

Press Release

Zim Laboratories Limited

September 02, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	109.30	ACUITE BBB- Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	16.20	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	125.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Reason for rating reaffirmation and change in outlook:

The outlook is revised to positive considering the significant improvement in PAT margin in Q1 of FY 2023 and the improvement in business risk profile in FY 2022, which is expected to be sustained over near to medium term. Additionally, the Company has maintained stable operating performance which resulted in an approx. 10% increment in revenue, amounting to Rs. 329.49 crore in FY 2022, as against, Rs. 303.71 crore from previous year (FY 2021). Further, the company has witnessed a sharp improvement in its capital structure and debt protection ratios due to sustenance of steady profitability margin. Also, the Company has recorded revenue of approx. Rs. 93 crore in Q1 of FY 2023, which is considered to be pivotal in aiding the revenue to grow by about 20% on a yearly basis. 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

Acuite 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. 329.49 Cr in FY 2022. It recorded revenues of Rs. 303.71 Cr in FY 2021 and Rs. 274.71 Cr in FY 2020. The EBITDA Margins improved marginally from 12.64 per cent in FY 2021 to 12.72 per cent in FY 2022. This marginal improvement in the operating margins is on account of better staff cost management, amongst other factors. 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 FY 2023 - FY 2024. The PAT Margin improved from 1.85 per cent in FY 2021 to 3.95 per cent in FY 2022 indicating significant profitability in the business.

Moderate financial risk profile:

ZIM's financial risk profile is moderate marked by net worth of Rs. 168.52 crore as on 31 March, 2022 as against Rs.154.57 Crore as on 31 March, 2021. This improvement is on the account of healthy accretion to reserves in FY 2022. The gearing (debt-equity) is at conservative levels and stood at 0.30 times as on 31 March, 2022 as against 0.52 times as on 31 March, 2021. The total debt of Rs. 51.18 crore consists of Term Loan of Rs. 18.92 crore, Current Portion of Long Term Debt Rs. 14.92 crore and Short Term Working Capital Limit of Rs. 17.34 crore. The interest coverage ratio improved and stood at 5.11 times for FY 2022 as against 3.13 times for FY 2021 on account of improvement in profitability. The DSCR stood at 1.58 time for FY 2022 as compared to 1.32 times for FY 2021. The Net Cash Accruals to Total debt stood at 0.54 times for FY 2022 and 0.25 times as on FY 2021. The Total outside liabilities to Tangible net worth has improved and stood at 0.98 times for FY 2022 as against 1.04 times in FY 2021. Improvement in TOL/TNW is on account of growth in net profit in FY 2022, ensuring healthy net worth of the company. Acuité 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 221 days for FY 2022 as compared to 210 days for FY 2021. 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 stood at 96 days and 91 days respectively in FY 2022 and 75 days and 81 days respectively in FY 2021. Acuité 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 ~ 75 per cent to total revenues in FY 2022. 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 Sensitivities

- Substantial improvement in the scale of operation, while maintaining the profitability
- Significant improvement in PAT margin in Q1 of FY 2023
- Stretched working capital cycle and deterioration in liquidity position
- Production capacity not utilised to its installed capacity

Material covenants

None

Liquidity Position Adequate

The liquidity position of company is adequate as evident from NCA of Rs. 27.85 Cr. in FY 2022 against debt obligation of Rs.14.64 Cr. The company is expected to generate cash accruals in the range of Rs. 30.00- Rs. 40.00 crore for the period FY 2023 - FY 2024 while its maturing debt obligations are expected to be Rs.15.66 – Rs. 16.44 crore for the same period. The company's operations are working capital intensive marked by gross current asset (GCA) days of 221 days for FY 2022. This makes the company dependent on bank borrowing for working capital requirement. BLU stood comfortable at approx. 60 per cent to 70 per cent for 6 month period ended June 2022. Zim had modest unencumbered cash and bank balance of Rs. 0.80 Cr. in its current accounts with the bank and current ratio of 1.40 times as on March 31, 2022. The liquidity position remains adequate for Zim Laboratories Limitec on account of its comfortable cash accruals to maturing debt obligation slightly restrained by working capital intensive nature of operations.

Outlook: Positive

Acuité believes that Zim Laboratories Limited outlook will remain 'Positive' over the medium term backed by its experienced management and healthy financial risk profile. The rating may be upgraded in case the company registers higher than expected growth in its revenue and profitability while improving its liquidity position and restricting the elongation in its working capital cycle. Conversely, the outlook may be revised to 'Stable' 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	329.49	303.71
PAT	Rs. Cr.	13.01	5.61
PAT Margin	(%)	3.95	1.85
Total Debt/Tangible Net Worth	Times	0.30	0.52
PBDIT/Interest	Times	5.11	3.13

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Aug 2022	Term Loan	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	0.20	ACUITE A3 (Reaffirmed)
	Working Capital Demand Loan	Long Term	3.19	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	9.50	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	11.11	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	36.90	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	23.60	ACUITE BBB- Stable (Reaffirmed)
21 Sep 2021	Cash Credit	Long Term	23.60	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Proposed Bank Facility	Long Term	21.11	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Bank Facility	Short Term	0.20	ACUITE A3 (Upgraded from ACUITE A4+)
	Term Loan	Long Term	9.50	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Term Loan	Long Term	15.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Cash Credit	Long Term	36.90	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Working Capital Demand Loan	Long Term	3.19	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Letter of Credit	Short Term	3.00	ACUITE A4+ (Withdrawn)
	Term Loan	Long Term	0.61	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Negative)

09 Oct 2020	Term Loan	Long Term	15.00	ACUITE BB+ Stable (Assigned)
	Proposed Bank Facility	Short Term	0.20	ACUITE A4+ (Downgraded from ACUITE A3)
	Working Capital Demand Loan	Long Term	3.19	ACUITE BB+ Stable (Assigned)
	Cash Credit	Long Term	31.90	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Negative)
	Letter of Credit	Short Term	8.00	ACUITE A4+ (Downgraded from ACUITE A3)
		Long		
	Term Loan	Term	23.50	ACUITE BB+ (Withdrawn)
	Cash Credit	Long Term	4.50	ACUITE BB+ (Withdrawn)
	Proposed Bank Facility	Long Term	35.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Negative)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	23.60	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Negative)
07 Mar 2019	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	4.50	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	4.20	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	31.90	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	23.50	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	21.60	ACUITE BBB- Negative (Reaffirmed)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	13.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	18.80	ACUITE BBB- Negative (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	4.20	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	31.90	ACUITE BBB- Negative (Reaffirmed)
	Term Loan	Long Term	23.50	ACUITE BBB- Negative (Reaffirmed)
	Cash Credit	Long Term	21.60	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	31.90	ACUITE BBB- Stable (Assigned)

08 Dec 2017	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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 Reaffirmed
Shamrao Vithal Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	23.60	ACUITE BBB- Positive Reaffirmed Stable to Positive
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	36.90	ACUITE BBB- Positive Reaffirmed Stable to Positive
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.11	ACUITE BBB- Positive Reaffirmed Stable to Positive
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE A3 Reaffirmed
Tata Capital Limited	Not Applicable	Term Loan	16-08-2018	Not available	15-01-2024	15.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
Shamrao Vithal Co-Op Bank Limited	Not Applicable	Term Loan	15-03-2014	Not available	14-01-2021	9.50	ACUITE BBB- Positive Reaffirmed Stable to Positive
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	10.00	ACUITE BBB- Positive Reaffirmed Stable to Positive
Bank of India	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	3.19	ACUITE BBB- Positive Reaffirmed Stable to Positive

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