



Infomerics Valuation And Rating Pvt. Ltd.

Cadchem Laboratories Limited

October 12, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Long Term Bank Facilities	17.00	IVR BB-/Stable Outlook(IVR Double B Minus with Stable Outlook)
2.	Short Term Bank Facilities	3.25	IVR A4 (IVR A Four)
	Total	20.25	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Cadchem Laboratories Limited (CLL) derive comfort from the long-standing experience of promoters in the bulk drugs industry and established clientele albeit concentrated customer profile. These rating strengths are partially offset by modest scale of operations of the company, intense competition and stringent regulation in the industry and below average financial risk profile marked by continuous moderation in profitability and leveraged capital structure. The ratings also factors in debt funded capex being undertaken by the company and its working capital intensive nature of operations.

Key Rating Sensitivities:

Upward factors

- Improvement in scale of operations and profitability
- Significant improvement in capital structure and debt protection metrics

Downward factors

- Deterioration in capital structure with the overall gearing of over 2.5x
- Further elongation of the working capital cycle



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of promoters in the bulk drugs industry

The company has been operating in the pharmaceutical industry for about three decades under the guidance of its promoters, Mr.Navneet Gupta along with Mrs.Neeru Gupta and Mr.Kishor Deshmukh. Long-standing experience of the promoters underpins the business risk profile of the company. Further, the promoters have supported the business as per requirements and infused equity to the tune of Rs.1.24crore in FY19 (Rs.0.38crore paid up capital and Rs.0.86crore securities premium).

Established clientele albeit concentrated customer profile

Long presence of the company in bulk drug segment has helped the company to establish a strong client portfolio comprising of various reputed names. The top five customers comprised ~72.03% of the total sales of the company in FY19 indicating a concentrated customer profile.

Key Rating Weaknesses

Modest scale of operation

The scale of operations has remained small over the years despite its long track record of operations and total operating income of the company remained modest at Rs.30.95crore in FY19. Though the scale is expected to improve over the medium term on the back of capacity expansion being undertaken by the company, it is likely to remain modest.

Intense competition and stringent regulation

The API industry is highly fragmented and competitive in nature due to presence of large number of small and medium-sized players operating in the industry with established brands. Intense competition in manufacturing of APIs limits pricing flexibility. Further, the Indian Pharmaceuticals industry is highly regulated guided by stringent regulation with high entry barriers in markets.



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Ongoing capex

The company has embarked a capacity expansion project to increase its installed capacity from 100MT to 200MT per annum. The total project cost has been envisaged at Rs.6.63crore which is to be funded through a term loan of Rs.4crore and the rest through infusion of unsecured loans/ equity capital by the promoters and internal accruals. Term loans are already tied up. The company has already incurred Rs.3.25crore of capex till September 30, 2019 funded through term loan of Rs.2.44crore and promoter's contribution of Rs. 0.81crore. The project is expected to be completed by Q4FY20.

Financial risk profile marked by continuous moderation in profitability and leveraged capital structure

CLL has witnessed moderation in its operating profitability over the past three years due to rising input prices along with increase in employee expenses and foreign exchange loss incurred in FY19 amidst lack of pricing flexibility due to intense competition in the operating spectrum. Gross cash accruals of the company remained modest over the years. Moreover, CLL has leveraged capital structure as on the last three account closing dates. The overall gearing ratio though remained leveraged has improved from 2.29x as on March 31,2017 to 1.78x as on March 31,2019 backed by accretion of profit to net worth and infusion of equity capital by the promoters. The capital structure of the company is expected to be moderated further due to term loan availed to fund its ongoing capex. However, the debt service parameters of the company remained moderate with interest coverage of 2.12x and Total debt to GCA of about 9.40x respectively in FY19. Total indebtedness of the company also remained moderate as reflected by TOL/TNW of 3.18x as on March 31, 2019. There were instances of penal charges in the bank statements of the company however, the banker has clarified that those charges were due to technical reasons.

Working capital intensive operations

The operations of the company are working capital intensive as reflected in its operating cycle of about four months over the past years. The operating cycle remained elongated mainly due to its stretch in receivables and large inventory holding requirements primarily



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due to high work in progress inventory. The manufacturing operations of the company involves several processes such as mixing, blending, extraction and resolutions undertaken which requires considerable time. High working capital intensity weakened the liquidity profile of the company.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

The liquidity profile of the company is stretched marked by its tightly matched accruals to repayment obligations and highly utilized bank limits in last twelve months ending on August, 2019.

About the Company

Cadchem Laboratories Limited (CLL) was initially incorporated as Chandigarh Drugs Private Limited in 1985 by Mr.Navneet Gupta. The company started its commercial production from 1987. The company got its current name in 1995. CLL is engaged in developing and manufacturing niche Active Pharmaceutical Ingredients (API) and intermediates. The manufacturing facility of the company is located at village Jaula Khurd, Tehsi, Dera Bassi, Punjab.

Financials (Standalone):

	(Rs. crore)	
For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	30.48	30.95
EBITDA	3.12	2.86
PAT	0.67	0.65
Total Debt	10.64	13.57
Tangible Net worth	5.74	7.63
EBITDA Margin (%)	10.22	9.25



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For the year ended*	31-03-2018	31-03-2019
PAT Margin (%)	2.23	2.17
Overall Gearing Ratio (x)	1.85	1.78

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CRISIL Ratings has moved the rating into Issuer Not Cooperating category as per PR dated April 26, 2018, as the company did not submit the requisite information to them.

CARE Ratings has moved the rating into Issuer Not Cooperating category as per PR dated March 28, 2017, as the company did not submit the requisite information to them.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Cash Credit	Long Term	8.00	IVR BB- /Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	6.19	IVR BB- /Stable			
3.	Long Term Fund Based Limits – ODTCS	Long Term	2.81	IVR BB- /Stable	-	-	-
4.	Short Term Non-Fund Based Limits-LC/BG	Short Term	3.25	IVR A4	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.



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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	8.00	IVR BB-/Stable
Long Term Bank Facilities- Term Loan	-	-	Varied ; repayable up to March 2026	6.19	IVR BB-/Stable
Long Term Bank Facilities- ODTCS	-	-	-	2.81	IVR BB-/Stable
Short Term Bank Facilities –LC/BG	-	-	-	3.25	IVR A4