Zim Laboratories Limited
October 08 , 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	149.37 (Enhanced from 112.64)	CARE BBB; Stable	Reaffirmed
Short-term bank facilities	16.00	CARE A3	Reaffirmed

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
Reaffirmation of ratings assigned to bank facilities of Zim Laboratories Limited (ZLL) derive strength from strong promoter background, with over three decades of experience in the pharmaceutical industry and long and the company's established track record. Ratings favourably factor in the strong research and development capability, accredited manufacturing facilities, diversified geographical presence and favourable industry outlook. Ratings also derive strength from comfortable financial risk profile marked by strong solvency and liquidity position. Ratings also take note of improved scale of operations and profitability in Q1FY25 which moderated in FY24.
The above strengths are partially mitigated by stabilisation and implementation risk associated with the planned debt-funded capital expenditure (capex), presence in highly regulated industry and intense competition in overseas market, product and customer concentration risk and foreign exchange fluctuation risk.

Rating sensitivities: Factors likely to lead to rating actions.
Positive factors
- Substantially increasing scale of operation over ₹500 crore and sustainably improving profit before interest, lease rentals, depreciation, and tax (PBILDT) margins above 17% on a sustained basis.
- Improving capital structure with overall gearing below 0.20x.
- Successfully and timely completing the expansion project and achieving desired benefits from this.

Negative factors
- Deteriorating operating profitability margin, PBILDT margin to 9% leading to adverse impact on liquidity.
- Adverse regulatory action against ZLL, significantly impairing the group's credit profile.
- Undertaking un-envisaged large debt-funded capex or working capital requirements leading to overall gearing weakening over 0.75x on a sustained basis.

Analytical Approach: Consolidated
CARE Ratings Limited (CARE Ratings) has analysed ZLL's credit profile by considering consolidated financial statements owing to financial, business, and operational linkages between the parent and subsidiaries as mentioned in Annexure 6.

Outlook: Stable
CARE Ratings believes that the company will continue to benefit from the extensive experience of 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 top. Dr Daud has been in the industry since 1981 and is responsible for product and business development, while Dr Kamlesh Shende, who 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. 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 promoters in gaining adequate acumen about the industry and in the company's smooth operations.
Accredited manufacturing facilities
The company's manufacturing facilities are accredited by regulatory agencies such as ISO Certification, and WHO-GMP. Facilities are equipped with latest technologies and adhere to high standards of quality and safety, with periodic inspections by European Commission (EU), and other agencies. The company invests in ongoing capex to enhance manufacturing capacities and upgrade utilities. Facilities include an oral solid dosage form OSDF facility, LSD facility, and quality control laboratory capable of testing parameters.

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

Improvement in scale of operations and profitability in Q1FY25 on y-o-y basis after moderation witnessed in FY24

The company's scale of operations continues to remain moderate. The company achieved revenue at a compounded annual growth rate (CAGR) of 6% in last five years. The company's total operating income (TOI) moderated in FY24 to ₹379.03 (PY: ₹421.47 crore) and consequent reduction in PBILDT margin to 11.91% (PY: 13.81%) was considering drop in nutraceutical exports, shift of some nutraceutical orders and shortage of US Dollars in target markets, adversely impacted the pharmaceutical formulation intermediate (PFI) business. Similarly profit after tax (PAT) margin also dropped with drop in PBILDT margin to 4.55% in FY24 from 5.80% in FY23. However, in Q1FY25, improved by 18% on y-o-y basis to ₹81.82 crore with PAT of ₹1.10 crore, considering demand from exporting countries. Revenue is expected to increase by 10% in FY25, considering improvement in demand from export market.

Comfortable leverage and coverage indicators

Over the years, with accretion of profits to its net-worth and repayment of long-term debt and the company's capital structure remained comfortable. The company's overall gearing remained comfortable, though slightly deteriorated, to 0.48x as on March 31, 2024, (0.32x as on March 31, 2023) considering increase in term debt for ongoing capex. Further, debt coverage indicators marked by PBILDT interest coverage indicators remained comfortable at 6.83x for FY24 (PY: 10.82x) which was rangebound between 1.98x to 5.48x in the prior three years ending FY22. CARE Ratings expects capital structure and debt coverage indicators 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 revenue generated from regulated markets. In FY23, domestic and overseas markets accounted for ~18% and ~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 markets with better profitability and lower working capital requirements. Its geographically diversified revenue reduces exposure to adverse economic slowdowns in single geography. The company has a strong focus on research and development, with over 200 scientists at its research and development (R&D) centre in Nagpur working on innovative drug delivery systems. The company has spent 9.7% on R&D in FY24 as against 6.60% in FY23 and plans to maintain R&D expenses in the range of 7-9% 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 ratings weaknesses

Product and customer concentration risk

ZLL offers product portfolio of innovative drug delivery systems that caters a wide range of therapeutic areas. Some 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, revenue concentration from top three products increased contributing 59% sales in FY24 (69% in FY23), exposing ZLL to customer and product concentration risk.

Stabilisation and implementation risk associated with planned debt-funded capex

ZLL is focused on organic growth and is currently expanding its manufacturing facility to increase capacity and enhance operations in the nutraceutical division. Total project cost for this expansion, including the purchase of new machinery, is estimated at ₹66.68 crore, to be funded through a term loan of ₹42.01 crore, with the remaining ₹24.69 crore from internal accruals. Key projects include a new Tamsulosin and Dutasteride manufacturing facility and relocation of cephalosporin unit, aimed at meeting EU GMP and WHO GMP standards.

Working capital intensive operations

ZLL's working capital cycle deteriorated at 111 days in FY24 as against 82 days in FY23. Working capital cycle is elongated primarily considering high inventory and collection periods. In domestic segment, the company derives revenues mainly from selling to government bodies and institutions such as state government hospitals, railway boards and municipal corporations that normally has relatively longer credit period of 97 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. 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 contracts with major clients for a fixed exchange price to mitigate some risk. ZLL continually assesses cost structures and engages with customers to address currency volatility risks, while also entering hedging transactions as needed.

Intense competition and exposure to regulated risk

The company faces intense competition in international markets. Pricing pressure, increasing regulation, and increased sensitivity towards product performance are 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. 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).

Liquidity: Adequate

The company's liquidity remains adequate marked by sufficient cash accruals as against modest repayment obligations and modest cash balance. GCA is expected to be in the range of ₹35-40 crore as against repayment obligations in FY25 of ₹18.04 crore. The company had an unencumbered cash and cash equivalent of ₹9.88 crore as on March 31, 2024. In addition, utilization of fund-based limits continues to be on higher side in the range of 67% for the last twelve months ending August 2024.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

ZIM Laboratories Limited, a pharmaceutical company in Nagpur, India, specialises in developing, manufacturing, and marketing 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.

Financials: Consolidated

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	June 30, 2024 (UA)
Total operating income	421.47	379.03	81.82
PBILDT	58.20	45.16	8.04
PAT	24.43	17.25	0.90
Overall gearing (times)	0.32	0.48	NA
Interest coverage (times)	10.82	6.83	NA

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: Annexure-2

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

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	60.50	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	March 2028	88.87	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 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	88.87	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-24)	1)CARE BBB; Stable (05-Jun-23) 2)CARE BBB; Stable (06-Apr-23)	-	-
2	Fund-based - LT-Cash Credit	LT	60.50	CARE BBB; Stable	1)CARE BBB; Stable (03-Apr-24)	1)CARE BBB; Stable (05-Jun-23)	-	-
3	Non-fund-based - ST-BG/LC	ST	16.00	CARE A3	1)CARE A3 (03-Apr-24)	1)CARE A3 (05-Jun-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of Subsidiaries

Name of companies/ Entities	Extent of consolidation	Rationale for consolidation
ZIM Laboratories FZE	Full	Owing to financial, business, and operational linkages between the parent and subsidiaries
SIA Zim Laboratories Limited	Full	
Zim Health Technologies Limited	Full	
Zim Thinorals Private Limited	Full	
ZIMTAS Pty Limited	Full	

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

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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