

## Rating Advisory

December 24, 2021 | Mumbai

### Denis Chem Lab Limited

#### Advisory as on December 24, 2021

This rating advisory is provided in relation to the rating of Denis Chem Lab Limited

The key rating sensitivity factors for the rating include:

#### Upward factor

- Sustained improvement in scale of operation by 20% and steady operating margin
- Continued consolidation in the financial profile along with improvement in working capital cycle

#### Downward factor

- Decline in profitability below 9% on sustained basis
- Large capital expenditure or significant stretch in working capital cycle.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL Ratings is yet to receive adequate information from Denis Chem Lab Limited (DCLL) to enable it to undertake a rating review. CRISIL Ratings is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, [https://www.crisil.com/content/dam/crisil/criteria\\_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf](https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf))

If DCLL continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

#### About the Company

DCLL was incorporated in July 1980 as Denis Chem Lab Pvt Ltd (DCLPL) by Mr Himanshu C Patel and his family. In April 1982, DCLPL was converted into a public limited company and renamed DCLL. The company manufactures IVFs bottles under three packaging categories: glass bottles, Euroheads, and plastic bottles (using the blow-fill-seal technology). The manufacturing facility in Gandhinagar is WHO GMP-certified. Installed capacity is 2.3 crore glass bottles, 5 crore plastic bottles, and 4.3 crore Euroheads bottles per annum.

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## Rating Rationale

April 07, 2021 | Mumbai

### Denis Chem Lab Limited

*Ratings reaffirmed at 'CRISIL BBB- / Stable / CRISIL A3'; rated amount enhanced for Bank Debt*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.39.5 Crore (Enhanced from Rs.36.5 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Stable (Reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable/CRISIL A3' ratings to the bank facilities of Denis Chem Lab Ltd (DCLL).

The ratings continue to reflect the extensive experience of the promoters, and DCLL's established market position and moderate financial risk profile. These strengths are partially offset by average scale of operations, stretched working capital cycle, and exposure to stringent regulatory and compliance requirements.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Extensive experience of the promoters:** The key promoter, Mr Himanshu Patel, has a PhD from Columbia University and an experience of around four decades. Over the years, company has developed healthy relationships with customers and suppliers.
- **Established market presence:** Market position in the intravenous fluids (IVF) segment is healthy, backed by a long track record of operations, compliance with norms, and scale and range of products. DCLL is among the first domestic movers to adopt the latest technologies, including the introduction of Euroheads.
- **Improved financial risk profile:** Financial risk profile is moderate and should strengthen over the medium term, backed by steady accruals and absence of any major capex plans. Networth was above average and gearing healthy at Rs 58.9 crore and 0.22 time, respectively, as on March 31, 2020. Capital structure has improved sharply over fiscals 2017 and 2018 because of equity infusion of Rs 34 crore. Supported by moderate margin and low gearing, interest coverage and net cash accrual to total debt ratios were 5.27 times and 0.72 time, respectively, in fiscal 2020. The financial profile is estimated to have sustained in fiscal 2021.

##### Weakness:

- **Average scale of operations:** DCLL has an average scale of operations with turnover of Rs. 135.8 Cr in FY20. DCLL's presence being limited within the space of IVFs (certain segments), restricts the scale of company, as also intense competition. Further high logistics costs mean the regional players are cost competitive. With the expansion in production capacity, the company revenues are expected to rise over medium term.
- **Working capital-intensive operations:** Working capital intensity is high, with gross current assets of 131 days as on March 31, 2020, due to debtors and inventory of around 94 and 26 days, respectively. The operations have remained similarly working capital intensive in fiscal 2020.
- **Exposure to stringent regulatory and compliance requirements:** The industry is highly regulated by the government, both in terms of pricing and quality control.

#### Liquidity Adequate



<b>Fund Based Facilities</b>	LT/ST	31.0	CRISIL BBB-/Stable / CRISIL A3	05-03-21	CRISIL BBB-/Stable / CRISIL A3	22-06-20	CRISIL BBB-/Stable / CRISIL A3	06-03-19	CRISIL BBB-/Stable / CRISIL A3	--	--
<b>Non-Fund Based Facilities</b>	ST	8.5	CRISIL A3	05-03-21	CRISIL A3	22-06-20	CRISIL A3	06-03-19	CRISIL A3	--	--

All amounts are in Rs.Cr.

#### Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	3.75	CRISIL A3	Bank Guarantee	3.75	CRISIL A3
Cash Credit	15.5	CRISIL BBB-/Stable	Cash Credit	15.5	CRISIL BBB-/Stable
Foreign Exchange Forward	0.25	CRISIL A3	Foreign Exchange Forward	0.25	CRISIL A3
Letter of Credit	4.75	CRISIL A3	Letter of Credit	4.75	CRISIL A3
Letter of Credit Bill Discounting	0.8	CRISIL A3	Letter of Credit Bill Discounting	0.8	CRISIL A3
Proposed Long Term Bank Loan Facility	0.06	CRISIL BBB-/Stable	Term Loan	11.45	CRISIL BBB-/Stable
Term Loan	14.39	CRISIL BBB-/Stable	-	-	-
<b>Total</b>	<b>39.5</b>	<b>-</b>	<b>Total</b>	<b>36.5</b>	<b>-</b>

#### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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