Zim Laboratories Limited

June 2, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	15	CARE BB+;Stable/A4+; (Double B Plus; Outlook: Stable/ A Four Plus)	Assigned
Total Facilities	**15** **(Rupees Fifteen crore only)**		

Detailed Rationale

The ratings assigned to the bank facilities of Zim Laboratories Limited (Zim) are constrained by moderate scale of operations, elongated working capital cycle on account of higher receivable days, presence in a competitive nature of generic formulations industry impacting profit margin of the company and regulatory risk inherent in the pharmaceutical industry.

The ratings derive strength from experience of the promoters in the pharmaceutical industry and established track record of operations in the diversified product range of drug delivery system. The ratings further take a note of increasing share of export sales over past two years and there by improvement in the profit margins during FY16 (refers to the period April 1 to March 31) and 9MFY17 (refers to the period April 1 to December 31).

The ability of the company to scale up the operation, improve profit margins and mange the working capital cycle by reducing receivables days are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experiences management

The company is promoted by Dr Anwar Daud (Managing Director) who is a first-generation entrepreneur with an experience of over 3 decades in the pharmaceutical industry and plays a key role in strategizing & formulating policies of the company. Dr Daud is assisted by a team of qualified and experienced professionals including Mr Zulfiquar Kamal (Director Finance), Mr Riazahmed Kamal (Director Administration) and Mr Prakash Sapkal (Director Operations).

Presences in the diversified product range across DDS application.

The business of Zim is classified primarily into - Pre Formulation, Formulation based on the products manufactured. Pre formulation— Zim manufactures pellets, DC granules, taste mask granules and other PFIs; which are primarily used to manufacture capsules, tablets, dry syrups and injectable. Formulations involve manufacturing of tablets, capsules, dry syrups, injectable and other NDDS. The company also caters to export market and domestic market which also include to business from government. In FY16, the company has commercialized high margin Oral Drug delivery Systems.

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

Presence in export market

The company cater to domestic as well as overseas markets which contribute 30% and 70%, respectively, to the total operating income in FY16. It exports to Armenia, Russia, Iran, Cuba, Congo, Latin America, Columbia, Peru, Ecuador, Bangladesh, Syria, Egypt, Algeria, Sri Lanka, United Arab Emirates, South East Asia and African countries.

Key Rating weakness

Financial risk profile marked by moderate scale of operation, moderate capital structure debt coverage indicators along with elongated working capital cycle

The total operating income of the company was Rs.270.36 crore in FY16 as against Rs.267.80 crore in FY15. The PBILDT margin improved to 11.87% during FY16 as compared with 8.46% FY15 due to increase in the sales realization with the focus on high margin business. The PAT margin remained to 1.79% during FY16 (net profit of Rs.4.83 crore during FY16 versus loss of Rs.21.56 crore during FY15) on account of heavy interest cost. The working capital cycle remained constant at 98 days during FY16 as against 98 days during FY15 on back of higher collection days and inventory days. The long debt to equity and overall gearing stood at 0.40x and 1.00x, respectively, as on March 31, 2016, as against 0.45 and 1.01x as on March 31, 2016.

During 9MFY17, TOI was Rs 169.20 crore. The PBILDT margin has improved to 13.51% in 9MFY17 as compared to 11.87% in FY16 on account of increasing sales of high margin business. The PAT margin has improved to 10.50% in 9MFY17 as against 1.79% due to recovery of 11.00 crore from doubtful debt during FY17.

Analytical approach: Standalone.

Applicable criteria

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

About the Company

Zim Laboratories Limited (ZIM), incorporated in 1984, is engaged in the manufacturing of small formulation dosages encompassing tablets, powders, capsules & multi-particulates (pellets) in sustained & controlled release forms. The company is having its expertise and focus on the Drug Delivery System (DDS) in the generic product range. The company has large portfolio of the products spread across various therapeutic segments. The company plant is located in Nagpur.

During FY16, the total operating income (TOI) of ZIM stood at Rs.270.36 crore (compared with Rs.270.36 crore in FY15), while net profit of the company stood at Rs.4.83 crore in FY16 (compared with loss of Rs.21.56 crore FY15).

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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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.

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/Packing Credit	-	-	-	15.00	CARE BB+; Stable / 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 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/Packing Credit	LT/ST	15.00	CARE BB+; Stable / CARE A4+	-	-	-	-

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