



Press Release
Zim Laboratories Limited
August 24, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	109.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	16.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	125.50	-	-

Rating Rationale

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

Rationale for rating reaffirmation

The rating reaffirmation takes cognizance of Q1FY24 performance of ZLL and continues to derive support from the overall stable operating and financial performance of the company. The revenue of the company grew by around 20.34% YOY to Rs.396.62 Cr in FY2023 from Rs. 329.58 Cr in FY2022. Operating profitability improved to 14.33% in FY2023 from 12.74% in FY2022. However, in Q1FY2024, the revenue registered a de-growth and stood at Rs.67.01 Cr against Rs.92.50 Cr in Q1FY2023. The revenue de-growth is attributed to a decline in export revenue from the nutraceutical segment, which was impacted due to the USD currency shortage faced by its customers in the ROW markets, causing delays in receiving advance payments and letters of credit for order execution. ZLL continues to maintain healthy financial risk profile marked by low gearing, healthy net worth, and comfortable debt protection metrics. Going forward, ZLL's ability to improve its revenue and profitability while maintaining its capital structure and working capital cycle will remain a key monitorable.

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.

Stable Operating Performance

The operating performance of the company is stable marked by steady growth in revenues and improved operating margins. The company recorded a growth of around 20.34% in revenue to Rs. 396.62 crore in FY 2023 from Rs. 329.58 crore in FY 2022. The company has four streams of revenue: sale to the government, PFI, formulation, and co-development. The revenue contribution from exports was at around 84.70% and the rest from domestic sales in FY2023. The sale to the government (Jan Aushadhi, CGHS, ESIC, and Railways) and deemed exports (products billed in India for export by 3rd parties) form part of domestic sales. The revenue contribution of the pharmaceutical division stood at 77% and that of nutraceuticals at 23%. The operating margins and net profit margins improved to 14.33% and 6.31% in FY2023 against 12.74% and 3.95% in FY2022 respectively. ZLL has spent 6.6% of its revenue on R&D in FY2023, compared to 7.1% in FY2022 and 5.3% in FY2021. Management aims to maintain similar levels of investment in R&D over the medium term. Presently, the company is catering to the rest of the world (RoW) markets in the PFI (pre-formulation intermediaries) and FF (finished formulations) of generic products. It is concentrating its efforts to enter the NIP (New Innovative Products) market in the pharmaceutical division and the FF market in the nutraceutical division in the key developed pharmaceuticals markets.

In Q1FY2024, operating revenue stood at Rs. 67.01 Cr against Rs.92.50 Cr in Q1FY2023. The EBITDA margin declined to 6.77% in Q1FY2024 from 12.3% in corresponding quarter.

Healthy Financial Risk Profile

ZLL's financial risk profile is healthy, marked by healthy net worth, gearing levels, and comfortable debt-protection matrices. The net worth of the company improved to Rs. 182.30 crore as of March 31, 2023, against Rs. 162.20 crore as of March 31, 2022. The increase in net worth is on account of the accretion of profits to the reserves. The total debt of Rs. 59.41 crore as of March 31, 2023, includes long-term borrowings of Rs. 36.53 crore and short-term debt of Rs. 22.88 crore. The company's gearing remained healthy at 0.33 times in FY2023 against 0.32 times in FY2022. The TOL/TNW improved to 0.77 times as of March 31, 2023, as against 1.02 times as of March 31, 2022. The debt protection metrics of the company are comfortable, marked by an interest coverage ratio of 10.34 times in FY2023 as against 5.11 times in FY2022. The DSCR improved to 2.28 times in FY2023 against 1.58 times in FY2022. The marked improvement in the ICR and DSCR is mainly due to lower interest liabilities during the year. ZLL has been undertaking an ongoing capex towards facility improvement, NIP manufacturing unit, machineries, and BE studies. As of March 31, 2023, ZLL has incurred Rs. 35.65 crore towards the same. It has been funded approximately 35 percent through bank borrowings and the rest through internal accruals. Going forward, around Rs. 74.82 crore is expected to be incurred towards capex by FY 2025. ZLL has additional sanctioned term loans of Rs. 27.96 crore, for the capex, and the balance is expected to be incurred through internal sources.

During Q1FY2024, ZLL received around Rs.30.44 Cr on account of liquidation of Escrow Shares. The funds have been added to the net-worth of the company and would be utilised towards funding the ongoing capex, leading to lower drawing of sanctioned term loans.

Acuite believes, that the financial risk profile will remain healthy over the medium term on account of continued accretion to reserves and surplus and the sustenance of margins, ensuring healthy debt protection metrics.

Weaknesses

Working Capital Intensive Operations

The working capital operations of the company eased in FY2023, however remained intensive in nature, GCA days of 164 days in FY2023 against 221 days in FY2022. The inventory days stood at 58 days in FY2023 against 96 days in FY2022. The debtor days stood at 83 days in FY2023, compared to 91 days in FY2022. The average credit period allowed is between 60 -

120 days, with some customers making advance payments. The company also derives support from its creditors. The creditor days stood at 108 days in FY2023, against 185 days in FY2022. The usual credit allowed by the suppliers is up to 90 days. Acuite believes that the ability of the company to improve its scale of operations without any significant elongations in the working capital cycle will be a key monitorable.

Regulatory risks in the domestic and export market:

ZLL is exposed to regulatory risk in the domestic market as also in countries to which it exports. Presently, it is exporting to developing economies in the Middle east, North Africa, South-East Asia and Africa. Also, it is working towards entering the developed markets having stricter regulations. However, the risk is mitigated to an extent since it has been engaging with these customers and countries for more than 3 decades.

Rating Sensitivities

- Steady growth in revenues and profitability margins ensuring sustenance of healthy financial risk and liquidity profile.
- Significant elongations in working capital cycle.

Material covenants

None

Liquidity Position Adequate

The liquidity position of the company is adequate, marked by healthy net cash accruals against maturing debt obligations. It generated cash accruals of Rs. 41.14 crore in FY 2023 and Rs. 27.85 crore in FY 2022 against maturing debt obligations of Rs. 14.92 crore and Rs. 16.64 crore, respectively. Fund-based limit utilisation ranged between 33 - 47 percent for the last nine months ending December 2022, with non-fund-based utilisation at 29.92 percent during the same period. Going ahead, it is expected to generate cash accruals in the range of Rs. 46.63 crore to Rs. 55.84 crore in FY2024 and FY2025 against maturing debt obligations of Rs. 11.91 crore and Rs. 17.10 crore, respectively. Cash and bank balances stood at Rs. 1.11 crore as of March 31, 2023. The current ratio of the company stood at 1.63 times in FY2023 against 1.40 times in FY2022. Acuite believes, that ZLL's liquidity position would remain adequate over the medium term on account of expected generation of comfortable cash accruals to its maturing debt obligations

Outlook: Stable

Acuite believes that Zim Laboratories Limited's outlook will remain 'Stable' over the medium term backed by its healthy financial risk profile, continued investment in the R&D and its experienced management. The outlook may change to 'Positive' in case the company registers higher than-expected growth in its revenue and profitability while restricting significant elongations in working capital cycle and improvement in the financial risk profile and 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 business or financial risk profile or significant elongation in working capital cycle

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	396.62	329.58
PAT	Rs. Cr.	25.01	13.01
PAT Margin	(%)	6.31	3.95
Total Debt/Tangible Net Worth	Times	0.33	0.32
PBDIT/Interest	Times	10.34	5.11

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>
- Entities In Manufacturing Sector:- <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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2023	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	2.79	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Letter of Credit	Short Term	8.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Term Loan	Long Term	2.24	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	5.54	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Proposed Long Term Bank Facility	Long Term	3.15	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	5.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	8.07	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	1.34	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Bank Guarantee	Short Term	8.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	36.90	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	8.95	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	3.01	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
	Term Loan	Long Term	3.91	ACUITE BBB Stable (Upgraded from ACUITE BBB- Positive)
02 Sep 2022	Cash Credit	Long Term	36.90	ACUITE BBB- Positive (Reaffirmed)
	Bank Guarantee	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	8.00	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB- Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	11.11	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE BBB- Positive (Reaffirmed)
	Proposed Bank Facility	Short Term	0.20	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	9.50	ACUITE BBB- Positive (Reaffirmed)
	Cash Credit	Long Term	23.60	ACUITE BBB- Positive (Reaffirmed)
	Working Capital Demand Loan	Long Term	3.19	ACUITE BBB- Positive (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
		Long		

18 Aug 2022	Term Loan	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)
09 Oct 2020	Letter of Credit	Short Term	3.00	ACUITE A4+ (Withdrawn)
	Term Loan	Long Term	0.61	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Negative)
	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)
	Term Loan	Long 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)
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Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE A3+ Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	23.60	ACUITE BBB Stable Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	36.90	ACUITE BBB Stable Reaffirmed
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.15	ACUITE BBB Stable Reaffirmed
Tata Capital Limited	Not Applicable	Term Loan	16 Aug 2018	Not available	15 Jan 2024	Simple	5.00	ACUITE BBB Stable Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Term Loan	15 Mar 2014	Not available	14 Jan 2021	Simple	2.24	ACUITE BBB Stable Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.95	ACUITE BBB Stable Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.79	ACUITE BBB Stable Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.01	ACUITE BBB Stable Reaffirmed
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.91	ACUITE BBB Stable Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	8.07	ACUITE BBB Stable Reaffirmed
SVC Co-Op Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.54	ACUITE BBB Stable Reaffirmed
SVC Co-Op Bank	Not	Term Loan	Not	Not	Not	Simple	1.34	ACUITE BBB

Limited	Applicable		available	available	available			Stable Reaffirmed
Tata Capital Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITÉ BBB Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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