Denis Chem Lab Limited

April 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating action
Long-term Bank Facilities	18.46 (reduced from 22.51)	**CARE BB+; Positive (Double B Plus; Outlook: Positive)**	Reaffirmed
Long term/ Short term bank facilities	15.45	**CARE BB+; Positive / CARE A4 (Double B Plus; Outlook: Positive / A Four)**	Reaffirmed
Short term bank facilities	5	**CARE A4 (A Four)**	Reaffirmed
Total	**38.91 (Rupees Thirty Eight crore and Ninety One lakh only)**		

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Denis Chem Lab Limited (DCLL) continue to remain constrained due to its moderate profitability margin, moderately leveraged capital structure, weak debt coverage indicators and modest liquidity position along with working capital intensive nature of operations and presence in a highly competitive pharmaceutical industry. The ratings factor in the significant growth in scale of operations, successful completion of capex plan along with net losses reported during FY16 (refers to the period April 1 to March 31).

The ratings continue to derive strength from the rich experience of the promoters in the pharmaceutical industry, long track record of operations and strong marketing & distribution network.

The ability of DCLL to increase its scale of operations, improvement in profitability and capital structure along with better working capital management are the key rating sensitivities.

Outlook: Positive

The outlook is 'Positive' on account of significant increase in scale of operations along with successful completion of capital expansion plan by the company during FY16 (refers to the period April 1 to March 31). Furthermore, during 9MFY17 (UA), the company has reported further growth in its TOI, PBILDT, PAT and plant capacity utilization. The outlook may be revised to stable in the event of decline in scale of operations along with deterioration in profitability margin, capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

Significant increase in scale of operations albeit net losses incurred by the company

During FY16, total operating income of the company increased significantly by 29.75% to Rs.100.09 crore as compared with Rs.77.14 crore in FY15 on the back of increasing demand of the product of the company along with additional revenue generated from enhanced installed capacity of the company. Previously, the company was producing 500ml plastic bottles only but during FY16, the company has started production of 100ml plastic bottles and generated additional revenue of around Rs.24 crore for FY16. The scale of operations of the company has consistently grown over the past three years ended FY16 marked by a healthy Compounded Annual Growth Rate (CAGR) of around 21.69% in its TOI during FY14-FY16.

For FY16, the company reported decline in PBILDT margin at 8.92% and amounted to Rs.8.93 crore as compared with PBILDT of Rs.9.59 crore (12.43%) for FY15. The company reported net loss of Rs.4.53 crore during FY16 as against net profit of Rs.0.08 crore during FY15 on account of lower absolute PBILDT along with higher depreciation and interest costs during FY16. Gross cash accruals of the company decreased to Rs.2.19 crore during FY16 as against Rs.4.16 crore for FY15.

Successful completion of ongoing capex by the company

During FY16, the company had installed a plastic moulding machine to increase the production of 100ml bottles for which it incurred Rs.3 crore. Further, in Q4FY16, the company had installed an effluent treatment plant (ETP) and sewage treatment plant (STT) amounting to Rs.4 crore as per the guidelines of Gujarat Pollution Control Board (GPCB). In addition to that, the company had installed machineries worth Rs.3 crore related to capex plan which was incurred in FY16. The capex was funded through machinery loans of Rs.4 crore from Reliance Capital and Intec Capital, share warrants of Rs.4 crore and balance through equity share capital. The project was completed in March, 2016 and commercial production was started in May, 2016. The company is working at 85% of total capacity installed during FY17.

Key Rating Weaknesses

Moderately leveraged capital structure and weak debt coverage indicators

1 *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

The capital structure of the company improved but remained moderately leveraged marked by overall gearing of 1.82 times and debt equity of 1.06 times as on March 31, 2016 as against overall gearing of 1.95 times and debt equity of 1.20 times as on March 31, 2015. Total debt of the company reduced to Rs.38.86 crore as on March 31, 2016 as against Rs.42.72 crore as on March 31, 2015. Total debt includes working capital borrowings of Rs.16.29 crore, term loan of Rs.19.45 crore, other long term loans of Rs.2.16 crore and other unsecured loans of Rs.0.96 crore.
Tangible net worth of the company stood at Rs.21.36 crore as on March 31, 2016. Unsecured loans of Rs.5.02 crore as on March 31, 2016 have been treated as quasi equity as per sanction letter terms.
During March, 2017, the company has raised equity share capital to Rs.11.74 crore and share warrants to Rs.13.35 crore.
Debt coverage indicators of the company deteriorated and remained weak marked by total debt to GCA of 17.72 years in FY16 as compared with TDGCA of 10.27 years in FY15. Interest coverage of the company remained weak at 1.33 times for FY16 as against 1.79 times for FY15.

Modest liquidity position

The liquidity position of the company deteriorated and remained modest marked by below unity current ratio of 0.69 times and quick ratio of 0.57 times as on March 31, 2016 as compared with current ratio and quick ratio of 0.90 times and 0.80 times respectively as on March 31, 2015.
However, the operating cycle of the company improved marginally and remained moderate at 72 days as against operating cycle of 84 days for FY15. The company extends credit period of 75-90 days to its customers while avails credit period of 30-45 days from suppliers. Average inventory days of the company remained at 23 days for FY16. Average utilization of working capital borrowings remained at 90% while maximum utilization at 100% during the last 12 months ended on February 28, 2017.

Analytical Approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Rating Methodology for manufacturing companies
CARE's Rating Methodology for Pharmaceutical companies
Financial Ratios - Non Financial Sector
Criteria for Short Term Instruments

About the company

Denis Chem Lab Limited (DCLL) was incorporated in July, 1980 as Denis Chem Lab Private Limited 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 I.V Fluids 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 of 21.84 million bottles per annum and for Plastic bottles of 48.72 million bottles per annum as on March 31, 2016.
As per the audited results for FY16, DCLL reported a net loss of Rs.4.53 crore on a total operating income of Rs.100.09 crore as against a PAT of Rs.0.08 crore on a total operating income of Rs.77.14 crore in FY15. Based on provisional results for 9MFY17, DCLL reported total operating income of Rs.86.87 crore and PBILDT of Rs.11.68 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	-	-	-	11.70	CARE BB+; Positive / CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	4.75	CARE A4
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	3.75	CARE BB+; Positive / CARE A4
Fund-based - LT-Term Loan	-	-	November , 2020	7.76	CARE BB+; Positive
Fund-based - LT-Term Loan	-	-	March, 2021	6.70	CARE BB+; Positive
Non-fund-based - ST-Forward Contract	-	-	-	0.25	CARE A4
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BB+; Positive

Annexure 2: Rating History for 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-Term Loan	LT	-	-	-	-	-	1)Withdrawn (03-Apr-14)
2.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	11.70	CARE BB+; Positive / CARE A4	-	1)CARE BB+ / CARE A4 (05-Apr-16)	1)CARE BB+ / CARE A4 (03-Apr-15)	1)CARE BB+ / CARE A4 (03-Apr-14)
3.	Non-fund-based - ST-Letter of credit	ST	4.75	CARE A4	-	1)CARE A4 (05-Apr-16)	1)CARE A4 (03-Apr-15)	1)CARE A4 (03-Apr-14)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	3.75	CARE BB+; Positive / CARE A4	-	1)CARE BB+ / CARE A4 (05-Apr-16)	1)CARE BB+ / CARE A4 (03-Apr-15)	1)CARE BB+ / CARE A4 (03-Apr-14)
5.	Fund-based - LT-Term Loan	LT	7.76	CARE BB+; Positive	-	1)CARE BB+ (05-Apr-16)	1)CARE BB+ (03-Apr-15)	1)CARE BB+ (03-Apr-14)
6.	Fund-based - LT-Term Loan	LT	6.70	CARE BB+; Positive	-	1)CARE BB+ (05-Apr-16)	1)CARE BB+ (03-Apr-15)	1)CARE BB+ (03-Apr-14)
7.	Non-fund-based - ST-Forward Contract	ST	0.25	CARE A4	-	1)CARE A4 (05-Apr-16)	1)CARE A4 (03-Apr-15)	1)CARE A4 (03-Apr-14)
8.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB+; Positive	-	1)CARE BB+ (05-Apr-16)	-	-

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