

## Ind-Swift Laboratories Limited

November 08, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	40.00	CARE BB; Stable (Double B; Outlook: Stable )	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	22.45	CARE BB; Stable / CARE A4 (Double B ; Outlook: Stable/ A Four )	Revised from CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four)
Short Term Bank Facilities	39.75	CARE A4 (A Four )	Reaffirmed
<b>Total Bank Facilities</b>	<b>102.20</b> <b>(₹ One Hundred Two Crore and Twenty Lakhs Only)</b>		
Non Convertible Debentures	424.50	CARE BB; Stable (Double B; Outlook: Stable )	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable)
<b>Total Long Term Instruments</b>	<b>424.50</b> <b>(₹ Four Hundred Twenty- Four Crore and Fifty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The revision of ratings assigned to the bank facilities and long-term instruments of ISLL continues to derive strength from the improvement in the financial profile of the company as reflected by increase in total operating income along with improvement in profitability and debt protection metrics, experienced promoters, long track record of operations and regulatory approved manufacturing facilities and products. The rating however continues to remain constrained due to significant intergroup transaction and regulatory risk in the industry and high debt repayment in the medium term. However, the ratings remain constrained due to significant intergroup transaction, regulatory risk in the industry and risk associated with the high debt repayment in the medium term.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

- Scale up of operations with continuing profits reported at the net level
- Shortening of the working capital cycle leading to lower reliance on borrowings
- Ability of the company to repay the NCDs through debt refinancing or liquidity infusion on timely basis

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Any significant decline in income or in the PBILDT margins (to below 10%)
- Any major deterioration in the liquidity position
- Any significant fund diversion to the group entities/related parties or significant write off of existing advances/investments

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers

### Key Rating Strengths

#### Experienced promoters and long track record of operations:

The company is operating with Mr. N.R. Munjal as its Managing Director who holds an overall experience of around three decades. IISL has been engaged in the pharmaceuticals industry since 1995 leading to a long standing industry presence. The oldest entity of the IND Swift group, Ind Swift Limited, also has been engaged in the industry since 1986. This has led to established business relations with the clients as well as the suppliers.

#### Regulatory approvals for the manufacturing facilities and products:

IISL's manufacturing plant is GMP (Good Manufacturing Practices) compliant and ISO 9001:2008 certified. It also has approvals for exports to various geographies, like USFDA (United States Food and Drug Administration), KFDA (Korean Food and Drug Administration), PDMA (Pharmaceuticals and Medical Devices Agency) etc., for its various products.

#### Improvement in overall financial profile:

There has been a considerable improvement in the overall financial risk profile of the company as reflected by increase in total operating income along with improvement in profitability margins and debt protection metrics leading to improvement in solvency profile as well.

The PBILD of the company rose to Rs. 235.89 Crores in FY22 from Rs. 199.20 Crores in FY21. The Gross Cash Accruals of the entity stood at Rs. 133.22 Crores during FY22 rising from Rs. 102.72 Crores in FY21. The capital structure of the company viz. the long-term debt to equity ratio and overall gearing ratio stood at 2x and 2.14x as on March 31, 2022 improving from 2.12x and 2.29x respectively, as on March 31, 2021. The interest coverage ratio has improved to 2.47x in FY22 from 1.99x in FY21 on account higher sale of API's and sale from trading along with increase in export turnover in FY22.

Further during Q1FY23, the company has sales of Rs.287cr with PBILD of Rs. 59cr and GCA of Rs 36cr.

### Key Rating Weaknesses

#### Impact of government regulations:

The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies. The industry is characterized by a high level of competition having presence of a large number of small and big players.

The companies need to ensure compliance with stringent safety and quality norms for the products. Regular inspection of the production facilities to keep check on the quality norms. Any adverse observation can lead to noncompliance issues and delay launch of any further products.

#### Significant intergroup transaction:

The company has significant inter-group transaction viz. investment, receivable and loan and advances to group companies. Due to stretched position at the group companies the company has long pending receivable of Rs. 262.52 Crores (PY:258.94) as on March 31, 2022. The said receivables are pending from long time and has led to stretched liquidity at ISLL. Apart from this the company has investment of Rs. 110.68 Crores (PY: 55.01 cr) and loan and advances of Rs. 80.81 Crores (PY: 27.04 cr) as on March 31, 2022. Therefore, going forward in the event of any further loan and advances funded through debt to group companies will be key rating sensitivity.

However, majority of these investment/advances are being funded through the net-worth of the company without any reliance on the external debt.

#### High debt repayment in the medium term:

The company has issued NCD of Rs.450cr during Jun,18 for the repayment to its lenders under the OTS scheme. These NCD has IRR of 20% with annual coupon of 10% and redeemable on Jun'24. Considering the higher IRR, the company eventual liability will be higher than Rs.450cr and as on Sep 30, 2022 stood at Rs.670cr. Presently the company is in the process of refinancing the said NCD with longer maturity and lower rate of interest and received in-principle approval from the lender, however the final approval is yet to be received.

Therefore, considering the stretched liquidity position on account of high repayment, ability of the company to repay the debt obligations on timely basis through debt refinancing or liquidity infusion would be the key rating sensitivity.

**Liquidity: Stretched:**

The operating cycle remained elongated at ~272 days as on March 31, 2022 but shorter than previous year's levels at ~293 days as on March 31, 2021. The current ratio and quick ratio of the company, however, improved to 3.15x and 1.83x respectively, as on March 31, 2022 from 2.98x and 1.74x respectively, as on March 31, 2021. The liquidity position of the company seems moderate on account of repayment of Rs. 30.67 Crores during FY23 and Rs.26.15 crore in FY24 as against sufficient cash accruals. However, liquidity position of the company is stretched on account of a very high repayment due in FY25 pertaining to redemption of NCD's along with term debt repayment obligation of Rs.26.15 crore, for which it needs to create reserve and preserve liquidity.

**Analytical approach:** Not Applicable

**Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

[Policy on Withdrawal of Ratings](#)

**About the Company**

Incorporated in 1995, IISL is engaged in the manufacturing of Active Pharmaceutical Ingredients, advanced Intermediates and providing Contract Research and Manufacturing Services (CRAMS). ISLL is a part of the Ind-Swift Group and was formed in 1995. The company has three manufacturing facilities- two in Dera Bassi (including research facility), Punjab and one in Samba, Jammu & Kashmir. The products manufactured by the company are sold in both India and the export markets. The group concerns of the company (among others) include IND Swift Limited and Essix Biosciences Limited (rated, 'CARE B+; Stable/CARE A4'), both engaged in the pharmaceuticals industry; Fortune India Constructions Private Limited, engaged in the construction industry, etc. The company has three marketing subsidiaries: IND Swift Laboratories Inc. (USA), Meteoric Life Sciences Pte Limited (Singapore), IND Swift Middle East FZE (UAE). The latter two are currently non-operational. The product line of the company, finds its application in a varied range of therapeutic segments as antibiotics, anti-coagulants, anti-virals, lipid lowering agents, etc.

Brief Financials (₹ crore)*	FY21 (A)	FY22 (A)	Q1MFY23 (Prov.)
Total operating income	875.28	1,015.84	287.00
PBILDT	199.20	235.89	59
PAT	-4.40	-5.71	19
Overall gearing (times)	2.29	2.14	NA
Interest coverage (times)	1.99	2.47	2.46

A: Audited; Prov: Provisional

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure-4

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	40.00	CARE BB; Stable
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	22.45	CARE BB; Stable / CARE A4
Non convertible debentures	INE915B07024	13-Jun-2018	-	12-Jun-2024	424.50	CARE BB; Stable
Non-fund-based - ST-BG/LC		-	-	-	39.75	CARE A4

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	424.50	CARE BB; Stable	-	1)CARE BB-; Stable (23-Dec-21) 2)CARE B (CWD) (10-Aug-21)	1)CARE B; Stable (16-Sep-20)	1)CARE C; Stable (17-Sep-19)
2	Fund-based - LT- External Commercial Borrowings	LT	-	-	-	-	1)Withdrawn (16-Sep-20)	1)CARE C; Stable (17-Sep-19) 2)CARE C; Stable (05-Apr-19)
3	Fund-based - LT- Working Capital Limits	LT	40.00	CARE BB; Stable	-	1)CARE BB-; Stable (23-Dec-21) 2)CARE B (CWD) (10-Aug-21)	1)CARE B; Stable (16-Sep-20)	1)CARE C; Stable (17-Sep-19) 2)CARE C; Stable (05-Apr-19)

4	Non-fund-based - ST-BG/LC	ST	39.75	CARE A4	-	1)CARE A4 (23-Dec-21) 2)CARE A4 (CWD) (10-Aug-21)	1)CARE A4 (16-Sep-20)	1)CARE A4 (17-Sep-19) 2)CARE A4 (05-Apr-19)
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	22.45	CARE BB; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4 (23-Dec-21) 2)CARE B / CARE A4 (CWD) (10-Aug-21)	1)CARE B; Stable / CARE A4 (16-Sep-20)	1)CARE C; Stable / CARE A4 (17-Sep-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
4	Non-fund-based - ST-BG/LC	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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