



Press Release
INCHEM LABORATORIES PRIVATE LIMITED
March 06, 2025
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	3.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	34.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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**) on 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 reflects the extensive experience of the promoters, improvement in profitability despite a sharp decline in revenue during FY2024 and the expectation of recovery in revenue to its previous levels in the current year. The group's revenue declined by 33.36 percent in FY2024 due to stoppage in production caused by ongoing capex. Despite this, operating profit has improved on account of higher price realizations. The rating also benefits from the group's moderate financial risk profile. However, it is constrained by its moderately intensive working capital operations and presence in a competitive and fragmented industry. Going forward, maintaining the current profitability levels, timely completion of capex and scaling up the operations will be key rating monitorables.

About the Company

Telangana based, Inchem Laboratories Private Limited (ILPL) was incorporated in the 2006 by Mr. K. Srinivas Reddy, with its manufacturing unit located in Kondapally, Andhra Pradesh. ILPL is engaged in manufacturing of Active Pharmaceutical Ingredients (APIs) and Pharma Intermediaries. The company generates 50%-55% 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. The company has a strong presence in India and exports its product to Latin America, Asian, Far East, Egypt, Tunisia, African countries, Mexico and China. The Company has in house R&D centre with dedicated pool of qualified scientists to develop processes for complex molecules. Over the years, ILPL has demonstrated technical capabilities by developing simplified processes for complex molecules thereby creating a niche for Inchem. The company possesses TUV and GMP certifications. Currently, the facilities are being upgraded 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.

Unsupported Rating

Not applicable

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.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

The Inchem group is engaged in manufacturing of APIs, Intermediaries and wide range of products in Pharmaceuticals, Nutraceuticals and Veterinary segments, with an operational track record of around one and half decades. The group is promoted by Mr. K Srinivas Reddy, who has over two decades of experience in the chemical and pharmaceutical industry. He is supported by a team of qualified professionals managing the operations of the group. The extensive experience of the promoters has enabled Inchem group to establish healthy relationships with its customers and suppliers. Acuite believes that, the experience of the management and established operational track record will benefit the business risk profile of Inchem group.

Improvement in profitability and revenue in the current fiscal, albeit significant revenue decline in FY2024:

The group registered revenue of Rs.84.05 Cr. during FY2024, a decline of nearly 31 percent compared to previous year revenue of Rs.126.12 Cr. This decline in revenue was due to halt in production caused by ongoing refurbishment of existing machinery. Despite this, the operating profit margin improved to 20.03 percent during the year from 12.41 percent in FY2023 due to improved price realizations and profitable product mix. However, during the 9MFY2025 the group registered revenue of Rs.99.6 Cr. which is 18.5 percent higher than total revenue of FY2024 and expected to close the year with the revenue of Rs.115-120 Cr. Additionally, the operating profit margin is expected to remain in the range of 20-22 percent due to better realizations for its products and profitable product mix.

Acuite believes that, the group's revenue will improve further over the medium on account of steady orders and operationalization of the ongoing capex which is expected to provide 30-40 percent incremental revenue, while profitability is expected to remain stable.

Moderate financial risk profile

Inchem group's financial risk profile is moderate, marked by moderate capital structure and healthy coverage indicators. The group's net worth stood at Rs.35.65 Cr. as on March 31, 2024 as against Rs.32.10 Cr. as on March 31, 2023, backed by accretion to reserves. Further, there were drawings from the capital of Rs.~7.00 Cr. by the partners. The total debt level of the group increased to Rs.30.93 Cr. from Rs.21.22 Cr., however the capital structure remained comfortable with gearing of 0.87 times and Total outside Liabilities to Tangible Net Worth (TOL/ TNW) at 1.63 times as on March 31, 2024 compared to gearing of 0.66 times and Total outside Liabilities to Tangible Net Worth (TOL/ TNW) of 1.59 times as on March 31, 2023. The group's coverage indicators are comfortable indicated by interest coverage ratio (ICR) of 5.64 times and debt service coverage ratio (DSCR) of 3.60 times for FY2024 vis-à-vis 7.82 times and 4.09 times in FY2023. Debt to EBITDA stood at 1.81 times as on March 31, 2024 against 1.27 times of previous year.

Acuite believes that financial risk profile will remain moderate over the medium term supported by healthy EBITDA levels.

Weaknesses

Moderately intensive nature of working capital operations

The group's working capital operations are moderately intensive in nature as reflected by its Gross Current Asset (GCA) days of 234 days in FY2024 against 139 days in FY2023. The elongation in GCA days is due to high inventory days at 162 days in FY2024 compared to 79 days in FY2023. The group maintains higher inventory due to higher lead-time for the raw materials. Besides, compliance with regulatory requirements for stock maintenance

and diversification into multiple products also lead to higher inventory days. All its purchases are made against upfront payment leading to moderate utilisation of its working capital limits at around 81 per cent for last 6 months ending January 2025. Acuité believes that working capital operations of the group will remain at similar levels 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 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

- Improvement in revenue while maintaining the current profitability levels.
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile.
- Timely completion of ongoing capex and scaling up of operations.

Liquidity position: Adequate

Inchem group's liquidity position is adequate, marked by adequate net cash accruals to its maturing debt obligations and moderate bank limit utilisation. The group generated cash accruals of Rs.13.23 Cr. during FY2024 against the debt repayment obligation of Rs.1.49 Cr. The cash accruals are estimated to remain around Rs.15 Cr. to 23 Cr. during 2025-27 while debt repayment obligations are expected be in the range of Rs.1.10 – 2.40 Cr. for the same period. The group's moderate intensive working capital operations led to moderate utilization of fund based working capital limits at 81 percent for the last 6 months ended January, 2025. Additionally, group also has unencumbered cash and bank balances of Rs.2.90 Cr. as on, March 31, 2024 providing additional liquidity comfort. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of sufficient cash accruals against its repayment obligations and buffer available from the moderately utilised working capital limits.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	84.05	126.12
PAT	Rs. Cr.	10.68	10.43
PAT Margin	(%)	12.71	8.27
Total Debt/Tangible Net Worth	Times	0.87	0.66
PBDIT/Interest	Times	5.64	7.82

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

Not applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

Not applicable

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
07 Dec 2023	Packing Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Letter of Credit	Short Term	2.50	ACUITE A3 (Reaffirmed)
	Term Loan	Long Term	1.75	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.49	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	0.26	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE BBB- Stable (Reaffirmed)
08 Sep 2022	Packing Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	2.50	ACUITE A3 (Assigned)
	Term Loan	Long Term	1.75	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.49	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.68	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	0.06	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	10.50	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Loan	Long Term	9.00	ACUITE BBB- Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	3.02	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	16.75	Simple	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.00	Simple	ACUITE A3 Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2029	12.50	Simple	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2026	1.49	Simple	ACUITE BBB- Stable Reaffirmed
Canara Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Apr 2024	0.26	Simple	ACUITE BBB- Stable Reaffirmed

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

Sr.No.	Company Name
1	Inchem Laboratories Private Limited
2	Leeds Enterprise

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Katta Akhil Senior Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.

Note: None of the Directors on the Board of Acuité Ratings & Research Limited are members of any rating committee and therefore do not participate in discussions regarding the rating of any entity.