

Zim Laboratories Limited (Revised)
June 05th 2023

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	60.50	CARE BBB; Stable	Assigned
Long-term bank facilities	57.14 (Enhanced from 35.00)	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	16.00	CARE A3	Assigned

Details of facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Zim Laboratories Limited (ZLL) derive strength from strong promoter background, with over three decades of experience in the pharmaceutical industry along with long and established track record of the company. The ratings favourably factor in the strong research & development capability, accredited manufacturing facilities, diversified geographical presence coupled with favourable industry outlook. The ratings also derive strength from the comfortable financial risk profile marked by growing scale of operations, healthy profitability and strong solvency and liquidity position. The above strengths are partially mitigated by stabilisation and implementation risk associated with the planned debt-funded capex, presence in highly regulated industry coupled with intense competition in the overseas market, product and customer concentration risk and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions.

Positive factors

- Substantial increase in the scale of operation over ₹500 crore along with sustainable improvement in PBILDT margins above 17% on a sustained basis.
- Improvement in the capital structure with overall gearing below 0.20x, respectively.
- Successful and timely completion of expansion project and achieving desired benefits from the same.

Negative factors

- Deterioration in operating profitability margin, i.e., PBILDT margin to 9% leading to adverse impact on the liquidity.
- Any adverse regulatory action against ZLL, significantly impairing the credit profile of the group.
- Undertaking any un-envisaged large debt-funded capital expenditure (capex) or working capital requirements leading to overall gearing weakening over 0.60x on a sustained basis.

Analytical approach: Consolidated

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the company will continue to benefit from the extensive experience of the promoters and established track record in the pharma industry.

Key strengths

Experienced promoters and established track record

The company has an experienced management team with Dr Anwar Daud, Dr Kamlesh Shende, and Dr Kaka Saheb Mahadik at the helm. Dr Daud has been in the industry since 1981 and is responsible for product and business development, while Dr Kamlesh Shende has over 30 years of experience in the field of Regulatory Affairs in the Pharmaceutical sector, has worked as Drugs Formulation Expert for the entire State of Maharashtra, and was a member of the National Subcommittee on Formulations constituted by Drugs Consultative Committee. The directors are supported by a second-tier management team and a team of 100 scientists. The company also has experienced professionals leading key aspects of the business with over three decades of experience in the pharmaceutical industry. Being in the industry for so long has helped the promoters in gaining adequate acumen about the industry and in smooth operations of the company.

Accredited manufacturing facilities

The company's manufacturing facilities are accredited by regulatory agencies such as the ISO Certification, and WHO-GMP. The facilities are equipped with the latest technologies and adhere to high standards of quality and safety, with periodic inspections by EU, and other agencies. The company invests in ongoing capex to enhance manufacturing capacities and upgrade utilities. The facilities include an OSDF facility, an LSD facility, and a quality control laboratory capable of testing various parameters.

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

Modest scale of operations albeit improvement witnessed in FY22 and 9MFY23.

The company's scale of operations remains moderate, with a 5% revenue compounded annual growth rate (CAGR) over the last five years. However, the company's total operating income (TOI) grew 10% YoY to ₹346.69 crore in FY22 due to an improved product mix and demand for bulk drugs and export markets. The PBILDT margin remained at 12.02% and profit after tax (PAT) margin at 2.54% on average over the last three years (FY20 to FY22). The US generic market witnessed increased competition and price erosion, slightly impacting profitability in FY22. During FY23 (refers to the period April 01, 2022 to March 31, 2023), the TOI improved by 19.87% YoY to ₹404.94 crore, with a PAT of ₹24.43 crore and a PBILDT margin of 14.42%.

Comfortable leverage and coverage indicators

As on March 31, 2022, on a consolidated basis, the total debt stood at ₹53.31 crore (as against ₹82.32 crore as on March 31, 2021). The same comprised term loan of ₹35.97 crore and working capital utilization of ₹17.34 crore as against the tangible net worth (TNW) of ₹171.84 crore as on March 31, 2022. Over the years, with accretion of profits to its net worth coupled with repayment of long-term debt and the capital structure of the company remained comfortable. The overall gearing ratio remained at 0.31x as on March 31, 2022 (as compared with 0.53 in FY21 and 0.63x in FY21). Furthermore, the debt coverage indicators continue to remain moderate in FY22. The total debt/gross cash accruals (TD/GCA), which stood at 1.59x as at the end of FY22 (as compared with 3.17x in FY21) and the PBILDT interest coverage ratio also was at 5.48x in FY22 as against PY 3.79x. CARE Ratings expects the capital structure and debt coverage indicators to be expected to moderate slightly due to the ongoing debt-funded capex planned to be implemented in a phased manner, over the next two years.

Diversified geographical presence with focus on research and development.

The company has a diversified market presence in over 20 countries, with a majority of the revenue generated from regulated markets. In FY22, domestic and overseas markets accounted for around 18% and around 82% of the net sales, respectively. The company exports to countries in Latin America, Southeast Asia, Africa, and the Middle East. It has 40 registered products and 130 products in the pipeline for overseas markets. The company has strategically focussed on the markets with better profitability and lower working capital requirements. Its geographically diversified revenue reduces exposure to adverse economic slowdowns in any single geography. The company has a strong focus on research and development, with over 200 scientists at its R&D centre in Nagpur working on innovative drug delivery systems. The company has spent ₹55.39 crore on R&D in the last three years and plans to maintain R&D expenses in the range of 7% of the revenue. Its R&D department also works on improving drug bioavailability and stability and developing new drug delivery systems. The company focuses on launching new products every year.

Key weaknesses

Product and customer concentration risk

ZLL offers various product portfolio of innovative drug delivery systems that caters to a wide range of therapeutic areas. Some of the products in their portfolio include Oro dispersible tablets, quick dissolving films, taste-masked granules, modified-release tablets, pellets, and powders. Although there is diversified product portfolio, revenue dependence on top five products is slightly high. Moreover, the revenue concentration from top five products has increased contributing 73% of the sales in FY22 (71% during FY21). Also, top five customers contributed around 50% of sales in FY22 as against 41% of sales during FY21, thereby exposing ZLL to both customer and product concentration risk.

Stabilisation and implementation risk associated with the planned debt-funded capex.

ZLL has focused on organic growth and is in the process of expanding its manufacturing facility to increase the capacity of the existing plant and also planning to purchase new machineries for nutraceutical division. The total cost of the project for expansion of existing capacity and purchase of new machinery is around ₹89.08 crore funded by availing term loan of ₹45.94 crore and the balance of ₹43.14 crore from internal accruals.

Working capital intensive nature of operations

ZLL's working capital cycle remained at 86 days during FY22 as against 80 days during FY21. The working capital cycle is elongated primarily on account of high inventory and collection periods. In the domestic segment, the company derives revenues mainly from selling to government bodies and institutions such as state government hospitals, railway boards and municipal corporations' hospitals that normally has relatively longer credit period of 90 days. Overseas customers are also allowed a credit period of upto 90 days, leading to an overall elongated working capital cycle.

Foreign exchange fluctuation risk

ZLL's foreign exchange fluctuation risk is significant, as 80% of its revenue comes from exports, and the company operates in international markets with transactions in multiple currencies. The primary currencies affecting the company's exposure are USD, Euro, and GBP. Fluctuations in foreign exchange rates could impact on ZLL's revenue and profitability, although the company entered into contracts with major clients for a fixed exchange price to mitigate some of the risk. ZLL continually assesses cost structures and engages with customers to address currency volatility risks, while also entering into hedging transactions as needed.

Intense competition and exposure to regulated risk

The company faces intense competition in the international markets. Pricing pressure, increasing regulation, and increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. Furthermore, patent laws and related regulations might hamper the plans of pharmaceutical companies to launch new products and cater to new markets. However, Indian pharmaceutical companies are expected to continue to experience growth from the US markets over the medium term backed by sizeable generic opportunities over the next two years and strong product pipeline of abbreviated new drug applications (ANDAs).

Outlook on pharma industry

The pharmaceutical industry is primarily driven by the demand for affordable generic drugs, while the nutraceutical industry is driven by increasing health consciousness and changing dietary patterns. Both industries are expected to grow due to increasing demand and a favourable regulatory environment. The industries have a robust manufacturing infrastructure and skilled workforce, though face challenges such as rising input costs, increased competition, and regulatory hurdles. The lack of clear regulatory guidelines is a particular challenge for the nutraceutical industry, leading to the proliferation of unregulated products in the market. Addressing these challenges is crucial for ensuring sustainable growth for both industries.

Liquidity: Adequate

The liquidity of the company remains adequate marked by sufficient cash accruals as against modest repayment obligations coupled with modest cash balance. The GCA is expected to be in the range of ₹30-40 crore as against the repayment obligations in FY24 to the tune of ₹8.34 crore and ₹7.07 crore in FY25. The company had an unencumbered cash and cash equivalent to the tune of ₹3.42 crore as on March 31, 2022. On an average, the maximum utilisation of fund-based limits remained moderate in the range of 55% to 60% for the last 12 months ending December 2022.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

[Consolidation](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

ZIM Laboratories Limited, a pharmaceutical company in Nagpur, India, specialises in developing, manufacturing, and marketing various dosage forms like tablets, capsules, liquids, gels, and powders. Known for its innovative drug delivery technologies like Zaydis and Quick Solv, ZIM Labs has a strong research focus, established partnerships with leading pharma companies, and has won awards for its contributions to the industry. With three manufacturing units, the company produces oral thin film, solid oral dosage, and taste-masked pre-formulation and formulation products, among others.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	315.57	346.69	404.94
PBILDT	41.16	44.83	58.40
PAT	7.32	14.55	24.43
Overall gearing (times)	0.53	0.31	0.30
Interest coverage (times)	3.79	5.48	10.48

A: Audited, UA: Unaudited, NA: Not available, Note: 'the above results are latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of bank 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		-	-	-	60.50	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	March 2027	57.14	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	16.00	CARE A3

Annexure-2: Rating history of 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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	57.14	CARE BBB; Stable	1)CARE BBB; Stable (06-Apr-23)	-	-	-
2	Fund-based - LT-Cash Credit	LT	60.50	CARE BBB; Stable				
3	Non-fund-based - ST-BG/LC	ST	16.00	CARE A3				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: NA

Annexure-4: Complexity level of various facilities rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of Subsidiaries

Name of companies/ Entities	Place of Business	% of holding
ZIM Laboratories FZE	UAE	100%
SIA Zim Laboratories Limited	LATVIA	100%
Zim Health Technologies Limited	INDIA	100%

Name of companies/ Entities	Place of Business	% of holding
ZIM Laboratories FZE	UAE	100%
Zim Thinorals Private Limited	INDIA	100%

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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