March 19, 2021

Windlas Biotech Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Term Loans	12.83	2.10	[ICRA]A (Stable); reaffirmed
Long Term: Fund Based limits	67.30	42.30	[ICRA]A (Stable); reaffirmed
Short Term: Non-Fund Based limits	2.00	2.00	[ICRA]A1; reaffirmed
Short Term: Fund Based limits	25.00	10.00	[ICRA]A1; reaffirmed
Short Term: Interchangeable	(19.00)	-	-
Long/ Short Term: Unallocated	1.67	52.40	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	**108.80**	**108.80**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continue to favourably factor in Windlas Biotech Private Limited's (WBPL) established track record as a leading contract manufacturer for major pharmaceutical companies. WBPL has been associated with its key customers for several years and has managed to consistently gain business on the back of regular investments in capacities and maintaining quality standards. The company continues to focus on gaining incremental business and increase its share of exports to further diversify its revenue profile. The ratings also factor in the reduction in customer concentration risk with top three customers accounting for ~30% of FY2020 revenues. The ratings also consider WBPL's healthy financial risk profile characterised by a comfortable capital structure, healthy debt coverage indicators and strong liquidity position. Furthermore, ICRA notes the company's capital expansion plans towards additional manufacturing facilities over the next two to three years. However, as WBPL plans to raise additional capital to finance the expansion in addition of utilising its internal accruals, its capital structure is expected to remain comfortable. Nonetheless, the company's ability to profitably scale up its operations by achieving optimal capacity utilisation levels and generate commensurate returns will be monitored.

The ratings, however, remain constrained by high dependence on contract manufacturing segment and the limited traction seen in the branded generics segment. ICRA notes the moderation in WBPL's standalone operating profitability in FY2020 due to an increase in overheads. Furthermore, the company has acquired entire stake in Windlas Healthcare Private Limited (WHC) in the current year, which is expected to nullify improvements in overall margins in WBPL going forward owing to the ongoing operational losses in WHC. ICRA also takes note of the proposed merger of WBPL with WHC, subject to the receipt of the requisite approvals. The ratings also consider the dependence of margins on several factors including raw material price movement, forex fluctuations, longevity of molecule in market and availability of substitutes (generics). Further, ICRA factors in the stiff competition in the fragmented pharmaceutical industry, with the inherent regulatory risk. Furthermore, the company is yet to resolve the warning letter issued by the United States Food and Drug Administration (USFDA) to its plant under WHC.

The Stable outlook on the rating reflect ICRA's opinion that WBPL will continue to benefit from the vast experience of the promoters in the pharmaceutical industry and its established relation with major pharmaceutical companies resulting in continuous order flows in the contract manufacturing vertical.

Key rating drivers and their description

Credit strengths

Liquidity supported by strong cash and cash equivalents and undrawn working capital lines – The liquidity profile remained healthy, supported by comfortable internal cash accruals, unencumbered cash and cash equivalents of Rs. 46.56 crore as on December 31, 2020. The liquidity position is further supported by WBPL's undrawn working capital limits.

Reputed and established clientele with gradual reduction in customer concentration – WBPL's customer concentration risk has reduced with top three customers accounting for ~30% of FY2020 revenues (down from 37.4% in FY2018). The counterparty credit risk associated with the top customers is low, as reflected by efficient collection cycle remaining at 72 days in FY2020.

Established track record as a leading contract manufacturer along with extensive promoter experience – WBPL has an established track record as a leading contract manufacturer for major pharmaceutical companies. In addition, the promoters have extensive experience in the pharmaceutical industry and have established relationships with several of the company's suppliers and customers, thus supporting its operational profile.

Comfortable capital structure and debt protection metrics – WBPL has shown a YoY improvement in revenues in FY2020, which continued in the current year, aided by the execution of the healthy order book position. The capital structure continues to remain comfortable, with gearing of 0.1 times as on March 31, 2020. Owing to the gradual repayments of loans during the last few years, as well as lower requirement of external funds for working capital, the total debt levels have declined over the years. The coverage indicators witnessed healthy improvement and remain comfortable as reflected by an interest cover of 17.2 times in FY2020, TD/OPBDITA of 0.7 times and NCA/Debt of over 100% as on March 31, 2020.

Credit challenges

Modest scale of current operations – The company remains a moderate-sized player in the formulations industry with an operating income (OI) of Rs. 328.9 crore in FY2020. The domestic generic formulation industry faces stiff competition from numerous contract manufacturers, multinational corporation (MNC) as well as established domestic brands. The intense competition restricts WBPL's revenue growth and pricing flexibility. Moreover, WBPL's standalone operating margins declined in FY2020 due to an increase in overheads.

Intense competition in industry with inherent regulatory risk – WBPL operates in a highly competitive and fragmented nature of industry with inherent regulatory risks. The operations also remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. With increasing focus on exports, ICRA notes that timely product and facility approval/renewal in various semi-regulated/regulated markets remains critical for the growth of exports going forward. ICRA also notes that the company is yet to resolve the warning letter issued by the USFDA to for its plant under WHC.

Working capital-intensive nature of operations – WBPL's working capital requirement remains moderately high on account of the nature of the end contracts, specifically in contract manufacturing. The company is bound to maintain a minimum inventory for various raw materials and finished goods to maintain uninterrupted flow of supplies.

Margins dependent on raw material price movement and foreign exchange fluctuations – With limited control over the prices of its key inputs, the company's profitability is exposed to volatility in raw material prices. However, in the past, it has passed on the increase in prices to its customers, thereby limiting the exposure to some extent. Moreover, with the company's increasing thrust on exports, its profitability remains vulnerable to fluctuations in foreign currency exchange rates, to the extent unhedged.

Liquidity position: Strong

WBPL's liquidity position remains **strong**, characterised by healthy cash balance of Rs. 46.56 crore as on December 31, 2020 and low to moderate utilisation of working capital limits (average utilisation of 22% during the past 12-month period that ended in December 2020). Moreover, the long-term debt remained low at Rs. 2.11 crore as on January 31, 2021.

Rating sensitivities

Positive factors – ICRA could upgrade WBPL's ratings if the company demonstrates scale up across its business verticals while improving its operating profitability above 15%, on a sustained basis, along with maintaining strong credit metrics.

Negative factors – Negative pressure on WBPL's rating could arise in case of any elongation in debtor cycle or in case of any sizeable capex leading to material deterioration of capitalisation and coverage metrics could exert negative pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

WBPL was incorporated in 2001 and derives its business from two segments viz. - contract manufacturing of formulations for domestic pharmaceutical companies, and manufacturing and marketing of branded generic as well as generic formulations. The company operates out of its three manufacturing plants set up in Dehradun to cater to nutraceuticals, cephalosporins and other drugs. It also supplies to semi-regulated destinations such as Vietnam, Myanmar, Kenya and Nigeria and intends to increase its presence in the export markets over the near term. In FY2021, WBPL purchased entire stake in WHC making the latter its wholly-owned subsidiary. WBPL plans to merge WHC with itself, subject to the receipt of the requisite approvals. WHC runs a US-FDA approved plant and provides an array of services including site transfers, contract research for formulations development, small scale to commercial production and regulatory support.

Key financial indicators (audited)

WBPL (Consolidated)	FY2019	FY2020
Operating Income (Rs. crore)	307.6	328.9
PAT (Rs. crore)	62.9	22.5
OPBDIT/OI (%)	12.2%	12.4%
PAT/OI (%)	20.4%	6.8%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.6
Total Debt/OPBDIT (times)	0.8	0.7
Interest Coverage (times)	8.1	17.2

Source: Company, ICRA Research; All ratios as per ICRA calculations; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating		FY2020	FY2019	FY2018
					March 19, 2021	May 11, 2020	29-Nov-2019	23-Aug-2018	-
1	Term Loan	Long Term	2.10	2.10^	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	Cash Credit	Long Term	42.30	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
3	Fund based	Short Term	10.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
4	Non-Fund based	Short Term	2.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
5	Interchangeable	Short Term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
6	Unallocated	Long Term/ Short Term	52.40	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-
7	Fund Based	Long Term/ Short Term	-	-	-			[ICRA]A (Stable)/ [ICRA]A1	-
8	Interchangeable	Long Term/ Short Term	-	-	-			[ICRA]A (Stable)/ [ICRA]A1	-

^as on January 31, 2021

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-1	FY2015	-	FY2022-23	0.77	[ICRA]A (Stable)
NA	Term Loan-2	FY2015	-	FY2022-23	0.46	[ICRA]A (Stable)
NA	Term Loan-3	FY2015	-	FY2022-23	0.83	[ICRA]A (Stable)
NA	Vehicle Loan	FY2015	-	FY2022-23	0.04	[ICRA]A (Stable)
NA	Cash Credit		-	FY2022-23	42.30	[ICRA]A (Stable)
NA	Letter of Credit/ Bank Guarantee		-		2.00	[ICRA]A1
NA	Bill Discounting		-		10.00	[ICRA]A1
NA	Unallocated		-		52.40	[ICRA]A (Stable)/ [ICRA]A1

Source: WBPL

Annexure-2: List of entities considered for consolidated analysis

Company name	WBPL Ownership	Consolidation Approach
Windlas Healthcare Private Limited	49%^	Equity Method

^WBPL held 49% stake in WHC till March 31, 2020. With effect from May 2020, WHC is a wholly owned subsidiary of WBPL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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