November 29, 2019

Windlas Biotech Private Limited: Ratings of [ICRA]A (Stable)/[ICRA]A1 reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Term Loans	18.91	12.83	[ICRA]A (Stable); reaffirmed
Long Term: Fund Based limits	27.00	67.30	[ICRA]A (Stable); reaffirmed
Short Term: Non-Fund Based limits	2.00	2.00	[ICRA]A1; reaffirmed
Short Term: Fund Based limits	25.00	25.00	[ICRA]A1; reaffirmed
Short Term: Interchangeable	(19.00)	(19.00)	[ICRA]A1; reaffirmed
Long/ Short Term: Unallocated	12.59	1.67	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Long/ Short Term: Fund Based	23.30	Nil	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Long/ Short Term: Interchangeable	1.50	Nil	[ICRA]A (Stable)/ [ICRA]A1; reaffirmed
Total	**108.80**	**108.80**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings factor in the established track record of Windlas Biotech Private Limited (WBPL) as a leading contract manufacturer for major pharmaceutical companies with major portion of revenues derived out of the principal-to-principal and small portion coming by way of loan licensing arrangement. ICRA takes note of the diversified product portfolio with top 10 products accounting to ~17.1% of FY2019 revenues, highlighting its presence across various therapeutic segments and across various dosage forms. The rating also positively factors in the healthy financial risk profile characterised by compound annual growth rate (CAGR) of 6.7% during the past six-year period ending FY2019 and improvement in margins by 350bps to 15.4% in FY2019 (15.3% in H1 FY2020) with cost rationalization strategies, increased focus on value added generics and fixed dose combination drugs. Consequently, the coverage metrics remained comfortable with interest cover of 12.23 times, TD/ OPBITDA of 0.67 times in FY2019. The ratings also factor in the reduction in customer concentration risk with top three customers accounting for less than 30.4% of FY2019 revenues (down from 37.4% in FY2018). ICRA favourable factors in the low counter party credit risk associated with the top customers as reflected by no bad-debt provisioning in FY2019 and efficient collection cycle of <80 days.

That said, the ratings remain constrained by the high dependence on contract manufacturing segment and the limited traction seen across the branded generics and export segment. However, WBPL has filed close to ~90 dossiers to diversify its market presence across Kenya, Nigeria and Vietnam markets for various drugs and has an outstanding orderbook of Rs. 12.0 crore as on September 30, 2019 in the export market. Within the severely under-penetrated branded generics segment, WBPL intends to commercialize ~50 molecules which are in various stage of clinical trials (about 60+ are available in the market). Also, ICRA takes note of the dependence of margins on several factors including raw material price movement, longevity of molecule in market and availability of substitutes (generics). Further, ICRA factors in the highly competitive & fragmented nature of industry with inherent regulatory risk.

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 across the contract manufacturing vertical.

Key rating drivers and their description

Credit strengths

Diversified business verticals - WBPL undertakes contract manufacturing of formulations for domestic pharmaceutical companies on four business verticals namely - principal-to-principal (P2P) basis (which contributes to 87.7% of FY2019 revenues), branded generics (9.4% of FY2019 revenues) and exports to semi regulated markets (~2.2%).

Diversified product portfolio – WBPL is engaged in contract manufacturing of various class of drugs including cough syrups, antacids, eye-drops, anti-biotics, anti-diabetic, cardio and pain killers, etc although it predominantly concentrates in the cardio-diabetic segment. Further, top 10 products account to ~17.1% of FY2019 revenues (17.5% of FY2018 revenues).

Healthy financial risk profile – WBPL's financial risk profile is healthy characterised by compound annual growth rate (CAGR) of revenues at 6.7% during the past six-year period ending FY2019 and improvement in margins by 350bps to 15.4% in FY2019 (15.3% in H1 FY2020) with cost rationalization strategies, increased focus on value added generics and fixed dose combination drugs. Consequently, the coverage metrics remained comfortable with interest cover of 12.23 times, TD/ OPBITDA of 0.67 times in FY2019.

Reduced customer concentration risk – WBPL's customer concentration risk has reduced with top three customers accounting for less than 30.4% of FY2019 revenues (down from 37.4% in FY2018). Also, the counter party credit risk associated with the top customers is low as reflected by no bad-debt provisioning in FY2019 and efficient collection cycle of <80 days.

Credit challenges

Modest scale of operations – WBPL's scale of operations continue to remain low owing to limited traction seen across its business segments.

High dependence on contract manufacturing vertical – WBPL's revenue concentration remain high on contract manufacturing segment which constitutes to ~87.7% of FY2019 revenues. Further, there has been limited traction across the branded generics and export segment. However, WBPL has filed close to ~90 dossiers to diversify its market presence across Kenya, Nigeria and Vietnam markets for various drugs and has an outstanding orderbook of Rs. 12.0 crore as on September 30, 2019 in the export market.

Vulnerability of operating margins – WBPL's margins are dependent on several factors including raw material price movement, longevity of molecule in market and availability of substitutes (generics).

Exposed to regulatory risks - WBPL operates in a highly competitive & fragmented nature of industry with inherent regulatory risks.

Liquidity position: Strong

WBPL has term loans/ vehicle loans of Rs. 12.83 crore as on March 31, 2019 and has low repayment obligations of Rs. 6.99 crore in FY2019. Further, the cash and cash equivalents remain high at Rs. 29.54 crore as on March 31, 2019. The fund flow and free cash flows are positive in FY2019 and the liquidity position is **strong** with low utilisation of working capital limits averaging at 25.2% during the past 12-month period that ended in September 2019.

Rating sensitivities

Positive triggers – ICRA could upgrade WBPL's ratings if the company demonstrates scale up across its business verticals while also maintaining its operating profitability above 15% on a sustained basis.

Negative triggers – Negative pressure on WBPL's rating could arise in case of any elongation in debtor cycle beyond 100 days or in case of any sizeable capex leading to material deterioration of capitalisation and coverage metrics could exert negative pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Windlas Biotech Private Limited (WBL) was incorporated in 2001 and derives its business from two segments viz. - contract manufacturing of formulations for domestic pharmaceutical companies and manufacturing & marketing of branded generic formulations. The company operates out of its three manufacturing plants set up in Dehradun to cater to nutraceuticals, cephalosporins and other drugs. WBPL is ISO 9001:2008 accredited with WHO GMP certification for all its products finding its application across various therapeutic segments mainly for cardio-diabetic drugs (fixed dose combinations). WBPL 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. Exports account to ~2.2% of FY2019 revenues.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	320.3	288.2
PAT (Rs. crore)	16.9	22.5
OPBDIT/OI (%)	12.0%	15.4%
RoCE (%)	15.3%	18.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.81	0.52
Total Debt/OPBDIT (times)	1.1	0.7
Interest Coverage (times)	8.09	12.23
DSCR	2.5	2.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017	FY2016
					29-Nov-2019	23-Aug-2018	-	28-Mar-2017	18-Jan-2016
1	Term Loan	Long Term	12.83	12.83	[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)
2	Cash Credit	Long Term	67.30		[ICRA]A (Stable)	[ICRA]A (Stable)	-	[ICRA]A- (Positive)	[ICRA]A- (Stable)
3	Fund based	Short Term	25.00		[ICRA]A1	[ICRA]A1	-	[ICRA]A2+	[ICRA]A2+
4	Non-Fund based	Short Term	2.00		[ICRA]A1	[ICRA]A1	-	[ICRA]A2+	[ICRA]A2+
5	Interchangeable	Short Term	(19.00)		[ICRA]A1	[ICRA]A1	-	[ICRA]A2+	[ICRA]A2+
6	Unallocated	Long Term/ Short Term	1.67		[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A1
7	Fund Based	Long Term/ Short Term	Nil		-	[ICRA]A (Stable)/ [ICRA]A1	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A1
8	Interchangeable	Long Term/ Short Term	Nil		-	[ICRA]A (Stable)/ [ICRA]A1	-	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A1

Source: WBPL; Amount in Rs. crore

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	7.38%-8.09%	NA	3.21	[ICRA]A (Stable)
NA	Term Loan-2	FY2015	5.80%	NA	2.59	[ICRA]A (Stable)
NA	Term Loan-3	FY2015	10.12%	NA	6.82	[ICRA]A (Stable)
NA	Vehicle Loan-4	FY2015	9.20%-9.82%	NA	0.21	[ICRA]A (Stable)
NA	Cash Credit		8.30%-9.55%	NA	67.30	[ICRA]A (Stable)
NA	Letter of Credit/ Bank Guarantee				2.00	[ICRA]A1
NA	Bill Discounting				25.00	[ICRA]A1
NA	Interchangeable				(19.00)	[ICRA]A1
NA	Unallocated				1.67	[ICRA]A (Stable)/ [ICRA]A1

Source: WBPL; Amount in Rs. crore

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

Manish Ballabh
+91 124 4545 812
manish.ballabh@icraindia.com

Vipin Jindal
+91 124 4545 355
vipin.jindal@icraindia.com

Shweta Sankaramani
+91 124 4545 318
shweta.sankaramani@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999