

Press Release

Inchem Laboratories Private Limited

September 08, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	26.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	7.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	34.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its 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.34.00 Cr bank facilities of Inchem Laboratories Private Limited (ICL; part of Inchem group). The Outlook is '**Stable**'.

The ratings assigned favourably factors in its experienced management, strong research and development, ability to manufacture rare and exclusive API products and improved operations. Rating however, is constrained by stretched liquidity and moderately high working capital cycle.

About the Company and Group

ICL is engaged in the manufacturing of Active Pharmaceutical Ingredients (API) and intermediates for global markets. They develop, manufacture and market innovative products. ICL has a presence in India and exports its product to Latin America, Asian, Far East, Egypt, Tunisia, African countries, Mexico and China. ICL has strong in-house Research & Development centre with pool of qualified scientists to develop processes for complex molecules. Over the years, Inchem Group has demonstrated technical capabilities by developing simplified processes for complex molecules thereby creating a niche for Inchem. The company is in possession of TUV certificate and GMP certificate. Presently, the facilities are under upgradation to meet WHO GMP guidelines as per ICH Q7 norms. The company is also certified as AEO and a START EXPORT HOUSE.

Leed's Enterprise is partnership firm incorporated by promoters of ICL to purchase semi-finished APIs, process and sell it to customers for exclusive products. ICL is one of the selected 4-5 suppliers of these APIs sold by Leeds.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité has consolidated business and financial risk profile of Inchem laboratories private Limited (ICL) and Leeds enterprise together referred as "Inchem Group" to arrive at the rating. The consolidation is in the view of common management and inter-company linkages. Extent of consolidation: Full.

Key Rating Drivers

Strengths

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

Inchem Group, is engaged in the business of manufacturing of APIs, intermediates and offers a wide range of products in pharmaceuticals, nutraceuticals and veterinary segments. It has an established operational track record of around one and half decades. It is promoted by, Mr. K Srinivas Reddy, who possesses more than two decades of experience in the chemical and pharmaceutical industry. He is supported by team of qualified professionals in managing operations of Inchem Group. The extensive experience of the promoters has enabled Inchem Group to establish a healthy relationship with its customers and suppliers. Acuité believes that Inchem Group will continue to benefit from its experienced management and established track record of operations.

- **Ability to manufacture rare and exclusive API products**

Inchem Group is into manufacturing of Active pharmaceutical ingredients (API) and, intermediates in pharmaceuticals, nutraceuticals and veterinary segments for global and domestic markets. The company manufactures highly complex and niche API's for both domestic and export markets like Latin America, south east Asian countries, middle east and china. The company has a manufacturing unit at Kondapalli, Ibrahimpatnam, Krishna district AP and planning to expand its current unit with increased capacity. The current production capacities range from 500 litres SS-316 reactors to 5000 litres SS-316 reactors and also has 1000 litres GLR to 3000 litres GLRs, in addition plant is equipped with supporting equipment to handle all types of reactions. The group is undergoing a capex just besides its existing plant at Kondapally with expected outlay of Rs.16.00 Cr and it is expected to complete by March 2023. This is expected to be funded by Rs.9.00 Cr of term loan and balance by way of internal accruals and promoter funds.

- **Strong Research and Development**

Inchem Group's R & D Laboratory is built up with modern and well equipped testing equipment bound to be a qualitative research. About 20 highly qualified and experienced scientists are working in R & D Centre, Inchem Research & Development provides services like process Improvements for existing product range, CRAMS & CDMO from grams to Kilo scale and Develop Advanced Intermediates based on customer demand. Acuité believes that Inchem group's business risk profile will continue to benefit from its strong research and development over the medium and long run.

- **Modern Plant and Equipment to meet needs of API Industry**

Inchem group has designed and developed pilot plant and kilo lab to meet the needs of API industry. They are operated as per GMP standards. Facilities are designed to develop the product from pilot scale to production scale.

Pilot Plant : Pilot plant is ISO 9001-(2008) certified with reaction capacities from 100-500 Ltrs with Glass line SS reactors and hydro generator.

Kilo lab: Kilo lab is to bridge the gap in capacity between laboratory and Pilot Plant and to provide the means for offering manufacture of smaller volume high-value added product.

Acuité believes that group will continue to meet the needs of API industry with the help of its modern plant and equipment in medium and long run.

- **Low customer and geographical concentration risk**

Group's revenue is not dependent on certain geographical segments which renders to low geographical concentration risk. None of the customer contributes more than 5% of total revenue in over the last 3 years ending FY2022, thereby depicting lower customer and geographical concentration risk to revenue profile.

- **Moderate financial risk profile**

The financial risk profile of the group is moderate marked by moderate net worth, low gearing and comfortable debt protection metrics. The net worth of the group stood at Rs.23.08 Cr as on March 31, 2022 as compared to Rs.16.89 Cr as on March 31, 2021. The gearing of the group stood at 1.00 times as on March 31, 2022 as compared to 1.22 times as on March 31, 2021. The group has a high reliance on working capital limit because of high working capital requirement. Total Outside Liabilities/Total Net Worth stood at 2.46 times as on March 31, 2022 as against 3.04 times as on March 31, 2021. Interest coverage ratio (ICR) stood comfortable at 7.02 times as on March 31, 2022 as against 4.95 times in FY 2021. The debt service coverage ratio (DSCR) stood at 3.18 times as on March 31, 2022 as against 4.36 times as on March 31, 2021. The net cash accruals against total debt (NCA/TD) stood at 0.45 times as on March 31, 2022 as compared to 0.29 times as on March 31, 2021. Acuité believes that the financial risk profile of the will continues to remain moderate in medium term despite the debt funded capex plans in FY2023.

Weaknesses

- **Working capital intensive nature of operations**

Inchem Group's operations are working capital intensive marked by Gross Current Assets (GCA) days of 131 days as on March 31, 2022 as against 109 days as on March 31, 2021. Group's debtor days are between 10 to 25 days, creditor days are between 45 to 85 days and inventory days are between 80 to 110 days over the last three years ending FY2022. The group utilized 93.96% of working capital limits during past 16 months ending July 2022. The group is expected to avail additional working capitals limits, which will support the operations carried in API plant. Acuite believes that working capital management of the company will remain moderate intensive over the medium term.

- **Competitive and fragmented industry**

The pharmaceutical formulations industry has a large number of players which makes this industry highly fragmented and intensely competitive. Inchem Group's 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 group's presence of over one and half decade in the industry has enabled it to partially offset competitive pressures. Further, it undertakes regular research and development to improve its product offerings. This will help the group is improving its competitive position.

Rating Sensitivities

- Continuous improvement in the scale of operations while maintaining profitability leading to improvement in overall financial risk profile.
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile.

Material Covenants

None

Liquidity: Adequate

Inchem group's liquidity is adequate marked by moderate cash accruals to its debt obligations. The current ratio of the company stands at 1.16 times and cash and bank balances stood at Rs.1.68 Cr as on March 31, 2022. Company's GCA days are around 130 days this makes company dependent on bank borrowing for working capital requirement. Average bank limit utilization stood at 93.96% during last 16 months ending July 2022. Acuité believes that the liquidity of the ICL group is likely to remain adequate over the medium term.

Outlook:

Acuité believes that Inchem group will maintain a 'Stable' outlook in near to medium term on account of its experienced management and improving operating performance. The outlook may be revised to 'Positive' if the group is able to achieve higher-than- expected growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of moderation in liquidity profile and its profitability margins, and deterioration in debt protection indicators.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	124.28	139.74
PAT	Rs. Cr.	8.37	4.40
PAT Margin	(%)	6.73	3.15
Total Debt/Tangible Net Worth	Times	1.00	1.22
PBDIT/Interest	Times	7.02	4.95

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

Inchem Lab's rating was downgraded and retained as 'ISSUER NON COOPERATING" status with Brickwork Ratings, through its rating rationale dated January 25, 2022. The reason provided by Brickwork Ratings is non-furnishing of information by Inchem Lab.

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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:

Not applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.50	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 Assigned
Canara Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Assigned
Canara Bank	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.02	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.75	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	1.49	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	0.68	ACUITE BBB- Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.06	ACUITE BBB- Stable Assigned

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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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