

Ind Swift Laboratories Limited

August 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	40.00	CARE B (CWD) (Single B) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	31.60	CARE B / CARE A4 (CWD) (Single B / A Four) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	39.75	CARE A4 (CWD) (A Four) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	111.35 (Rs. One Hundred Eleven Crore and Thirty-Five Lakhs Only)		
Non-Convertible Debentures	424.50	CARE B (CWD) (Single B) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Long-Term Instruments	424.50 (Rs. Four Hundred Twenty- Four Crore and Fifty Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has placed the ratings assigned to Ind Swift Laboratories Limited (ISLL) on 'Credit watch with developing implications' on account of announcement of the scheme of arrangement by the company as well as the possible impact of the same on the credit risk profile of the company. Under the new scheme of arrangement, ISLL will transfer the Active Pharmaceutical Ingredients (API) business of the company to PI Industries Limited (Buyer) under Slump Sale basis, subject to receipt of requisite approvals. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities and long-term instruments of ISLL continue to remain constrained by the average overall solvency position, concentrated product profile, susceptibility of profitability margins to foreign exchange fluctuations & raw material price volatility and regulatory risk in the industry. The ratings, however, derive strength from the increasing scale of operations and the improved profitability in FY21. The ratings further derive strength from the experienced promoters and regulatory approvals in place.

Rating Sensitivities

Positive factors

- Steady scale-up of operations with continuing profits reported at the net level.
- Shortening of the working capital cycle leading to lower reliance on borrowings

Negative factors

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

Detailed description of the key rating drivers

Key Rating Weaknesses

Average overall solvency position: The capital structure of the company viz. the long-term debt to equity ratio and overall gearing ratio stood leveraged at 1.94x and 2.14x respectively, as on March 31, 2021; though, improving from 2.37x and 2.68x

respectively, as on March 31, 2020, on account of repayment of term debt obligations. The interest coverage ratio remained moderate in FY21 and improved to 2.03x in FY21 (PY: 1.64x) on account of higher operating margins and lower interest expenses during FY21. The total debt to GCA improved to 9.33x as on March 31, 2021 from 7.44x as on March 31, 2020 on account of higher cash accruals and lower debt outstanding as on March 31, 2021.

Concentrated product profile: IISL has a concentrated revenue profile with top five products constituting around 60% of the total income in FY20 (PY: ~70%).

Exposure to raw material price volatility and foreign exchange fluctuations risk: During FY20, the raw materials costs constituted ~50% of the total income with the imported raw material forming ~50% of the total material purchase cost. This exposes the profitability margins to any adverse fluctuation in the raw material prices. The company derives most of its revenue from exports which constituted ~68% of the total income in FY20. The company is naturally hedged to some extent, but for the remaining unhedged portion the profitability margins are exposed to adverse fluctuations in foreign exchange rates.

Regulatory risk: 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.

Key Rating Strengths

Increasing scale of operations in the past and improved profitability: The total income of ISLL has grown in the past. The same grew by ~12% in FY21 on account of better demand from its export markets. The PBILDT margins of the company remained healthy at 23.15% in FY21 improving from 22.38% in FY20. The company, however, booked a net loss of Rs.4.40 Cr. in FY21, as compared to a net loss of Rs.20.79 Cr. in FY20.

Experienced promoters: 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.

Liquidity: Stretched: The operating cycle remained elongated but improved from previous year's levels at ~284 days, as on March 31, 2021. The average utilization of the fund based working capital limits remained moderate at ~51% for the twelve-month period ended June-2021. The current ratio and quick ratio of the company, however, improved to 3.01x and 1.78x respectively, as on March 31, 2021 from 2.60x and 1.53x respectively, as on March 31, 2020. The company has entered into a Business Transfer Agreement (BTA) with PI Industries Ltd for the sale of its API business on Slump Sale basis subject to requisite approvals. The transaction is expected to be completed by October 31, 2021. The proceeds from the sales are to be utilized for repayment of all the existing debt of the company and for strategic acquisition. This, therefore, remains a key rating monitorable.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Pharmaceutical Sector](#)

[Rating Methodology - Manufacturing Companies](#)

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 (Rs. crore)	FY20(A)	FY21(A)
Total operating income	785.83	879.71
PBILDT	175.89	203.62
PAT	-20.79	-4.40
Overall gearing (times)*	2.68	2.14
Interest coverage (times)	1.64	2.03

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits	-	-	-	-	40.00	CARE B (CWD)
Non-fund-based - ST-BG/LC	-	-	-	-	39.75	CARE A4 (CWD)
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	31.60	CARE B / CARE A4 (CWD)
Debentures-Non Convertible Debentures	INE915B07024	June 13, 2018	10%	June 12, 2024	424.50	CARE B (CWD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	424.50	CARE B (CWD)	-	1)CARE B; Stable (16-Sep-20)	1)CARE C; Stable (17-Sep-19)	1)CARE C; Stable (21-May-18)
2.	Fund-based - LT-	LT	-	-	-	1)Withdrawn	1)CARE C;	-

	External Commercial Borrowings					(16-Sep-20)	Stable (17-Sep-19) 2)CARE C; Stable (05-Apr-19)	
3.	Fund-based - LT-Working Capital Limits	LT	40.00	CARE B (CWD)	-	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 (CWD)	-	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 / WC DL / OD / BG / SBLC	LT/ST*	31.60	CARE B / CARE A4 (CWD)	-	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 covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the 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 / WC DL / OD / BG / SBLC	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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

Contact us

Media Contact

Mradul Mishra

Contact no. – +91-22-6754 3573

Email ID – mradul.mishra@careratings.com

Analyst Contact

Group Head Name - Mr. Amit Jindal

Group Head Contact no.- +91-11-4533 3228

Group Head Email ID- amit.jindal@careratings.com

Relationship Contact

Name: Mr. Anand Jha

Contact no.: +91-0172-4904000/1

Email ID : anand.jha@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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