its maturing debt obligations are expected to be Rs.1.38 – Rs. 15.05 crore for the same period. The company's operations are working capital intensive marked by gross current asset (GCA) days of 210 days for FY2021. This makes the company dependent on bank borrowing for working capital requirement. BLU stood comfortable at ~65% for 6 month period ended May 2021. Zim had modest unencumbered cash and bank balance of Rs.1.33 Cr. in its current accounts with the bank and current ratio of 1.27 times as on March 31, 2021. 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.

Outlook: Stable

Acuite believes that ZLL will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	303.71	274.39
PAT	Rs. Cr.	5.61	1.74
PAT Margin	(%)	1.85	0.63
Total Debt/Tangible Net Worth	Times	0.52	0.61
PBDIT/Interest	Times	3.13	1.95

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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
09-Oct-2020	Cash Credit	Long Term	31.90	ACUITE BB+/Stable (Downgraded)
	WCDC	Long Term	3.19	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	23.50	ACUITE BB+ (Withdrawn)
	Cash Credit	Long Term	4.50	ACUITE BB+ (Withdrawn)
	Term Loan	Long Term	0.61	ACUITE BB+/Stable (Downgraded)

	Cash Credit	Long Term	23.60	ACUITE BB+/Stable (Downgraded)
	Term Loan	Long Term	15.00	ACUITE BB+/Stable (Assigned)
	Proposed Bank Facility	Long Term	35.00	ACUITE BB+/Stable (Downgraded)
	Letter of Credit	Short Term	8.00	ACUITE A4+ (Downgraded)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Downgraded)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Withdrawn)
	Proposed Bank Facility	Short Term	0.20	ACUITE A4+ (Downgraded)
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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.90	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Bank of India	WCDL	Not Applicable	Not Applicable	Not Applicable	3.19	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
The Shamrao Vithal Co-operative Bank Limited	Term Loan	15-Mar-2014	Not Available	14-Jan- 2021	9.50	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
The Shamrao Vithal Co-operative Bank Limited	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.60	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Tata Capital	Term Loan	16-Aug-2018	Not Available	15-Jan-2024	15.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	21.11	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Upgraded from ACUITE A4+)
Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 (Upgraded from ACUITE A4+)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A3 (Upgraded from ACUITE A4+)

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About Acuite Ratings & Research:

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