Cadmach Machinery Company Private Limited

November 10, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1.99 (Reduced from 4.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term/ Short Term Bank Facilities	3.00 (Reduced from 4.00)	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	**4.99 (₹ Four Crore and Ninety-Nine Lakhs Only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Cadmach Machinery Company Private Limited (Cadmach) continue to derive strength from it being a part of the strong and resourceful Zydus group, its competent management having experience of nearly five decades, Cadmach's long track record of operations in the pharmaceutical machinery industry and established relationship with its reputed clientele. The ratings also continue to derive strength from its comfortable leverage, healthy debt coverage indicators and adequate liquidity.

The above rating strengths are, however, tempered by Cadmach's relatively moderate scale of operations with a low net worth base, modest profitability margin which is further susceptible to volatility in raw material prices along with its presence in a fragmented and competitive pharmaceutical machinery industry.

Rating sensitivities

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

- Increase in Cadmach's total operating income (TOI) to more than Rs.250 crore along with increase in its net worth base and improvement in its operating profitability (PBILDT) margins above 12% on a sustained basis.

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

- Undertaking any large size debt-funded capex (more than 50% of its tangible net-worth), adversely impacting its capital structure and debt coverage indicators.

Detailed description of the key rating drivers

Key rating strengths

Experienced and resourceful promoter group

Cadmach is promoted by Mr. Pankaj Patel, Chairman of Zydus Lifesciences Limited (ZLL; previously knowns as Cadila Healthcare Limited), and Mr. Jayant V. Khambhatta. While Mr. Pankaj Patel is the Chairman of the Board, Mr. Vinit Khambhatta, son of Mr Jayant V. Khambhatta, is a Whole-time director and has an experience of over two decades in the pharmaceutical machinery industry. Mr. Pankaj Patel recently has been appointed as a part-time non-official director in the central board of the Reserve Bank of India (RBI) for the period of four years. Mr Pankaj Patel is also the Chairman of Cadmach and his son Dr Sharvil Patel (MD of ZLL) is a Director in Cadmach. The promoter group has significant experience in the pharmaceutical industry. Apart from flagship company, ZLL, they have promoted other companies in the areas of pharmaceutical and healthcare mainly Zydus Wellness Ltd, Zydus Healthcare Ltd, Cliantha Research Ltd., Zydus Hospira Oncology Pvt. Ltd., Zydus Technologies Ltd (ZTL), etc.

During FY22 (refers to the period April 1 to March 31), on a consolidated level, ZLL reported a total operating income (TOI) of Rs.15,265 crore with a PAT of Rs.4,618 crores including profit from discontinued operation of Rs.2,246. ZLL has very comfortable gearing and very strong debt coverage indicators.

Long track record of operations in pharmaceutical machinery manufacturing

Cadmach has nearly five decades of track record of operations in pharmaceutical machinery manufacturing. The company has fully equipped manufacturing facilities with in-house government approved R&D facilities at GIDC, Vatva near Ahmedabad. The average sales realization of the company has consistently improved over the last five years ended FY22 on account of focus on rotary machines with a higher number of stations. The average sales realization of machines manufactured and sold by Cadmach increased from Rs.24 lakh in FY18 to Rs.36 lakh in FY22. The average sales realization varies depending upon the

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

design and technical specification of the machine. The company also has technical and design development department to meet the changing requirement of its customers. Apart from machinery sales, the company also sells spare parts and services, which contributes about 20-25% of TOI and provides moderate diversity to its revenue profile.

Established relationship with its reputed clientele

Cadmach's clientele includes many reputed Indian pharmaceutical companies. Cadmach enjoys good brand value in the pharmaceutical machinery market due to consistent adherence to quality. The company also supplies non-pharma machines i.e., machinery for confectionery, Ferrites & Electronics and Vitamins & Nutraceuticals Industries. Cadmach also provides an annual maintenance contract to its customers. However, income from the sale of services contributes a very small part of its total income. Till September 2020, Cadmach was majorly exporting its products through its export arm, M/s Cadmach Machinery. However, since October 2020, Cadmach has started direct export, which led to significant jump in export revenue of the company in FY22 compared with FY21 and FY20. On an average, exports sales remain at around 20-30% of total sales of the company.

Comfortable leverage and healthy debt coverage indicators

Capital structure of Cadmach continues to remain comfortable marked by overall gearing ratio of 0.01x as on March 31, 2022 (0.02x as on March 31, 2020) and is expected to remain comfortable at below ~0.1x over the next three years ended FY25. Cadmach does not have any long-term debt (except minor vehicle loans) as on March 31, 2022. Further, it funds most of its working capital requirement through internal accruals and advance from customers resulting in negligible utilisation of working capital limits. Its low reliance on external debt along with its modest profitability results in healthy debt coverage indicators i.e., interest coverage ratio and total debt/GCA which stood at 53x and 0.03x respectively during FY22. The capital structure and debt coverage indicators are expected to remain comfortable going ahead in the absence of debt-funded capex and lower reliance on working capital borrowings.

Liquidity: Adequate

Liquidity of Cadmach remains adequate due to steady cash accruals, positive cash-flow from the operations, negligible utilization of its fund based working capital limits and healthy cash and cash equivalents of around Rs.8.30 crore as on March 31, 2022. The absence of any major capex plans and scheduled term debt repayment obligation (except for vehicle loans of Rs.0.29 crore as on March 31, 2022) also provides cushion to its liquidity. Further, the unutilized fund-based working capital limits continue to support any incremental working capital requirement.

Key rating weaknesses

Moderate scale of operation and low net-worth base

Cadmach's scale of operation marked by TOI remained modest and relatively stable at around Rs.90-100 crore over the last five years ended FY21. However, TOI of the company grew healthy at around 20% and stood at Rs.119 crore in FY22 majorly due to improved average sales realisation of the machine produced and sold by company. Improvement in average sales realisation has more than off-set the decline in number of machines sold during FY22. Despite growth in TOI, it continues to remain at a moderate level due to capacity constraints, which restricts the operational flexibility in terms of bargaining with supplier and absorption of fixed overheads.

During H1FY23, Cadmach reported a TOI of Rs.53.52 which declined by 23% on a y-o-y basis. The company had faced a supply chain challenges in import of certain critical component from China due to zero Covid policy adopted by China during Q1FY23. Due to shortage of components, Cadmach could not supply machineries to its customers resulting into lower sales. However, Cadmach has unexecuted order-book of around Rs.53 crore as on September 30, 2022 to be executed over next 4-6 months. Based on the present orders on hand and likely receipts of orders, the company expects to achieve TOI of Rs.120-125 crore in FY23.

Cadmach's net-worth base also remains small at Rs.36.82 crore as on March 31, 2022 due to regular dividend distribution to its shareholders. A small net-worth base restricts Cadmach's financial flexibility.

Modest profitability margins which are susceptible to fluctuation in raw material prices as well as foreign exchange rates

Although Cadmach's gross margin remained healthy at around 60% to 63% during the last five years ended FY22, its PBILDT margin remained modest in the range of 8% to 10% during the same period mainly due to high employee cost which is around 30% to 32% of its total sales.

Ferrous metals like steel and steel alloys comprise major raw materials for Cadmach which also exposes the company to the risk of raw material price fluctuation. In the absence of any long-term contract with suppliers and on the back of relatively high inventory holding, the company is exposed to the risk of raw material price fluctuation. Moreover, due to the competitive nature of the industry, any increase in raw material prices is difficult to pass on to the customers. Furthermore, the company generates revenue of around 20%-30% of the total income from exports, whereas it procures all its raw material from domestic market, which also exposes the company to foreign exchange fluctuations in the absence of an active hedging policy.

Competitive industry with low replacement demand and dependence on capex budget of pharmaceutical companies

The Indian pharmaceutical machinery manufacturing industry is highly fragmented in nature with many small and medium-sized players operating across India and is dominated by imported machinery from Italy, Germany, South Korea and China which restricts the profitability margin. Competition from international suppliers has further intensified due to the presence of large number of unorganized domestic players. However, Cadmach sells its products under the brand name 'CADMACH' which has good brand recall amongst customers. Further, Cadmach also has a locational advantage since Ahmedabad is a pharmaceutical hub. Going forward, the outlook for the pharmaceutical industry is expected to be stable on the back of changing dynamics after COVID-19 pandemic and this will in-turn benefit the businesses supporting pharmaceutical industry.

Analytical approach: Standalone with group support and common promoter linkages. The promoters of the Zydus group i.e., Mr. Pankaj Patel, Chairman of ZLL, and his family members own a majority equity stake in Cadmach.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company

Incorporated in 1973, Cadmach is promoted by the promoters (Mr Pankaj Patel and family) of ZLL, who hold controlling 65.84% stake. Mr. J. V. Khambhatta and his family own the balance stake in the company. Cadmach manufactures oral dosage and injectable pharmaceutical machines which it supplies to domestic and export markets under the brand name 'CADMACH'. Cadmach has a wide range of machinery including High-Speed Rotary Press Machine with a number of stations ranging from 20 to 80, Drying Oven, Coating Machine, Mixer, Rolling Compaction Machines, etc. Cadmach has six regional offices across major cities in India and has also set up one office each in North America to cater to the requirements of its global clientele.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (Provisional)
Total operating income	95.99	118.86	53.52
PBILDT	7.56	9.55	4.21
PAT	5.92	7.60	Not Available
Overall gearing (times)	0.02	0.01	Not Available
PBILDT Interest coverage (times)	50.39	53.06	54.73

A: Audited

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: Please refer 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-Cash Credit	-	-	-	-	1.99	CARE A-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	3.00	CARE A-; Stable/ CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ cr)	Rating	Date and Rating assigned in 2022-2023	Date and Rating assigned in 2021-2022	Date and Rating assigned in 2020-2021	Date and Rating assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	1.99	CARE A-; Stable	-	1)CARE A-; Stable (26-Oct-21)	1)CARE A-; Stable (11-Nov-20)	1)CARE A-; Stable (31-Oct-19)
2	Fund-based / Non-fund-based-LT/ST	LT/ ST*	3.00	CARE A-; Stable/ CARE A2+	-	1)CARE A-; Stable/ CARE A2+ (26-Oct-21)	1)CARE A-; Stable/ CARE A2+ (11-Nov-20)	1)CARE A2+ (31-Oct-19)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (11-Nov-20)	1)CARE A2+ (31-Oct-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 Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple

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.

Annexure-4: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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About us:
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