



Press Release
INCHEM LABORATORIES PRIVATE LIMITED
December 07, 2023
Rating Reaffirmed

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

Rating Rationale

Acuite has reaffirmed 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**'.

Rationale for reaffirmation of rating:

The rating reaffirmation considers moderate growth in operating revenue and healthy profitability levels. The company has registered revenue of Rs. 127.18Cr during FY23 against Rs.124.18Cr of previous year while operating margins stood at similar range of 13 percent for past 2 consecutive years. Further to this, the group has reported revenue of ~Rs.70Cr during first 6 months of FY24 promising a healthy growth in current year on account of profitable product mix. The group is undergoing a capex of Rs.22Cr over the next 3 years to refurbish its existing manufacturing plant and also to establish a new plant which facilitates manufacturing of new products. Despite the expected infusion of Rs.12Cr of debt towards the capex over the next 3 years, the financial risk profile is expected to remain moderate. Going forward the group's ability to scale up production capacity after capex while sustaining the profitable margins at current levels will be key monitorable.

About Company

Telangana based, Inchem Laboratories Private Limited (ILPL) was incorporated in the year 2006 by Mr. K. Srinivas Reddy with manufacturing unit located at Kondapally, Andhra Pradesh. Inchem Laboratories Private Limited is engaged in manufacturing of Active Pharmaceutical Ingredients and Pharma Intermediaries. The company generates 20%-30% of sales from export of its products to European and Middle Eastern countries. The Directors of the company are Mr. Srinivas Reddy Kasam, Mr. Rajashekar Reddy and Mrs. Madhu Bhumalingam Talla. They develop, manufacture and market innovative products. Company has a strong presence in India and exports its product to Latin America, Asian, Far East, Egypt, Tunisia, African countries, Mexico and China. Company manufactures produce quality API's using cost efficient processes. The Company has in house R&D centre with dedicated pool of qualified scientists to develop processes for complex molecules. Over the years ICL has demonstrated technical capabilities by developing simplified processes for complex molecules thereby creating a niche for Inchem. The company is in possession of TUV certified 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.

About the Group

Inchem Laboratories Private Limited (ILPL) is engaged in the business of manufacturing of APIs, intermediates, speciality chemicals and offers a wide range of products for diverse industrial applications. It has an established operational track record of one and half decades. Leeds Enterprise (LE) is a partnership firm established for manufacturing of drugs from Semi-finished API's and sell to customers for exclusive products. The group is promoted by Mr. K Srinivas Reddy who possesses more than two decades of experience in the chemical and pharmaceutical industry.

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.

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 R&D provides services like process Improvements for existing product range, Contract research and Manufacturing research services (CRAMS) & Contract Development and Manufacturing Organization (CDMO) from grams to Kilo scale and Develop Advanced Intermediates based on customer demand. Apart from the R&D Inchem group has designed and developed pilot plant and kilo lab to meet the needs of API industry. They are operated as per ISO standards. Facilities are designed to develop the product from pilot scale to production scale.

Moderate financial risk profile

Inchem group's financial profile is moderate as marked by moderate capital structure, healthy coverage indicators. The net worth of the group is moderate at around Rs.32.10 Cr as on March 31, 2023 as against Rs.23.08 Cr as on March 31, 2022, backed by steady accretion to reserves. The capital structure remains moderate with gearing of 0.66 times and Total outside Liabilities to Tangible Net Worth (TOL/ TNW) below 1.59 times as on March 31, 2023. The group's coverage indicators are comfortable indicated by interest coverage ratio (ICR) of 7.82 times and Net Cash Accruals (NCA)/Total Debt (TD) stood at 0.59 times for FY23 vis-à-vis 7.02 times and 0.45 times in FY22. Debt service coverage ratio stood at 4.09 times during FY23 against 3.18 times of previous year. Debt to EBITDA stood at 1.27 times during

FY23 against 1.38 times of previous year. Acuité believes that despite the infusion of debt towards capex, financial risk profile will remain moderate supported by healthy EBITDA over the medium term.

Weaknesses

Moderate working capital operations

The group's working capital operations are moderately intensive in nature as reflected by its Gross Current Asset (GCA) days of 139 days as on March 31, 2023. Inchem group offers credit period of around 15-30 days to its customers. Its inventory days stood at 79 days during year ended March 31, 2023. All its purchases are against payment only leading to moderate utilisation of its working capital limits at about 78 per cent for last 12 months ending August 2023. Acuité believes that working capital operations of the group will be moderate over the medium term on account of high inventory days.

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.
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile.

All Covenants

None

Liquidity Position: Adequate

Inchem groups has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations and moderate bank utilisation. The company generated cash accruals of Rs.12.54 Cr during FY23 against the debt repayment obligation of Rs.1.45Cr. The cash accruals are estimated to remain around Rs.12 Cr to 18 Cr during 2024-26 with debt repayment obligations are expected be in the range of Rs.1.50 – 2.40Cr for the same period. The group operations are working capital intensive with GCA of about 139 days in FY23; moderate cash accruals led to moderate reliance on working capital borrowings at ~78 per cent during the last 12 months' period ended August, 2023. Inchem group has unencumbered cash and bank balances of Rs.3.28 Cr as on, March 31, 2023 providing additional liquidity comfort. The current ratio stood moderate at 1.26 times as on March 31, 2023.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accruals against its repayment obligations and its internal accruals and liquid surplus to be sufficient to meet its incremental working capital requirements

Outlook: Stable

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

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	127.18	124.28
PAT	Rs. Cr.	10.43	8.37
PAT Margin	(%)	8.20	6.73
Total Debt/Tangible Net Worth	Times	0.66	1.00
PBDIT/Interest	Times	7.82	7.02

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

Not applicable

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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
08 Sep 2022	Letter of Credit	Short Term	2.50	ACUITE A3 (Assigned)
	Working Capital Term Loan	Long Term	0.06	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Loan	Long Term	9.00	ACUITE BBB- Stable (Assigned)
	Packing Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	3.02	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.68	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.75	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.49	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.50	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.50	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A3 Reaffirmed
Canara Bank	Not Applicable	Packing Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A3 Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.75	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.49	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.26	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.50	ACUITE BBB- Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

- Inchem Laboratories Private Limited
- Leeds Enterprise

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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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