

Zim Laboratories Limited

January 8, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long-term/Short term Bank Facilities	15.00	CARE BB+; Positive/CARE A4+ (Double B Plus; Outlook: Positive/A four Plus)	Reaffirmed
TOTAL	15.00 (Rupees Fifteen crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to be constrained by moderate scale of operations, elongated working capital cycle on account of stretched receivables, presence in a competitive nature of generic formulations industry and regulatory risk inherent in the pharmaceutical industry.

The ratings continue to 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 into account improvement in profitability, capital structure and debt coverage indicators during FY17 (refers to April 1 to March 31).

The ability of the company to scale up the operation, improve profit margins and manage the working capital cycle through efficient collection policies are the key rating sensitivities. Ability of the company to derive envisaged benefits from on-going debt funded capital expenditure will be a key rating monitorable.

Outlook: Positive

The 'Positive' outlook reflects CARE's expectation of improvement in company's scale of operations and operating profitability driven by focus on export markets, leading to likely improvement in capital structure and debt coverage indicators. The company's operations remain working capital intensive. The outlook may be revised in case of lower than expected growth in revenue and profitability or if the liquidity profile is affected due to further elongation of working capital cycle.

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.

Diversified product portfolio

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.

Geographic diversification through increasing focus on export markets

The company caters to domestic as well as overseas markets which accounted for ~37% and ~63% of net sales respectively during FY17 (~48% and ~52% respectively during FY16). The company exports to countries such as 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.

Improvement in profitability margins, capital structure and debt coverage indicators during FY17

Backed by lower average cost for key raw materials, PBILDT improved from 10.01% during FY16 to 13.98% during FY17. PAT margin, improved substantially from 1.90% during FY16 to 7.86% during FY17. Long term debt to equity and overall gearing Improved to 0.29x and 0.69x as on March 31, 2017 as compared to 0.41x and 1.00x as on March 31, 2016 respectively. TDGCA improved from 6.97x during FY16 to 3.56x during FY17, while interest coverage improved from 2.00x during FY16 to 3.57x during FY17.

Key Rating Weaknesses

Decline in total operating income

Total operating income declined to Rs.236.61 crore during FY17 as compared to Rs.270.36 crore during FY16. Sales de-growth in domestic markets led to overall decline in TOI.

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

Elongated working capital cycle

Working capital cycle further elongated to 127 days during FY17 as against 100 days during FY16. The same was mainly on account of stretched receivables.

Intense competition and exposure to regulatory risk inherent in pharmaceutical industry

The company faces intense competition in the domestic as well as international generics markets. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. In India too, government policies have played key role in performance of companies such as explicit control on drug prices in the form of drug price control order (DPCO). Further, the patent laws and related regulations might hamper company's plans to launch new products and cater to new markets.

Industry Outlook

Indian pharmaceutical companies are expected to continue to experience growth from US markets over medium term backed by sizeable generic opportunities over next two years, strong product pipeline of ANDAs with increasing proportion of complex generic. However, US markets are facing multiple challenges such as increased scrutiny by USFDA, consolidation of supply-chain and need for higher investments in R&D to tap complex segments. Companies with growing portfolio comprising niche or complex products and high levels of backward integration are likely to be better positioned considering above challenges.

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](#)

About the Company

Incorporated in 1984, Zim Laboratories Limited (ZLL) manufactures small formulation dosages encompassing tablets, powders, capsules & multi-particulates (pellets) in sustained & controlled release forms. The company has its focus on the Drug Delivery System (DDS) in the generic product range.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	270.36	236.61
PBILDT	27.08	33.07
PAT	5.15	18.60
Overall gearing (times)	1.00	0.69
Interest coverage (times)	2.00	3.57

A: Audited

Status of non-cooperation with previous CRA: Not applicable

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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+; Positive / 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+; Positive / CARE A4+	1)CARE BB+; Stable / CARE A4+ (02-Jun-17)	-	-	-

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