

IND Swift Laboratories Limited

April 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term bank facilities	96.10	CARE C; Stable (Single C; Outlook: Stable)	Assigned
Short term bank facilities	44.75	CARE A4 (A Four)	Assigned
Total instruments	140.85 (Rupees one hundred and forty crores and eighty five lakhs only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ind-Swift Laboratories Limited (ISLL) is constrained by the history of delays in debt servicing and history of debt restructuring along with weak overall solvency position & weak liquidity position of the company. The ratings are further constrained by the concentrated product profile, susceptibility of profitability margins to foreign exchange fluctuations & raw material price volatility and regulatory risk in the industry.

The ratings, however, derive strength from the experienced promoters and the regulatory approvals in place.

Going forward, the ability of the company to profitably scale up its operations, improve its overall solvency position while managing its working capital requirements efficiently will remain the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weaknesses

History of delays in debt servicing and history of debt restructuring: During FY12 (refers to the period April 01 to March 31), owing to liquidity constraints, the company had approached Corporate Debt Restructuring (CDR) Cell for restructuring of its bank facilities. FY13 was the first year of implementation of the CDR package. However, owing to failure of the mechanism, the company exited the CDR scheme on March 01, 2017. There were also on-going delays in the past servicing of the debt obligation by ISLL, with the company's account classified as non-performing asset (NPA) in some of the banks. However, the Non-Convertible Debentures (NCDs) of Rs.424.50 Cr. and Optionally Convertible Debentures (OCDs) of Rs.75.44 Cr. issued by the company have been used towards the settlement of a part of the debt. Since December-2018, the conduct in all of the company's bank accounts has remained satisfactory and the company has been timely servicing its debt obligation. In FY18, the company also reported a net profit of Rs.17.62 Cr. (as compared to a loss of Rs.39.72 Cr. in FY17) primarily on account of an exceptional income in the form of reversal of interest as a result of settlement of a part of outstanding debt during the year. In 9MFY19 (Unaudited) also, the company reported a net profit of Rs.71.33 Cr., as compared to a net loss of Rs.30.29 Cr. in 9MFY18 (UA). This was on the back of an exceptional income pertaining to reduction of long term liabilities post settlement of a part of the debt exposure and insurance claim received.

Weak liquidity position: The operating cycle of the company remained elongated at ~322 days as on March 31, 2018 mainly on account of the stretched inventory holding period and average collection period. The working capital limits remained almost fully utilised in the twelve months ended March-2019. The current and quick ratios of the company also stood weak at 0.87x and 0.53x, respectively, as on March 31, 2018. The company raised a total of Rs.499.94 Cr. in FY19 through issue of NCDs and OCDs. These funds were used for partial debt settlement. The company has a repayment obligation of Rs.55.20 Cr. for FY20 which is proposed to be met through the internal resources of the company.

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

Weak overall solvency position: The capital structure of the company remained leveraged as on March 31, 2018. The total debt to GCA also remained weak at 9.77x as on March 31, 2018. However, the interest coverage ratio remained comfortable in FY18.

Concentrated product profile: IISL has a concentrated product profile with top five products constituting more than 70% of the total income each year.

Exposure to raw material price volatility and foreign exchange fluctuations risk: During FY18, the raw materials costs constituted ~52% of the total income with the imported raw material forming ~41% of the total raw 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 ~61% of the total income in FY18. 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.

Key rating strengths

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, ISL, 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. The operating income of the company has increased at a steady rate in the past. The same grew by ~5% in the FY18 on account of better demand. The total income further grew by ~6% in 9MFY19 (Unaudited) from 9MFY18 (UA).

Analytical approach—Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

CARE's methodology for manufacturing companies

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, Punjab and one in Samba, Jammu & Kashmir. The products manufactured by the company are sold in both India and export markets. The group concerns of the company include IND Swift Limited & 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 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	710.49	745.69
PBILDT	121.85	141.44
PAT	-39.72	17.62
Overall gearing (times)	21.37	6.60
Interest coverage (times)	1.39	5.00

A: Audited

Status of non-cooperation with previous CRA: ICRA had conducted the review on the best available information and classified IISL as non-cooperating vide its PR dated June 19, 2018.

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-Term Loan	-	-	June-2022	26.04	CARE C; Stable
Fund-based - LT-Working Capital Limits	-	-	-	70.06	CARE C; Stable
Non-fund-based - ST-BG/LC	-	-	-	44.75	CARE A4

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	450.00	CARE C; Stable	1)CARE C; Stable (21-May-18)	-	-	-
2.	Fund-based - LT-Term Loan	LT	26.04	CARE C; Stable	-	-	-	-
3.	Fund-based - LT-Working Capital Limits	LT	70.06	CARE C; Stable	-	-	-	-
4.	Non-fund-based - ST-BG/LC	ST	44.75	CARE A4	-	-	-	-

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CIN - L67190MH1993PLC071691