Ind-Swift Laboratories Limited

December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	37.50 (Reduced from 40.00)	CARE BB (RWD)	Continues to be on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	18.40 (Reduced from 22.45)	CARE BB / CARE A4 (RWD)	Continues to be on Rating Watch with Developing Implications
Short Term Bank Facilities	27.00 (Reduced from 39.75)	CARE A4 (RWD)	Continues to be on Rating Watch with Developing Implications
Non Convertible Debentures	424.50	CARE BB (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has placed the ratings assigned to Ind Swift Laboratories Limited (ISLL) on 'Rating watch with developing implications' on account of announcement of slump sale of Active Pharmaceutical Ingredients (API) and CRAMS Business of ISLL to Synthimed Labs, a portfolio company of India Resurgence Fund, as well as the possible impact of the same on the credit risk profile of the company. Under this business transfer, ISLL will transfer the Active Pharmaceutical Ingredients (API) and Contract Research and Manufacturing services (CRAMS) business to Synthimed Labs Private Limited (Buyer) under Slump Sale basis. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities and long-term instruments of ISLL continues to derive strength from the improvement in the financial profile of the company as reflected by increase in total operating income along with improvement in profitability and debt protection metrics, experienced promoters, long track record of operations and regulatory approved manufacturing facilities and products. The rating however continues to remain constrained due to significant intergroup transaction and regulatory risk in the industry and high debt repayment in the medium term. However, the ratings remain constrained due to significant intergroup transaction, regulatory risk in the industry and risk associated with the high debt repayment in the medium term.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Scale up of operations with continuing profits reported at the net level
- Shortening of the working capital cycle leading to lower reliance on borrowings
- Ability of the company to repay the NCDs through debt refinancing or liquidity infusion on timely basis

Negative factors

- Any significant decline in income or in the PBILDT margins (to below 10%)
- Any major deterioration in the liquidity position
- Any significant fund diversion to the group entities/related parties or significant write off of existing advances/investments

Analytical approach: Standalone

Outlook: Not Applicable

Detailed description of the key rating drivers:

Key strengths

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Business Transfer agreement with Synthimed Labs, a portfolio company of India Resurgence Fund:

On September 06, 2023, the board of directors of ISLL approved a business transfer of its Active pharmaceutical ingredients (API) and contract research and manufacturing services (CRAMS) business to Synthimed Labs Private Limited ("Synthimed"). Synthimed Labs is a portfolio company of India Resurgence Fund (IndiaRF), which is an India focused investment platform promoted by Piramal Enterprises Limited and Bain Capital.

As per the business transfer agreement, Ind-Swift Laboratories Ltd will sell its API business to Synthimed Labs Pvt Ltd for an enterprise value of Rs 1,650 crore. The equity value for transaction is Rs 850 crore, considering an approximate debt of Rs 800 crore. The sale consideration of Rs.800cr will be used to repay the outstanding debt of Rs.800cr and remaining will be the surplus to the company. Post completion of the transaction the company will not have any active business and will look for new venture using the fund received on sale of business.

Based on the BTA agreement announcement, CARE Ratings has placed the ratings assigned to the bank facilities and instruments of ISLL under 'Rating Watch with Developing Implications'. The transaction is expected to conclude by March 06, 2024 and CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Experienced promoters and long track record of operations:

The company is operating with Mr. N.R. Munjal as its Managing Director who holds an overall experience of around three decades. IISL has been engaged in the pharmaceuticals industry since 1995 leading to a long-standing industry presence. The oldest entity of the IND Swift group, Ind Swift Limited, also has been engaged in the industry since 1986. This has led to established business relations with the clients as well as the suppliers.

Regulatory approvals for the manufacturing facilities and products:

IISL's manufacturing plant is GMP (Good Manufacturing Practices) compliant and ISO 9001:2008 certified. It also has approvals for exports to various geographies, like USFDA (United States Food and Drug Administration), KFDA (Korean Food and Drug Administration), PDMA (Pharmaceuticals and Medical Devices Agency) etc., for its various products.

Improvement in overall financial profile:

There has been a considerable improvement in the overall financial risk profile of the company as reflected by increase in total operating income along with improvement in profitability margins and debt protection metrics leading to improvement in solvency profile as well.

The PBILDT of the company remains in line with FY22 and stood at Rs. 236.04 Crores in FY23 as against Rs.235.89 Crores in FY22. The Gross Cash Accruals of the entity stood at Rs. 105.19 crores during FY23 declined from Rs.133.22 Crores in FY22. The capital structure of the company viz. the long-term debt to equity ratio and overall gearing ratio stood at 1.61x and 1.71x as on March 31, 2023 improving from 2.17x and 2.33x respectively, as on March 31, 2022. The interest coverage ratio has improved to 2.79x in FY23 from 2.49x in FY22 on account higher sale of API's and sale from trading along with increase in export turnover in FY23. Further during H1FY24, the company has achieved the sales of Rs.582.26 cr with PBILDT of Rs. 136.16 cr and GCA of Rs.74.22 cr.

Key weaknesses

Impact of government regulations:

The pharmaceutical industry is a closely monitored and regulated industry and as such there are inherent risks and liabilities associated with the products and their manufacturing. Regular compliance with product and manufacturing quality standards of regulatory authorities is critical for selling products across various geographies. The industry is characterized by a high level of competition having presence of a large number of small and big players.

The companies need to ensure compliance with stringent safety and quality norms for the products. Regular inspection of the production facilities to keep check on the quality norms. Any adverse observation can lead to noncompliance issues and delay launch of any further products.

Significant intergroup transaction:

The company has significant inter-group transaction viz. investment, receivable and loan and advances to group companies. Due to stretched position at the group companies the company has long pending receivable of Rs. 275.06 Crores (PY: Rs. 262.52 crores) as on March 31, 2023. The said receivables are pending from long time and has led to stretched liquidity at ISLL. Apart from this the company has investment of Rs. 85.12 Crores (PY:110.68 cr) and loan and advances of Rs. 96.81 Crores (PY: 52.77 cr) as on March 31, 2022. Therefore, going forward in the event of any further loan and advances funded through debt to group companies will be key rating sensitivity.

However, majority of these investment/advances are being funded through the net-worth of the company without any reliance on the external debt.

High debt repayment in the medium term:

The company has issued NCD of Rs.450cr during Jun,18 for the repayment to its lenders under the OTS scheme. These NCD has IRR of 20% with annual coupon of 10% and redeemable on Jun'24. Considering the higher IRR, the company eventual liability will be higher than Rs.450cr and as on March 31, 2023 stood at Rs.667.96 cr.
Therefore, considering the stretched liquidity position on account of high repayment, ability of the company to repay the debt obligations on timely basis through liquidity infusion from BTA or refinancing the debt would be the key rating sensitivity.

Liquidity: Stretched

The liquidity position of the company seems moderate on account of repayment of Rs. 50.19 Crores during FY24 as against sufficient cash accruals. However, liquidity position of the company is stretched on account of a very high repayment due in FY25 pertaining to redemption of NCD's along with term debt repayment obligation, for which it needs liquidity infusion through BTA or refinancing of debt.
The current ratio and quick ratio of the company, however remain comfortable and above unity.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 1995, IISL is engaged in the manufacturing of Active Pharmaceutical Ingredients, advanced Intermediates and providing Contract Research and Manufacturing Services (CRAMS). ISLL is a part of the Ind-Swift Group and was formed in1995. The company has three manufacturing facilities- two in Dera Bassi (including research facility), Punjab and one in Samba, Jammu & Kashmir. The products manufactured by the company are sold in both India and the export markets. The group concerns of the company (among others) include IND Swift Limited and Essix Biosciences Limited (rated, 'CARE B+; Stable/CARE A4'), both engaged in the pharmaceuticals industry; Fortune India Constructions Private Limited, engaged in the construction industry, etc. The company has three marketing subsidiaries: IND Swift Laboratories Inc. (USA), Meteoric Life Sciences Pte Limited (Singapore), IND Swift Middle East FZE (UAE). The latter two are currently non-operational. The product line of the company, finds its application in a varied range of therapeutic segments as antibiotics, anti-coagulants, anti-virals, lipid lowering agents, etc.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1067.67	1234.02	582.26
PBILDT	238.22	256.97	136.16
PAT	-2.15	47.6	47.15
Overall gearing (times)	2.33	1.71	NA
Interest coverage (times)	2.49	2.79	3.28

A: Audited UA: Unaudited NA: Not Applicable; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue **(₹ crore)**	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	37.50	CARE BB (RWD)
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC		-	-	-	18.40	CARE BB / CARE A4 (RWD)
Non cnvertible debentures	INE915B07024	13-Jun-2018	10%	12-Jun-2024	424.50	CARE BB (RWD)
Non-fund-based - ST-BG/LC		-	-	-	27.00	CARE A4 (RWD)

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding **(₹ crore)**	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	424.50	CARE BB (RWD)	1)CARE BB (RWD) (15-Sep-23)	1)CARE BB; Stable (08-Nov-22)	1)CARE BB-; Stable (23-Dec-21) 2)CARE B (CW with Developing Implications) (10-Aug-21)	1)CARE B; Stable (16-Sep-20)
2	Fund-based - LT-External	LT	-	-	-	-	-	1)Withdrawn (16-Sep-20)

	Commercial Borrowings							
3	Fund-based - LT-Working Capital Limits	LT	37.50	CARE BB (RWD)	1)CARE BB (RWD) (15-Sep-23)	1)CARE BB; Stable (08-Nov-22)	1)CARE BB-; Stable (23-Dec-21) 2)CARE B (CW with Developing Implications) (10-Aug-21)	1)CARE B; Stable (16-Sep-20)
4	Non-fund-based - ST-BG/LC	ST	27.00	CARE A4 (RWD)	1)CARE A4 (RWD) (15-Sep-23)	1)CARE A4 (08-Nov-22)	1)CARE A4 (23-Dec-21) 2)CARE A4 (CW with Developing Implications) (10-Aug-21)	1)CARE A4 (16-Sep-20)
5	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST*	18.40	CARE BB / CARE A4 (RWD)	1)CARE BB / CARE A4 (RWD) (15-Sep-23)	1)CARE BB; Stable / CARE A4 (08-Nov-22)	1)CARE BB-; Stable / CARE A4 (23-Dec-21) 2)CARE B / CARE A4 (CW with Developing Implications) (10-Aug-21)	1)CARE B; Stable / CARE A4 (16-Sep-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:

Non- Convertible Debentures	Detailed Explanation
Covenants	
i. Coupon Rate	10% per annum with IRR of 20%
ii. Repayment Date	Maturity: 6 years from deemed date of allotment viz. June 12, 2018 Redemption: Through cash sweep mechanism (given below) with a lock-in of 15 months. Total amount to be paid (in the form of coupon payments, redemption payments and premium) to ensure IRR of 20% to the investors. However, if the company is unable to pay the same, the amount will be added to the outstanding NCD amount and coupon payments will be subsequently paid on this increased amount.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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