

Innovare Labs Private Limited

September 16, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	165.47	CARE D; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable;
Short Term Bank Facilities	21.00	CARE D; ISSUER NOT COOPERATING*	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE A4+;

Details of instruments/facilities in Annexure-1.

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Ltd. had, vide its press release dated February 06, 2024, placed the ratings of Innovare Labs Private Limited (ILPL) under the 'issuer non-cooperating' category as the company had failed to provide information for monitoring of the rating. Innovare Labs Private Limited continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls dated October 03, 2023, to January 08, 2024. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of ongoing delays in debt servicing of Principal and interest repayment of term loans availed from Exim Bank, Federal Bank and Punjab National Bank and instances of overdrawals in Cash Credit (CC) account with Punjab National Bank ranging from 15 to 40 days as of September 12, 2024.

Analytical approach: Standalone

Outlook: Not applicable

Detailed description of key rating drivers:

At the time of last rating on February 06, 2024, the following were the rating strengths and weaknesses (updated for the information available based on lender feedback).

Key weaknesses

On going delay in debt servicing: There are on-going delays in debt servicing of interest and principal repayment of the term loan availed from Exim bank with account overdue since July 01, 2024, as confirmed by banker interaction dated September 12, 2024, owing to poor liquidity position. Further, account conduct of term loans and cash credit with other banks continued to be irregular with delay in repayment ranging from 15 to 40 days with other bankers.

Significant decline in financial performance during FY23: In FY23, total operating income (TOI) of the company declined by 19.26% i.e., to Rs. 82.87 crores from Rs. 102.64 crores in FY22. In line with declined TOI, operating and net losses further increased to Rs. 22.71 crores (PY: 14.57 crores) and Rs. 35.63 crores (Rs. 24.66 crores) respectively.

Leverage capital structure with weak debt coverage indicators: The capital structure marked by the overall gearing of the company deteriorated and remain leveraged at 5.66x as on March 31, 2023 against 2.40x as on March 31, 2022 on account of increase in term loans and deteriorated net worth w.r.t loss recognized in current year. Total debt includes term loans, GECL loans, working capital borrowings and unsecured loans. In FY23, equity and unsecured loans amounting to Rs. 23.26 crores to support the liquidity position and working capital requirements.

Elongated operating cycle: Operating cycle of the company marginally improved but remained elongated to 169 days in FY23 from 171 days in FY22 majorly on account of increase in inventory holding period with respect to purchase of raw material in bulk quantities to enjoy discounts from suppliers. Due to slow movement of stock with declined turnover, inventory holding period increased to 247 days (PY: 201 days). Despite improvement in collection period to 75 days (PY: 108 days) and stretch in creditor turnover days to 153 days (PY: 138 days), operating cycle of the company remained elongated in FY23.

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

Exposure to regulatory risk: The company is exposed to regulatory risk as the pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. Apart from above the ability of the company to continue to observe the regulatory and WHO GMP standards without receiving any critical observations from regulatory authorities are viewed critically from business and credit risk point of view. ILPL has received USFDA approval on December 15, 2022.

Foreign exchange fluctuation risk: The company is exposed to foreign exchange fluctuation risk in view of transactions of export and import (Rs. 17.57 crore of exports and Rs. 7.09 crores of raw material import in FY23), a phenomenon common to the players in the industry, there is natural hedging that the company enjoys to some extent.

Key strengths

Experienced management team in the Pharmaceutical Industry: Dr Sunil Kumar I.V., CEO, is one of the key promoters of the company. He has been associated with pharma industry for more than two decades and holds about 90 patents from past experience. Mr. Anil Kumar (CFO) has more than 27 years of experience. Further, other directors of the company, Mr. Ravi Tadiknoda, Mr. Sunkary Venu Gopal and Mr. Venkata Ramana Reddy have overall experience of more than 2 decades in the pharmaceutical industry.

Continuous support from promoters by way infusion of equity and unsecured loans: The promoters and directors of the company have been infusing the funds since initial stages of project implementation as and when required. During FY23, the promoters have infused equity/unsecured loans of about Rs. 23.26 crores.

Receipt of USFDA approval and contract agreements in place with reputed pharma companies: ILPL received USFDA approval on December 15, 2022. ILPL entered into contract agreements with two reputed pharma manufacturers for supply of three APIs each. This apart, ILPL also is in advanced stages of signing an agreement for supply of API; Rosuvastatin and its intermediate for a global tie-up.

Established R&D facility with healthy product portfolio: The company manufactures Key Starting Material (KSM), Active Pharmaceutical Ingredients (APIs) and bulk drugs catering to various therapeutic segments, which Indian pharma companies are majorly relying on China. The company has an R&D division in Hyderabad (Telangana) with about 95 scientists and it has successfully commercialized sales of 16 API's and 11 intermediates till Nov 2022. This apart, the company has 12 API's which are in various stages of development. The company is continuously spending towards R&D to broaden their product mix. During FY23, the company spent about Rs. 10.10 crores towards R&D (PY: Rs. Rs.15.09 crores) which is about 12.24% of total operating income (TOI).

Reputed clientele: By virtue of promoters and directors of the ILPL being associated with the pharma industry for more than two decades who has strong network with reputed pharma players has enabled them to secure orders. The company has established relationship with reputed customers like Glenmark Life Sciences Ltd, Dr Reddy's Laboratories Ltd, Mylan Laboratories Ltd, Hetero Healthcare Limited, Laurus Labs Limited, Divis Laboratories Limited, Galenicum Health India Private Limited and many others.

Favourable location of the plant: The plant is located at Atchutapuram, Rambilli Mandal, Visakhapatnam District, Andhra Pradesh with an extent area of 2,206 hectares in Atchutapuram, in Visakhapatnam. Being in Visakhapatnam wherein majority of the pharma units are located in the proximity and also the unit is in proximity from the Visakhapatnam airport and from Gangavaram sea port making the unit easily accessible and facilitating smooth transportation of raw material and finished goods. During FY23, ILPL received United States Food and Drug Administration (USFDA) approval for the manufacturing facility.

Reducing dependency on imports through backward integration: The company is reducing the dependency of procuring raw materials from China through backward integration on key molecules. The company has done backward integration and started manufacturing the Key Starting Materials (KSMs) of certain registered APIs which were earlier sourced from China to in-house manufacturing from Q1FY22 onwards. The in-house manufacturing of KSM is expected to reduce the cost of procurement there by increasing the gross margins.

Liquidity: Poor

The liquidity position of the company remained poor with ongoing delays in debt servicing.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy in respect of non-cooperation by issuers](#)

[Definition of Default](#)

[Rating Outlook and Rating Watch](#)
[Manufacturing Companies](#)
[Pharmaceuticals](#)
[Financial Ratios – Non financial Sector](#)
[Short Term Instruments](#)
[Liquidity Analysis of Non-Financial Sector entities](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Innovare Labs Private Limited (ILPL) was established as a private limited company on August 02, 2012 and promoted by Dr. Sunil Kumar I.V. (CEO), who has 24 years of pharma experience and was associated with various pharma companies such as Laurus Labs, Mylan, VERA Laboratories Limited, SOL Pharmaceuticals Limited and holds 90 patents (in his individual capacity) from the past 120 products worked on. The company is engaged in manufacturing of Key starting Materials (KSM's), APIs, pharmaceutical intermediaries and Contract Research and Management Services (CRAMS). The company has successfully commenced operations and has dispatched validation batches from December 2018 at its manufacturing plant located in Vishakhapatnam. Installed capacity expanded from 40 reactors (138KL reactor capacity) to 51 reactors (178KL reactor capacity). The company successfully commercialized sales for 16 API's and 11 Intermediates till November 30, 2022.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	102.64	82.87
PBILDT	-14.57	-22.71
PAT	-24.66	-15.43
Overall gearing (times)	2.40	5.66
Interest coverage (times)	-1.31	-1.53

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	78.45	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	31-01-2028	87.02	CARE D; ISSUER NOT COOPERATING*
Non-fund-based - ST-Letter of credit		-	-	-	21.00	CARE D; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	87.02	CARE D; ISSUER NOT COOPERATING *	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (06-Feb-24)	1)CARE BBB- (RWD) (26-Dec-22)	1)CARE BBB-; Stable (28-Sep-21)
2	Fund-based - LT-Cash Credit	LT	78.45	CARE D; ISSUER NOT COOPERATING *	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING * (06-Feb-24)	1)CARE BBB- (RWD) (26-Dec-22)	1)CARE BBB-; Stable (28-Sep-21)
3	Non-fund-based - ST-Letter of credit	ST	21.00	CARE D; ISSUER NOT COOPERATING *	-	1)CARE A4+; ISSUER NOT COOPERATING * (06-Feb-24)	1)CARE A3 (RWD) (26-Dec-22)	1)CARE A3 (28-Sep-21)

*Issuer did not cooperate; based on best available information.

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments 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-Letter of credit	Simple

Annexure-5: Lender details

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

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

Contact us

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About us:

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