November 30, 2022

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	2.10	0.81	[ICRA] A+ (Stable); reaffirmed
Long-term: Fund-based Cash Credit	42.30	67.40	[ICRA] A+ (Stable); reaffirmed
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	4.79	[ICRA] A+ (Stable)/[ICRA]A1; reaffirmed
Total Limits	**108.80**	**85.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation considers Windlas Biotech Limited's (WBL) leading position among the organised contract development and manufacturing organisation (CDMO) sector in India as well as its established relationships with its reputed and growing client base in the domestic pharmaceutical industry. The company also witnessed a healthy scale-up in its domestic trade generics business in FY2022 and FY2023, which provides revenue diversification. ICRA also takes cognisance of the company's expansion plans by foraying into the injectables segment, which would support profitability and scale ramp up in the medium term. This apart, the rating factors in WBL's strong debt protection metrics and healthy liquidity profile.

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 regard to the United States Food and Drug Administration (USFDA) certification for one of its facilities.

The Stable outlook for the long-term rating reflects ICRA's expectation that WBL will 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

Leading CDMO player with extensive promoter experience; scale-up of trade generics business and exports 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. Although owing to pandemic, the CDMO business witnessed modest growth in FY2022 in the chronic therapeutic segment, the company has started witnessing demand recovery in FY2023 supported by strong product pipeline and new customer acquisition. The trade generics business has witnessed a healthy scale-up in FY2022 and H1 FY2023 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 has grown to 17% in H1 FY2023 compared to 10% in FY2021 lending diversification to the revenue profile. Exports remain muted in the current fiscal owing to restricted sales in markets facing geopolitical and economic crises. However, 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.

Diversified product portfolio with increasing focus on complex generics and fast growing chronic/ sub-chronic therapeutic areas – In terms of therapeutic coverage, WBL is 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 chronic and sub-chronic segment is currently ~57-59% of the total product portfolio. During the second pandemic wave in FY2022, the demand for chronic and sub-chronic drugs was affected due to lower hospital visits and started recovering in FY2023. 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, provide high barriers to entry and command higher margins. Around 75% of the products manufactured in FY2022 by the company are complex generics.

Healthy financial risk profile with comfortable debt protection metrics – The company's operating profit margin declined to 11.3% in FY2022 (PY:13.1%) owing to increased R&D expenses and change in product mix, which improved to 11.8% in H1 FY2023, supported by scale-up of trade generics revenues. The core RoCE declined to 21% in FY2022 over 31% in FY2021 owing to significant increase in TNW from IPO fund raising. With planned capex of Rs. 40-50 crore in the next two years and planned buyback in H2 FY2023, core RoCE is expected to remain 20-23% in the near term. WBL's capital structure remains comfortable, with gearing of 0.01 time as on September 30, 2022. The coverage indicators such as interest cover witnessed a decline in FY2022 owing to decline in OPBITDA, remained at comfortable levels owing to minimal finance costs. The company also has a moderate working capital cycle with working capital requirements supported by cash accruals keeping the sanctioned limits mostly unutilised. Also, the company has healthy liquidity of ~Rs.181 crore as on September 2022 end including unutilised IPO proceeds, which would be used to fund the upcoming injectables plant in FY2023. With the healthy liquidity on the books, the company is expected to maintain comfortable debt coverage in the near term.

Credit challenges

Moderate scale of operations with high segment concentration – Although the company is one of the leading formulations CDMO players in organized domestic CDMO market, it remains a moderate-sized player in the overall formulations CDMO industry with an operating income (OI) of Rs. 466 crore in FY2022. ICRA, however, notes that the company plans to significantly grow both its segments supported by upcoming injectables capacity, which has faced some time overruns. Also, the company derives most of its revenues from the CDMO segment for oral formulations indicating low segment-wise diversification. As a result, the weak demand scenario in the CDMO industry in FY2022 impacted the company's revenue growth. With expected scale-up of its trade generics vertical, WBL is expected to see gradual improvement in revenue diversification.

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 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. 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. While there is no recent update on the same, 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 faces high client concentration risk with its top 10 customers accounting for 64% of its overall CDMO sales during FY2022, slightly lower than 68% in FY2021. However, the long-term nature of CDMO contracts and the healthy credit profile of its customers provide better revenue visibility and reduce the risk of bad debts.

Environmental And Social Risks

Environmental considerations: WBL does not face any major physical climate risk. The company could face the tightening environmental regulations 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. To optimise its entire effluent stream, WBL has been implementing several techniques. Additionally, WBL has installed a Ultrafilteration plant to treat effluent discharge water and recycle the same. The company also uses eco-friendly, a briquette fire boiler to minimise emissions. To reduce industrial emission at sites, air conditioning systems and heat ventilation systems are 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: WBL depends on qualified, third-party contract research organisations for clinical trials and studies of new products, and any major delay in execution could lead to litigation risk or loss of business from CDMO clients. 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. The total value of its performance obligation that remained unsatisfied from the CDMO business at the end of FY2022 stands at around Rs. 0.7 crore, which is not very sizeable.

Liquidity position: Strong

WBL's liquidity is expected to remain strong, evidenced by high cash balances and liquid investments of Rs. 181 crore and unutilised working capital facilities of Rs. 67 crore, as of September 30, 2022. The liquidity profile is further supported by expected retained cash flows of Rs. 30-40 crore and no significant debt obligations. Given the growth plans, changes in working the company's capital cycle and its utilisation of available funds for working capital and capex will be monitorable.

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 in case of any sizeable capex leading to material deterioration of capitalisation and coverage 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 Industry
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 is the 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., formulations 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 had 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, 2022.

In FY2022, the company registered revenues of Rs. 466 crore and PAT of Rs. 38 crore over Rs. 428 crore and Rs. 16 crore, respectively, in FY2021. In H1 FY2023, the company posted revenues of Rs. 253 crore and PAT of Rs. 22 crore.

Key financial indicators (audited)

WBL	FY2021	FY2022	H1 FY2023*
Operating income	427.6	465.9	252.7
PAT	15.7	38.1	22.0
OPBDIT/OI	13.1%	11.3%	11.8%
PAT/OI	3.7%	8.2%	8.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.2	0.3
Total debt/OPBDIT (times)	0.6	0.1	0.0
Interest coverage (times)	43.5	37.0	64.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *unaudited*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
					Nov 30, 2022	Sep 24, 2021	Mar 19, 2021	May 11, 2020	Nov 29, 2019
1	Term Loan	Long Term	0.81	0.40	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Cash Credit	Long Term	67.40	-	**[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
6	Unallocated	Long Term/ Short Term	4.79	-	**[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

&= 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	Very Simple
Short Term: Fund Based limits	Simple
Long Term/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 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	Term loans	FY2015	8.09%	FY2022-23	0.81	[ICRA]A+ (Stable)
NA	Cash Credit	2015-2022	7.80%	-	9.00	[ICRA]A+ (Stable)
NA	Working Capital Demand Loan	2015	9.15%	-	10.00	[ICRA]A+ (Stable)
NA	Cash Credit	2015	8.05%	-	23.30	[ICRA]A+ (Stable)
NA	Cash Credit	2022	8.00%	-	25.10	[ICRA]A+ (Stable)
NA	Letter of Credit/ Bank Guarantee	2015	NA	-	2.00	[ICRA]A1
NA	Bill Discounting	2015	NA	-	10.00	[ICRA]A1
NA	Unallocated	-	-	-	4.79	[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:

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.

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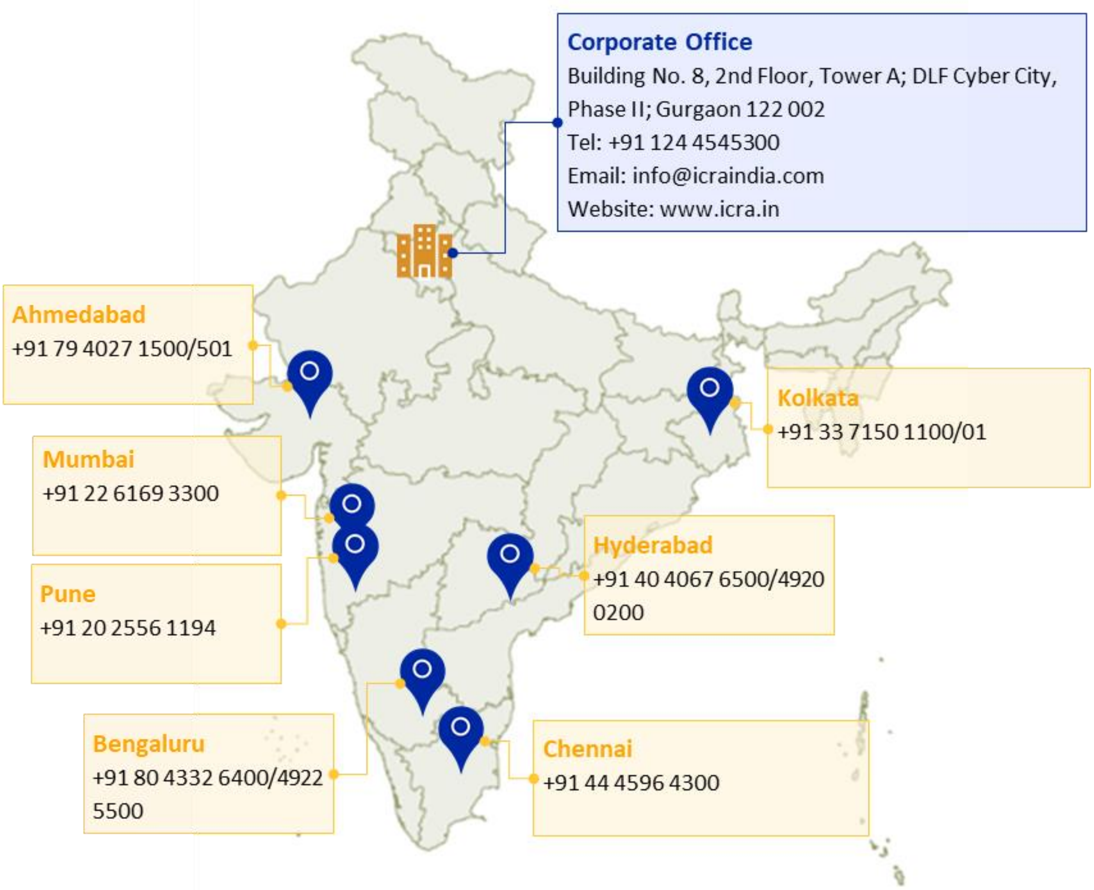

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