IND-Swift Laboratories Limited

September 17, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term bank facilities	45.83 (reduced from 96.10)	CARE C; Stable (Single C; Outlook: Stable)	Reaffirmed
Short term bank facilities	39.75 (reduced from 44.75)	CARE A4 (A Four)	Reaffirmed
Long term/Short term bank facilities	32.10	CARE C; Stable/CARE A4 (Single C; Outlook: Stable/ A Four)	Assigned#
Total bank facilities	**117.68 (Rupees one hundred and seventeen crores and sixty eight lakhs only)**		
Long term instruments (Non-Convertible Debentures)	424.50	CARE C; Stable (Single C; Outlook: Stable)	Reaffirmed
Total instruments	**424.50 (Rupees Four hundred and twenty four crores and fifty lakhs only)**		

Details of instruments/facilities in Annexure-1

#reclassified

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and long term instruments of Ind-Swift Laboratories Limited (ISLL) remain constrained by the history of delays in debt servicing & 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 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. Post December-2018, the company's banking conduct has remained satisfactory.

Weak liquidity position: The operating cycle of the company remained elongated at ~313 days as on March 31, 2019 as (~322 days as on March 31, 2018). The average utilization of the fund based working capital limits remained high at ~90% for the twelve month period ended August-2019. The PBILDT margins improved from 19.39% in FY18 to 21.34% in FY19 on account of lower selling expenses, employee expenses etc. This, coupled with an increased net exceptional income (balances written back on account of one time settlement with the various banks, de-recognition of liabilities, creditors written off etc.) led to the growth in the net profit as compared to FY18 in absolute value terms. In Q1FY20 (Unaudited), the company reported a total income of Rs.185.86 Cr. with a net loss of Rs.16.39 Cr. as compared to an income Rs.182.77 Cr. and a net profit of Rs.27.51 Cr. in FY18. The decline in profitability was on account of increase interest expenses. In Q1FY19 (Unaudited), the company had also booked an exceptional income on account of settlement of a part of overdue exposure with the lenders etc. The PBILDT margins stood at 18.15% in Q1FY20 (UA) as compared to 18.44% in Q1FY19 (UA). The

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

company has a hefty repayment obligation of ~Rs.63 Cr. in FY20 against which its internal accruals are expected to remain tightly matched. The company has also proposed to undertake a modernization capex of ~Rs.6 Cr. in FY20 also to be funded through the internal accruals generated. ISLL has made investments to the tune of Rs.75.81 Cr. in the form of short term unsecured loans and Rs.26.41 Cr. in the form of equity capital in its group concerns as on March 31, 2019 while it also has long pending receivables from its group concern. Writing off of any significant amount of these may adversely impact the profitability of ISLL.

Weak overall solvency position: The capital structure of the company, marked by the overall gearing ratio, remained leveraged as on March 31, 2019 though improving from previous year's levels mainly on account of accretion of profits to the net worth. The interest coverage ratio deteriorated in FY19 from previous year's levels on account of higher interest expenses. The total debt to GCA stood at 6.92x as on March 31, 2019, improving from 9.98x as on March 31, 2018 on account of increased cash accrual generation.

Concentrated product profile: IISL has a concentrated revenue profile with top five products constituting around 70% of the total income in FY19 (PY: ~74%).

Exposure to raw material price volatility and foreign exchange fluctuations risk: During FY19, the raw materials costs constituted ~52% of the total income with the imported raw material forming ~45% 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 ~64% of the total income in FY19. 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.

Analytical approach– Standalone

Applicable Criteria
Policy in respect of Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Financial ratios-Non financial sector
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 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)	FY18 (A)	FY19 (A)
Total operating income	749.53	748.89
PBILDT	145.31	159.83
PAT	17.62	48.07
Overall gearing (times)	6.74	3.96
Interest coverage (times)	2.31	1.92

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 (Last three years): Please refer Annexure-2

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-External Commercial Borrowings	-	-	November-2019	5.83	CARE C; Stable
Fund-based - LT-Working Capital Limits	-	-	-	40.00	CARE C; 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	-	-	-	32.10	CARE C; Stable / CARE A4
Debentures-Non Convertible Debentures	June 13, 2018	10%	June 13, 2024	424.50	CARE C; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	424.50	CARE C; Stable	-	1)CARE C; Stable (21-May-18)	-	-
2.	Fund-based - LT-External Commercial Borrowings	LT	5.83	CARE C; Stable	1)CARE C; Stable (05-Apr-19)	-	-	-
3.	Fund-based - LT-Working Capital Limits	LT	40.00	CARE C; Stable	1)CARE C; Stable (05-Apr-19)	-	-	-
4.	Non-fund-based - ST-BG/LC	ST	39.75	CARE A4	1)CARE A4 (05-Apr-19)	-	-	-
5.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	32.10	CARE C; Stable / CARE A4	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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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