September 24, 2021

Windlas Biotech Limited: Long-term rating upgraded to [ICRA]A+(Stable); Short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term: Fund Based Term Loans	2.10	2.10	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Long Term: Fund Based Cash Credit	42.30	42.30	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Short Term: Non-Fund Based limits	2.00	2.00	[ICRA]A1; reaffirmed
Short Term: Fund Based limits	10.00	10.00	[ICRA]A1; reaffirmed
Long/ Short Term: Unallocated	52.40	52.40	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable)/[ICRA]A1 reaffirmed
Total	**108.80**	**108.80**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade factors in the strengthening of the financial risk profile of Windlas Biotech Limited (WBL) through its recent Initial Public Offering (IPO). The rating also factors in WBL's established relationships with its strong clientele in the domestic pharma industry and the initiatives taken to diversify its revenue streams by scaling up its domestic trade generics business and improving its geographic footprint in high growth, semi-regulated markets. The company continues to register healthy growth in the formulation CDMO business supported by product portfolio expansion. ICRA also takes cognisance of the company's expansion plans by foraying into injectables segment, which would support profitability and scale ramp up.

The rating, however, remains constrained by the company's relatively moderate scale of operations and high client concentration risk particularly in the contract manufacturing segment. As is prevalent in the formulations CDMO industry, the company also remains exposed to competition and inherent regulatory risks. ICRA continues to monitor the ongoing remediation in the regard to the United States Food and Drug Administration (USFDA) for one of its facilities.

The Stable outlook for the long-term rating reflects ICRA's expectation that WBL would continue to maintain its healthy credit profile over the medium term, aided by a steady demand outlook for the pharmaceutical sector and WBL's well-established customer relationships for its contract manufacturing business.

Key rating drivers and their description

Credit strengths

Established track record as a leading CDMO player along with extensive promoter experience; foray into trade generics business to improve revenue diversification – 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. The company plans to significantly grow its trade generics and Over-The-Counter (OTC) brands vertical, which would improve its revenue diversity. As of March 31, 2021, the company had a network of over 703 stockists and distributors spread across

15 states in India, mainly in suburban and rural areas. In FY2021, WBL earned 85% of its revenues from the CDMO vertical and the remaining 15% from the domestic trade generics and exports verticals. The company witnessed healthy growth of 26%, 45% and 78% across its contract manufacturing, domestic trade generics and exports verticals, respectively, in FY2021.

Diversified product portfolio with increasing focus on complex generics products and chronic/sub-chronic therapeutic areas – The number of products in chronic/sub-chronic have grown to 920 in FY2021 from 624. The company is focused on developing and launching new complex generic products and currently around 68% of its total production is complex generic drugs, which command better margins. The domestic trade generics and OTC product portfolio are also moderately diversified with 185 brands catering to nutritional, Ayurvedic, wellness and personal care. The company also sold around 56 products to semi-regulated, overseas markets in FY2021.

Healthy financial risk profile with comfortable debt protection metrics - The company's operating profit margin improved slightly to 13.1% in FY2021, but the net profit margin declined significantly to 3.7% due to goodwill impairment pertaining to acquisition of the remaining 51% stake in Windlas Healthcare (WHC), the erstwhile subsidiary of WBL. Despite lower net profit, given the low indebtedness, the capital structure was comfortable, with gearing of 0.2 time as on March 31, 2021. The coverage indicators witnessed healthy improvement and remain comfortable as reflected by an interest cover of 43.5 times in FY2021, TD/OPBDITA of 0.6 time and NCA/Debt of over 93% as on March 31, 2021. With the fresh equity issue of Rs. 165 crore raised through IPO, the company's net worth improved significantly and it also repaid its Rs. 20-crore term loans. The company will utilise Rs 50 crore to fund the capex for injectables and Rs. 47 crore for growth working capital, while the rest will be utilised in due course of time. With the recent equity infusion and healthy liquidity, the company is expected to maintain comfortable debt coverage in the near term.

Credit challenges

Moderate scale of operations – Although the company is one of the leading formulations CDMO players in domestic market, it remains a moderate-sized player in the overall formulations industry with an operating income (OI) of Rs. 428 crore in FY2021. 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 WBPL's revenue growth and pricing flexibility. ICRA, however, notes that the company plans to significantly grow both its segments and injectables capacity, which will further support these growth plans.

Formulation CDMO business exposed to intense competition and inherent regulatory risks - WBL 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. While the company plans to focus on the domestic and semi regulated export markets and not on US exports, ICRA notes that the remediation for USFDA observations for the Dehradun Plant – IV is still under process. As per WBL's management, the same is not expected to result in any significant liabilities or penalties. The remediation of the USFDA import alert remains a rating monitorable

Moderately high client concentration risk; high reputation of clients reduces credit risk - The company has high client concentration risk with its top 10 customers accounting for 69% of the overall CDMO sales during FY2021, slightly higher than 62% in FY2020. However, the long-term nature of CDMO contracts and healthy credit profile of the customers provides a better revenue visibility and reduces the risk of bad debts.

Liquidity position: Strong

WBL's liquidity is expected to remain **strong**, evidenced by high cash balances and liquid investments, and unutilised working capital facilities of Rs. 42 crore, as of August 31, 2021. The liquidity profile is further supported by operating cash flows of Rs. 35-40 crore and no significant debt obligations. ICRA notes that WBL's working capital intensity increased to 18% (PY: 9%)

in FY2021 owing to reduction in payable days. Given the growth plans, changes in working capital cycle and the company's utilisation of available funds for working capital and capex will be a monitorable.

Rating sensitivities

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

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, which could exert negative pressure on the ratings. 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 Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Not applicable

About the company

Incorporated in 2001, Windlas Group originally comprised two companies—Windlas Biotech Private Limited (WBPL) and Windlas Healthcare Private Limited (WHC). WHC is the erstwhile subsidiary of WBPL, which was amalgamated into WBPL and the merged entity was renamed as Windlas Biotech Limited (WBL). WBL derives its business from three key business segments—viz., formulations contract development and manufacturing organisation (CDMO) services and products, domestic trade generics and OTC brands, and exports. WBL currently operates four manufacturing facilities at Dehradun (Uttarakhand), of which three plants are WHO-GMP compliant. These have an aggregate installed annual operating capacity of 706.4 crore tablets/capsules, 5.4 crore pouch/sachets and 6.1 crore liquid bottles as on March 31, 2021. The company came out with an IPO and its shares were listed on stock exchanges on August 16, 2021.

In FY2021, the company registered revenues of Rs 427.6 and PAT of Rs. 16 crore over Rs. 329 crore and Rs. 24 crore, respectively, in FY2020. In Q1 FY2022, the company posted revenues of Rs. 111 crore and PAT of Rs. 5.3 crore.

Key financial indicators (audited)

WBL	FY2020	FY2021
Operating Income (Rs. crore)	328.9	427.6
PAT (Rs. crore)	23.7	15.7
OPBDIT/OI (%)	12.6%	13.1%
PAT/OI (%)	7.2%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	0.7	0.6
Interest Coverage (times)	16.4	43.5

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 (FY2022)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2021		FY2020	FY2019
					24-Sep-2021	19-March-2021	11-May-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)	[ICRA]A (Stable)
2	Cash Credit	Long Term	42.30	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Fund based limits	Short Term	10.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Non-Fund based	Short Term	2.00	-	[ICRA]A1	[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	[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

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term: Fund Based Term Loans	Simple
Long Term: Fund Based Cash Credit	Simple
Short Term: Non-Fund Based limits	Simple
Short Term: Fund Based limits	Simple
Long/ Short Term: Unallocated	Not Applicable

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
SIDBI	Term Loan	FY2015	8.09%	FY2022-23	1.2	[ICRA]A+ (Stable)
IndusInd Bank	Foreign Currency Term Loan	FY2015	12.00%	FY2022-23	0.9	[ICRA]A+ (Stable)
SBI Bank	Cash Credit	2015	7.80%	-	9.0	[ICRA]A+ (Stable)
IndusInd Bank	Working Capital Demand Loan	2015	9.15%	-	10.0	[ICRA]A+ (Stable)
HDFC Bank	Cash Credit	2015	8.05%	-	23.3	[ICRA]A+ (Stable)
SBI Bank	Letter of Credit/ Bank Guarantee	2015	NA	-	2.00	[ICRA]A1
HDFC Bank	Bill Discounting	2015	NA	-	10.00	[ICRA]A1
NA	Unallocated	-		-	52.40	[ICRA]A+ (Stable)/ [ICRA]A1

Source: *Company*

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

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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.

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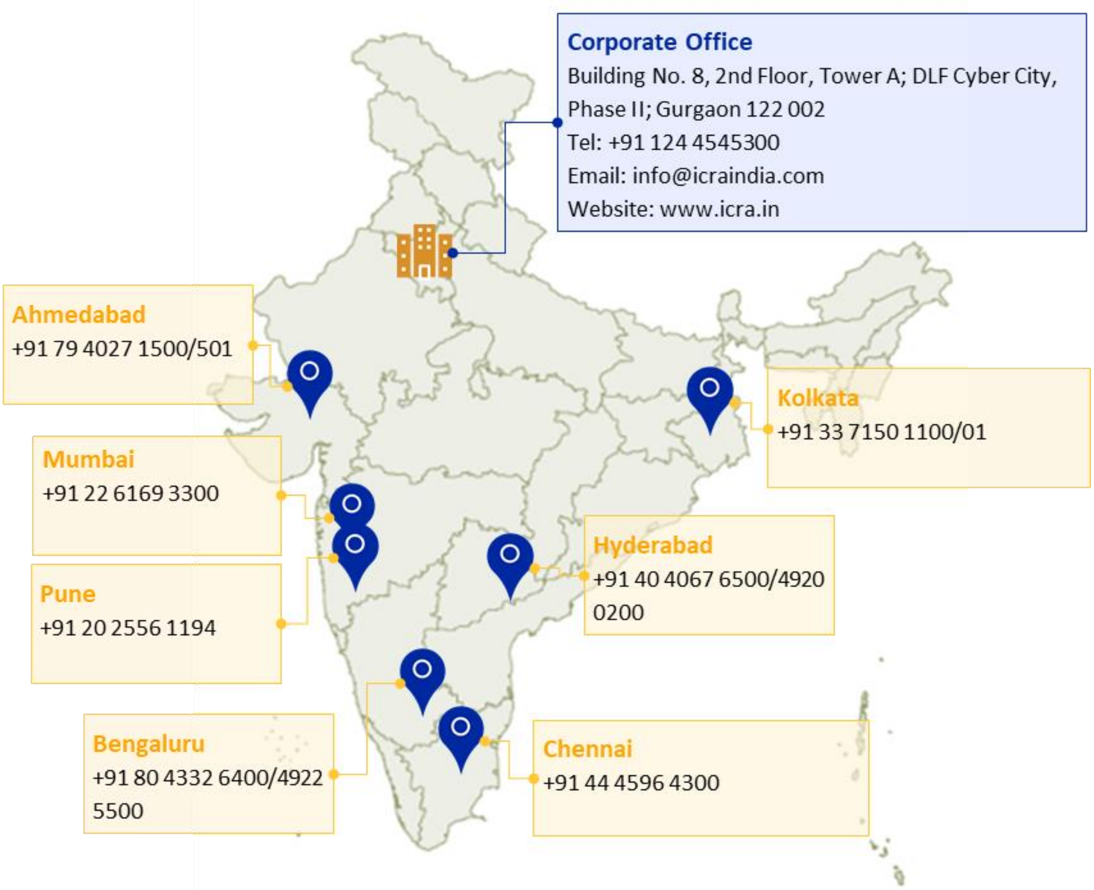

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