Denis Chem Lab Limited

March 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	15.09 (reduced from Rs.18.46 crore)	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE D (Single D)**
Long/Short-term Bank Facilities	15.45	**CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)**	**Revised from CARE D/ CARE D (Single D/ Single D)**
Short term Bank Facilities	5.00	**CARE A4 (A Four)**	**Revised from CARE D (Single D)**
Total	**35.54 (Rupees Thirty Five Crore and Fifty Four Lakh Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Denis Chem Lab Limited (DCLL) takes into account timely debt servicing track record of more than 10 months due to improvement in liquidity post infusion of equity capital during March 2017. The revision in ratings also factors in improvement in capital structure as on March 31, 2017 compared to year ago on account of strengthening of net-worth base backed by infusion of equity capital and reduction in debt level.

The ratings continue to remain constrained due to its modest scale of operation with relatively low and volatile profitability margins, working capital intensive nature of operations and presence in price controlled and competitive formulation industry. The ratings also constrained due to implementation and stabilization risk associated with on-going capital expenditure and decline in profitability during 9MFY18.

The ratings however, derive strength from the rich experience of the promoters in the pharmaceutical industry, long track record of operations with wide marketing & distribution network and continued support in form of infusion of equity capital. The company further raised equity capital by way of right issue during 9MFY18 which also supports the liquidity and reduces the reliance in external borrowings.

The ability of DCLL to increase its scale of operations while improving its profitability margins and efficient management of the working capital shall be the key rating sensitivities. Further, completion of the on-going project without any major time and cost overrun along with early stabilization leading to growth in total operating income and profitability would also remain crucial from the credit perspective.

Detailed description of the key rating drivers

Key Rating Weakness

Low and volatile profitability: The profitability of the company marked by PBILDT and PAT have remained low and volatile over the past three years ended FY17 and 9MFY18. The operating profitability of the company is susceptible to volatility in packing material prices which are crude derivatives. The PBILDT margin which was declined significantly during FY16, recovered and normalized during FY17. The recovery in profitability witnessed during FY17 mainly on account of decline in the costs of the raw material consumed. The net profitability of the company has also remained low and volatile due to high interest and depreciation charge. After reporting net loss during FY16, DCLL reported net profit of Rs.1.25 crore during FY17 with improvement in PBILDT along with decline in interest cost.

During 9MFY18, DCLL's total operating income decline by nearly 11% over 9MFY17 along with over 200 bps decline in PBILDT margin. The impact in total operating income along with decline in operating profitability was largely backed by demand disruption during June-July 2017 due to Goods and Service Tax (GST).

Working capital intensive nature of operations: The operations of DCLL continued to remain working capital intensive as indicated by low current ratio, long operating cycle and high average fund based working capital limit utilisations. The company needs to extent the credit of nearly 3 months to its dealer/ distributors to push the demand of its products in competitive market. Moreover, DCLL has to give long credit period to corporate hospital and government tender business due to low bargaining power of DCLL against its customers. Further, in case of tender business, the debtor remains elongated for more than 6 months and DCLL has debtors amounting to Rs.2.82 crore outstanding for more than 6 months as on March 31, 2017.

Project implementation and stabilization risk associated with on-going capex: DCLL is undertaking a capital expenditure project to expand its existing facilities of manufacturing large volume parenteral in 100ml bottles in order to fulfill its

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

long-standing demand of 100 ml. The estimated cost of the total project is Rs.14 crore which is being funded through equity capital. The company has already raised equity capital inform of right issue during October 2017 amounting to Rs.14 crore. Out of the total capex planned, as on February 28, 2018, the company has incurred a total expenditure of Rs.3.00 crore which was entirely funded through equity. The project was earlier envisaged to commission by April-May 2018, however, the company now expects the same to be commissioned by June-July 2018. Since the project is being funded through equity capital, project risk appears to be low although any cost overrun may impact the liquidity of the company. Moreover, delay in stabilization and ramping up the operation may also impacts the profitability and return indicators in light of high operating leverage.

Susceptibility of its margins to volatile packing material prices: The basic raw material for DLCC is plastic granules apart from other bulk drugs and chemicals. Plastic granules are derivatives of crude oil which makes DLCC's profitability susceptible to volatility in international crude oil prices.

Presence in price controlled and competitive formulation industry: Competitive pressure in domestic formulation market has been rising steadily prompted by significant increase in investments by domestic players in marketing efforts through expansion in field force; on the other hand multinational companies have also renewed their focus on India. Further, Government regulations, including those implemented by the National Pharmaceutical Pricing Authority (NPPA), may also squeeze the industry growth and profitability. Though, domestic formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income and improvement in access to healthcare facilities along with growing penetration of health insurance.

Key Rating Strengths

Timely debt servicing track record supported by improvement in liquidity post infusion of equity capital: Due to net loss incurred during FY16, the company was facing a liquidity issues which led to mismatch in cash flow. However, company had raised equity capital on private placement basis of Rs.16.50 crore during March 2017 and with infusion of equity, the liquidity of the company improved. Since then the debt servicing of the company remained timely and regular. With this the company established a timely debt servicing track record of more than 10 months.

Improvement in leverage and debt indicators: The capital structure marked by overall gearing ratio improved from 2.69 times as on March 31, 2016 to 1.33 times as on March 31, 2017 on the back of accretion of profits to the reserves coupled with infusion of equity capital of Rs.16.20 crore. Furthermore, post recovery in profitability and cash accruals during FY17 over FY16, the debt coverage indicators i.e. total debt to GCA and Interest coverage too improved FY17. Apart from equity raised during FY17, the company has also raised equity by way of rights issue during FY18 amounting to Rs.19 crore which is being utilized for capex.

Qualified and experienced promoters: Dr. Himanshu C. Patel, the Managing Director of the company, has experience of more than two decades in the pharmaceutical industry and is a B.E, M.S. and PhD from the Columbia University and looks after the overall operations of the company. He is assisted by his son Mr. Nirmal H. Patel, who manages the marketing and operations of the company. They altogether are assisted by a team of qualified professionals having requisite experience in their respective fields.

Long track record of operations with wide marketing and distribution network: DCLL has a track record of more than three decades in the manufacturing Intravenous Fluids (IVF). DCLL started its operations with capacity of manufacturing four million bottles of IVF and over the years it has continuously expanded its capacity. As on December 31, 2017, the company has a total installed capacity to manufacture 85 million bottles. Further, the company has a pan India presence through stockist and more than 200 distributors in different parts of the country and it has its own depots at Mumbai, Chennai, Ahmedabad, Hyderabad, Jaipur and Bangalore.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
CARE's methodology for Pharmaceutical Companies
Financial ratios – Non-Financial Sector

About the Company

DCLL was incorporated in July, 1980 as Denis Chem Lab Private Limited (DCLPL) by Mr Himanshu C. Patel, Mr Nirmal H. Patel, Mr Anar D. Patel and other family members. Subsequently, in April 1982, DCLPL was converted into a closely held public limited company with the name of DCLL. DCLL is engaged into manufacturing of Intravenous Fluids (IVF) both in Glass and Plastic bottles using the BFS (Blow-Fill-Seal) technology. DCLL's WHO-GMP certified manufacturing unit is located at Chhatral (Gandhinagar) and has installed capacity for producing Transfusion Solution (T.S) in Glass bottles and Plastic bottles aggregating to 85 million bottles per annum as on March 31, 2017. DCLL sells its products under the brand "Aqua pulse".

(Rs. Crore)

Brief Financials of DCLL	FY16 (A)	FY17 (A)
Total operating income	100.09	113.98
PBILDT	8.93	14.54
PAT	-3.46	2.08
Overall gearing (times)	2.69	1.33
PBILDT Interest coverage (times)	1.33	2.51

As per the un-audited result for 9MFY18, DCLL reported a total operating income of Rs.81.59 crore and PAT of Rs.0.35 crore as against Rs.90.50 crore and Rs.2.29 crore for 9MFY17 respectively.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting	NA	NA	NA	11.70	CARE BB; Stable / CARE A4
Non-fund-based - ST-Letter of credit	NA	NA	NA	4.75	CARE A4
Non-fund-based - LT/ ST-Bank Guarantees	NA	NA	NA	3.75	CARE BB; Stable / CARE A4
Fund-based - LT-Term Loan	NA	NA	January, 2021	5.92	CARE BB; Stable
Fund-based - LT-Term Loan	NA	NA	April, 2021	5.17	CARE BB; Stable
Non-fund-based - ST-Forward Contract	NA	NA	NA	0.25	CARE A4
Fund-based - LT-Cash Credit	NA	NA	NA	4.00	CARE BB; Stable

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	11.70	CARE BB; Stable / CARE A4	1)CARE D / CARE D (22-Mar-18) 2)CARE BB+; Positive / CARE A4 (27-Apr-17)	1)CARE BB+ / CARE A4 (05-Apr-16)	1)CARE BB+ / CARE A4 (03-Apr-15)	1)CARE BB+ / CARE A4 (03-Apr-14)
2.	Non-fund-based - ST-Letter of credit	ST	4.75	CARE A4	1)CARE D (22-Mar-18) 2)CARE A4 (27-Apr-17)	1)CARE A4 (05-Apr-16)	1)CARE A4 (03-Apr-15)	1)CARE A4 (03-Apr-14)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	3.75	CARE BB; Stable / CARE A4	1)CARE D / CARE D (22-Mar-18) 2)CARE BB+; Positive / CARE A4 (27-Apr-17)	1)CARE BB+ / CARE A4 (05-Apr-16)	1)CARE BB+ / CARE A4 (03-Apr-15)	1)CARE BB+ / CARE A4 (03-Apr-14)
4.	Fund-based - LT-Term Loan	LT	5.92	CARE BB; Stable	1)CARE D (22-Mar-18) 2)CARE BB+; Positive (27-Apr-17)	1)CARE BB+ (05-Apr-16)	1)CARE BB+ (03-Apr-15)	1)CARE BB+ (03-Apr-14)
5.	Fund-based - LT-Term Loan	LT	5.17	CARE BB; Stable	1)CARE D (22-Mar-18) 2)CARE BB+; Positive (27-Apr-17)	1)CARE BB+ (05-Apr-16)	1)CARE BB+ (03-Apr-15)	1)CARE BB+ (03-Apr-14)
6.	Non-fund-based - ST-Forward Contract	ST	0.25	CARE A4	1)CARE D (22-Mar-18) 2)CARE A4 (27-Apr-17)	1)CARE A4 (05-Apr-16)	1)CARE A4 (03-Apr-15)	1)CARE A4 (03-Apr-14)
7.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB; Stable	1)CARE D (22-Mar-18) 2)CARE BB+; Positive (27-Apr-17)	1)CARE BB+ (05-Apr-16)	-	-

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