

February 05, 2024

Windlas Biotech Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based term loans	0.81	0.30	[ICRA]A+ (Stable); Reaffirmed
Long-term – Fund-based cash credit	67.40	58.40	[ICRA]A+ (stable); Reaffirmed
Short-term – Non-fund based limits	2.00	0.00	-
Short-term – Fund-based limits	10.00	0.00	-
Long/ Short-term – Unallocated	4.79	0.14	[ICRA]A+(Stable)/[ICRA]A1; Reaffirmed
Total	85.00	58.84	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation reflects ICRA's expectations that Windlas Biotech Limited's (WBL's) credit profile will continue to remain comfortable reflected by low leverage, healthy coverage metrics and liquidity, aided by a steady demand outlook for the pharmaceutical sector and WBL's well-established customer relationships for its contract manufacturing business. The ratings further favourably factor in WBL's leading position among the organised contract development and manufacturing organisation (CDMO) sector in India. Further, the company's trade generics division has been witnessing a healthy growth supporting its efforts to diversify its revenue base. Moreover, ICRA notes that the company has set up an injectables facility, which is expected to commence operations from the next fiscal. The same is expected to benefit the company's operational and margin profile in the medium to long-term. WBL is in the process of securing requisite approvals for the same.

The ratings, however, remain constrained by the company's relatively moderate scale of operations. While about ~47% of its revenues comes from its top 10 clients, indicating concentration in H1 FY2024, the company has been successful in reducing the same over the years. A growing generics business has also added to the diversity. As is prevalent in the formulations CDMO and pharmaceutical industry, the company also remains exposed to competition and inherent regulatory risks.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that WBL's operational profile will remain healthy, supported by its stable CDMO operations and increasing trade generics division. The ramp up in the injectable division, its client profile and overall operations will remain key rating monitorables.

Key rating drivers and their description

Credit Strengths

Leading CDMO player with extensive promoter experience – WBL 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. The company started witnessing demand recovery in FY2023 supported by strong product pipeline and new customer acquisition, which has continued into the current fiscal as well. The trade generics business continues to grow and has witnessed a healthy scale-up in FY2023 and H1 FY2024, supported by the company's growing distribution network of stockists across northern and western states with focus on suburban and rural areas, which are under

penetrated in terms of accessibility of authentic drugs. As a result, the revenue contribution from trade generics, including institutional sales has grown to 19.9% in H1 FY2024 over 17.6% in FY2023 and 13.0% in FY2022, adding to the revenue mix.

Ramp up in newly set-up injectables division augurs well for WBL's operational profile – The company has set up a new injectable plant, which is expected to commence commercial production from FY2025; while full-fledged exports are expected to commence from FY2026. While this augurs well for the company's operational profile, diversifying its product offerings and aiding its scale and margin profile ability to secure requisite approvals and business in a timely manner will remain crucial. The nature of WBL's client tie-ups, product portfolio and markets for this new plant will also remain a rating monitorable.

Diversified product portfolio with increasing focus on complex generics and fast growing chronic/ sub-chronic therapeutic areas – In terms of therapeutic coverage, WBL has been consistently growing its chronic and sub-chronic portfolio including anti-diabetic, cardiovascular, neuropsychiatry, respiratory health and nutraceuticals, which are fast growing areas and command higher margins. The share of the chronic and sub-chronic segments is currently ~57-60% of the total product portfolio. The company also caters to acute segments, including gastroenterology, analgesic, dermatological and cough/ cold. In terms of formulation composition, WBL primarily focuses on developing the complex generic formulations for its CDMO clientele, which involves a higher degree of expertise/ trained manpower and, thus, high barriers to entry while commanding higher margins. Around 64% of the products WBL manufactured in H1 FY2024 were complex generics.

Healthy financial risk profile with comfortable debt protection metrics – The company's financial risk profile remains healthy with expectation of consistent earnings growth in current fiscal supported by scale-up of trade generics revenues and overall economies of scale. Return metrics are also healthy with RoCE and core RoCE having improved and remaining strong at 19.6% and 28.6%, respectively (as on September 30, 2023). However, the same may subside marginally, going forward, as the new plant will take time in generating returns. WBL's capital structure remains comfortable, with gearing of 0.02 time as on September 30, 2023. The coverage indicators remained at comfortable levels owing to minimal finance costs. The company has also improved its working capital cycle reflecting in working capital intensity of 12.6% (as on September 30, 2023) over ~20% (as on March 31, 2023) supported by range-bound receivables and credit from vendors. WBL's financial profile is further supported by a strong liquidity base.

Credit Challenges

Moderate scale of operations with high segment concentration – Although the company is one of the leading formulations CDMO players in the organised domestic market, it remains a moderate-sized player in the overall formulations CDMO industry with an operating income (OI) of Rs. 513 crore in FY2023 and Rs. 297 crore in H1 FY2024. ICRA, however, notes that the company plans to grow both its segments, supported by the injectables capacity. With expected scale up of its trade generics vertical and ramp up in its injectable division, WBL is likely to see gradual improvement in segmental revenue diversification.

Formulation CDMO business exposed to intense competition and inherent regulatory risks – WBL operates in a highly competitive and fragmented industry with inherent regulatory risks. The domestic generic formulation industry faces stiff competition from numerous contract manufacturers, multinational corporations (MNCs) as well as established domestic brands. The intense competition could restrict WBL's revenue growth and pricing flexibility. The operations also remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. ICRA notes that WBL has successfully completed audits from European Union Good Manufacturing Practices (EU-GMP) and South African drug authorities for its facilities; and these markets are expected to support exports in the medium term. ICRA continues to monitor the ongoing remediation in regard to the United States Food and Drug Administration (USFDA) certification for one of its facilities, wherein there have been no updates as on date. ICRA notes that the company does not plan to target the US market in the medium term.

Moderately high client concentration risk, which has gradually diluted in recent times; strong reputation of clients mitigates the risk to an extent – The company faces moderately high client concentration risk with its top 10 customers accounting for ~47% of its overall CDMO sales during H1 FY2024, slightly lower than ~55% in FY2023. However, the long-established nature

of its client relationships and the healthy credit profile of its customers lend revenue visibility and lower risk of bad debts. A growing generics business has also added to the diversity.

Environmental and Social Risks

Environmental considerations: The company may face environmental risks with regard to breach of waste and pollution norms, which can lead to an increase in operating costs. All the four manufacturing facilities of WBL have waste management and environmental protection systems in place, which comply with environmental pollution regulations and mitigates the risk to a large extent. To optimise its entire effluent stream, WBL has been implementing several techniques. Additionally, WBL has installed an ultrafiltration plant to treat effluent discharge water and recycle the same. The company also uses an eco-friendly, briquette fire boiler to minimise emissions. To reduce industrial emission at sites, air conditioning systems and heat ventilation systems have been installed. However, going forward, the company may require capital investments to upgrade its effluent treatment infrastructure to reduce waste generation in accordance with changing emission norms.

Social considerations: The company faces high industry-wide social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance. Further, Government intervention related to price caps/controls also remains a social risk faced by entities in the pharmaceutical industry. The company has a track record of not having to bear any material product safety or litigation issues from its CDMO clients, which indicates its sensitivity towards responsible operations.

Liquidity position: Strong

WBL’s liquidity is strong, evidenced by high cash balances and liquid investments of Rs. 160 crore and unutilised working capital facilities of ~Rs. 55 crore, as of September 30, 2023. Its liquidity profile is further supported by expected retained cash flows of Rs. 50-55 crore in FY2024 and no significant debt repayment obligations. The same is expected to be adequate to fund its routine capex and working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade WBL’s ratings if it demonstrates scale up across its business verticals while maintaining healthy RoCE along with strong credit metrics, on a sustained basis.

Negative factors – Negative pressure on WBL’s rating could arise in case of any elongation in debtor cycle, or inability to ramp up the new facility; or in case of any sizeable capex leading to material deterioration of credit metrics. Specific triggers would be TD/OPBITDA greater than 2.0 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2001, the Windlas Group originally comprised two companies—Windlas Biotech Private Limited (WBPL) and Windlas Healthcare Private Limited (WHC). WHC was an erstwhile subsidiary of WBPL, which was amalgamated into WBPL and the merged entity was renamed as Windlas Biotech Limited. WBL derives its business from three key business segments—viz., its formulations CDMO services and products (76.7% of total turnover in H1 FY2024); its domestic trade generics segment

(19.9%); and its exports business (3.5%). WBL is among the leading CDMO players in the domestic pharmaceutical formulations industry, with four manufacturing facilities at Dehradun (Uttarakhand), of which three plants are WHO-GMP compliant. These four facilities have an aggregate installed annual production capacity of 732.2 crore tablets/capsules, 5.4 crore pouch/sachets and 6.1 crore liquid bottles (as on September 30, 2023). The company has also set up a unit for injectables, which is expected to commence commercial production from FY2025.

Key financial indicators (audited/unaudited)

WBL	FY2022	FY2023	H1FY2024*
Operating income	465.9	513.1	297.5
PAT	38.1	42.6	26.1
OPBDIT/OI	11.3%	11.7%	12.0%
PAT/OI	8.2%	8.3%	8.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.3	0.4
Total debt/OPBDIT (times)	0.1	0.1	0.1
Interest coverage (times)	37.0	76.4	68.5

Source: Company, ICRA Research; * Unaudited numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore. 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	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021
						Feb 05, 2024	Nov 30, 2022	Sep 24, 2021	
1 Long Term: Fund Based Term Loans	Long term	0.30	0.30	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Long Term: Fund Based Cash Credit	Long term	58.40	58.40	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Short Term: Non-Fund Based limits	Short term	0.00	0.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Short Term: Fund Based limits	Short term	0.00	0.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Long/ Short Term: Unallocated	Long/ Short term	0.14	0.14	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A+ (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1
6 Interchangeable	Short term	-	-	-	-	-	-	-	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term: Fund Based Term Loans	Simple
Long Term: Fund Based Cash Credit	Simple
Long/ Short Term: Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term: Fund Based Term Loans	FY2015	-	FY2023-24	0.30	[ICRA]A+ (Stable)
NA	Long Term: Fund Based Cash Credit	NA	-	NA	58.40	[ICRA]A+ (Stable)
NA	Long/ Short Term: Unallocated	NA	-	NA	0.14	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

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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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