IND Swift Laboratories Limited

September 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term bank facilities (Fund based limits)	40.00	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE C; Stable (Single C; Outlook: Stable)
Long term bank facilities (External commercial borrowings)	-	-	Withdrawn*
Short term bank facilities	39.75	CARE A4 (A Four)	Reaffirmed
Long term/Short term bank facilities	31.60 (reduced from 32.10)	CARE B; Stable/CARE A4 (Single B; Outlook: Stable/ A Four)	Revised from CARE C; Stable/CARE A4 (Single C; Outlook: Stable/A Four)
Total bank facilities	**111.35 (Rupees one hundred eleven crores and thirty five lakhs only)**		
Long term instruments (Non-Convertible Debentures)	424.50	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE C; Stable (Single C; Outlook: Stable)
Total instruments	**424.50 (Rupees Four hundred and twenty four crores and fifty lakhs only)**		

**CARE has withdrawn the rating assigned to the external commercial borrowings facility of IND-Swift Laboratories Limited, with immediate effect since there is no amount outstanding under the facility*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term ratings assigned to the bank facilities and long term instruments of Ind-Swift Laboratories Limited (ISLL) takes into account the increasing scale of operations in the past and the improved profitability in Q1FY21 (Unaudited). The ratings further derive strength from the experienced promoters and regulatory approvals in place. The ratings, however, remain constrained by the weak overall solvency position, concentrated product profile, susceptibility of profitability margins to foreign exchange fluctuations & raw material price volatility and regulatory risk in the industry.

Rating sensitivities

Positive factors

- *Steady scale-up of operations with continuing profits reported at the net level*
- *Improvement in the overall solvency position with an overall gearing ratio of less than 2x and total debt to GCA ratio of less than 10x*
- *Shortening of the working capital cycle leading to lower reliance on borrowings*

Negative factors

- *Any major deterioration in the liquidity position and inability to refinance the issued non-convertible debentures in a timely manner*
- *Any significant decline in income or in the PBILDT margins (to below 10%)*
- *Any significant fund diversion to the group entities/related parties or significant write-offs of existing advances/investments*

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

Detailed description of the key rating drivers
Key rating strengths
Increasing scale of operations in the past and improved profitability in Q1FY21 (Unaudited): The total income of ISLL has grown in the past. The same grew by a modest ~2% in FY20 on account of better demand from its export markets and higher income from the Contract Research and Manufacturing Services (CRAMS) segment. The total income increased further by ~12% in Q1FY21 (UA) as compared to Q1FY20 (UA) on the back of better demand and improved realizations. The PBILDT margins of the company remained healthy at 22.38% in FY20 improving from 22.04% in FY19 owing to increased proportion of income from exports as well as the CRAMS segment, both of which yield higher profitability. The PBILDT margins also remained healthy at 23.31% in Q1FY21 (UA) improving from 22.98% in Q1FY20 (UA), on account of better realizations and higher export sales. The company, however, booked a net loss of Rs.20.79 Cr. in FY20, as compared to a net profit of Rs.38.58 Cr. in FY19. This was in the absence of exceptional income (net of balances written back on account of one time settlement with the various banks, de-recognition of liabilities, creditors written off etc.). In Q1FY21 (UA), the company reported a net profit of Rs.4.17 Cr., as compared to a net loss of Rs.8.10 Cr., during Q1FY20 (UA).

Experienced promoters: The company is operating with Mr. N.R. Munjal as its Managing Director who holds an overall experience of around three decades. IISL has been engaged in the pharmaceuticals industry since 1995 leading to a long standing industry presence. The oldest entity of the IND Swift group, Ind Swift Limited, also has been engaged in the industry since 1986. This has led to established business relations with the clients as well as the suppliers.

Regulatory approvals for the manufacturing facilities and products: IISL's manufacturing plant is GMP (Good Manufacturing Practices) compliant and ISO 9001:2008 certified. It also has approvals for exports to various geographies, like USFDA (United States Food and Drug Administration), KFDA (Korean Food and Drug Administration), PDMA (Pharmaceuticals and Medical Devices Agency) etc., for its various products.

Key rating weaknesses
Weak overall solvency position: The capital structure of the company viz. the long term debt to equity ratio and overall gearing ratio stood leveraged at 2.37x and 2.68x respectively, as on March 31, 2020; though, improving from 3.63x and 4.22x respectively, as on March 31, 2019, on account of conversion of the issued Optionally Convertible Debentures (OCDs) of Rs.75.44 Cr. to equity and repayment of term debt obligations. The interest coverage ratio remained moderate in FY20 though deteriorating from FY19 on account of higher interest expenses. With the absence of any exceptional income leading to lower GCA, the total debt to GCA remained weak at 14.76x as on March 31, 2020, deteriorating from 7.44x as on March 31, 2019. The interest coverage ratio also improved to 1.95x in Q1FY21 (UA) from 1.51x in Q1FY20 (UA) on account of higher interest expenses.

Concentrated product profile: IISL has a concentrated revenue profile with top five products constituting around 60% of the total income in FY20 (PY: ~70%).

Exposure to raw material price volatility and foreign exchange fluctuations risk: During FY20, the raw materials costs constituted ~50% of the total income with the imported raw material forming ~50% of the total material purchase cost. This exposes the profitability margins to any adverse fluctuation in the raw material prices. The company derives most of its revenue from exports which constituted ~68% of the total income in FY20. The company is naturally hedged to some extent, but for the remaining unhedged portion the profitability margins are exposed to adverse fluctuations in foreign exchange rates.

Regulatory risk: The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies.

<u>Liquidity: Stretched</u>
The operating cycle remained elongated but around previous year's levels at ~303 days, as on March 31, 2020. Though high in the past, the average utilizati (Minor changes changes made in the rating tableson of the fund based working capital limits remained moderate at ~71% for the twelve month period ended July-2020. The current ratio and quick ratio of the company, however, improved to 2.60x and 1.53x respectively, as on March 31, 2020 to 2.31x and 1.39x respectively, as on March 31, 2019. ISLL had also availed the moratorium, extant RBI guidelines in light of Covid-19, on its working capital interest payments due in the March-2020 to August-2020 from the banks and for a part of its obligations from other lenders as well. The company has also proposed to undertake a modernization capex of ~Rs.10 Cr. in FY21 also to be funded through the internal accruals generated. ISLL has made investments to the tune of Rs.55.45 Cr. in the form of short term unsecured loans, capital advances of Rs.54.62 Cr. and Rs.26.35 Cr. in the form of equity capital in its group concerns as on March 31, 2020

while it also has long pending receivables from its group concerns (ISL and Essix Biosciences Limited). Writing off of any significant amount of these may adversely impact the profitability of ISLL in the future. Further, any significant investments/ advances to the group entities/related parties will remain a key rating sensitivity. The company has a repayment obligation of ~Rs.36 Cr. in FY21 projected to be done through the internals accruals generated. Also, the company is in the process of getting the issued NCDs refinanced in the near future. However, the repayable amount of NCDs will increase significantly going forward in case the company is not able to refinance this debt. This, therefore, remains a key rating monitorable.

Analytical approach: Stand Alone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Rating Methodology: Consolidation and Factoring Linkages in Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios-Non financial sector
Liquidity Analysis of Non-Financial Sector Entities
CARE's methodology for pharmaceutical sector

About the Company
Incorporated in 1995, IISL is engaged in the manufacturing of Active Pharmaceutical Ingredients, advanced Intermediates and providing Contract Research and Manufacturing Services (CRAMS). ISLL is a part of the Ind-Swift Group and was formed in 1995. The company has three manufacturing facilities- two in Dera Bassi (including research facility), Punjab and one in Samba, Jammu & Kashmir. The products manufactured by the company are sold in both India and the export markets. The group concerns of the company (among others) include IND Swift Limited and Essix Biosciences Limited (rated, 'CARE B; Stable/CARE A4'), both engaged in the pharmaceuticals industry; Fortune India Constructions Private Limited, engaged in the construction industry, etc. The company has three marketing subsidiaries: IND Swift Laboratories Inc. (USA), Meteoric Life Sciences Pte Limited (Singapore), IND Swift Middle East FZE (UAE). The latter two are currently non-operational. The product line of the company, finds its application in a varied range of therapeutic segments as antibiotics, anti-coagulants, anti-virals, lipid lowering agents, etc.

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

Brief Financials(Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	768.52	785.83
PBILDT	169.37	175.89
PAT	38.58	-20.79
Overall gearing (times)	4.22	2.68
Interest coverage (times)	1.84	1.64

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-External Commercial Borrowings	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Limits	-	-	-	-	40.00	CARE B; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	39.75	CARE A4
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	-	31.60	CARE B; Stable / CARE A4
Debentures-Non Convertible Debentures	INE915B07024	June 13, 2018	10%	June 12, 2024	424.50	CARE B; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	424.50	CARE B; Stable	-	1)CARE C; Stable (17-Sep-19)	1)CARE C; Stable (21-May-18)	-
2.	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)CARE C; Stable (17-Sep-19) 2)CARE C; Stable (05-Apr-19)	-	-
3.	Fund-based - LT-Working Capital Limits	LT	40.00	CARE B; Stable	-	1)CARE C; Stable (17-Sep-19) 2)CARE C; Stable (05-Apr-19)	-	-
4.	Non-fund-based - ST-BG/LC	ST	39.75	CARE A4	-	1)CARE A4 (17-Sep-19) 2)CARE A4 (05-Apr-19)	-	-
5.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	31.60	CARE B; Stable / CARE A4	-	1)CARE C; Stable / CARE A4 (17-Sep-19)	-	-

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

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT-External Commercial Borrowings	Simple
3.	Fund-based - LT-Working Capital Limits	Simple
4.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
5.	Non-fund-based - ST-BG/LC	Simple

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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.