Ajanta Pharma Limited

October 3, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/short-term Bank Facilities	75.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Short-term Bank Facilities	45.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**120.00 (Rs. One hundred and twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Ajanta Pharma Limited (APL) continues to derive strength from strong business profile with focus on speciality therapeutic segments, diversified geographic & product profile and healthy financial risk profile with comfortable liquidity position aided by consistent growth in revenue coupled with healthy profitability margins albeit decline in FY18 (refers to period from April 01 to March 31). The rating takes cognizance of long track record and experience of promoter in pharmaceutical industry. The rating also factors in well- established brands catering to multiple therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network.

The aforementioned rating strengths are partially offset by APL's dependence on regulated market, increasing pricing pressure in domestic and export markets amidst intense competition and foreign exchange fluctuation risk.

Going forward, APL's ability to successful implement capex and realize benefits at envisaged levels will remain key rating monitorable. Any significant debt-funded acquisitions adversely impacting debt credit metrics, any adverse impact of on account of regulatory development will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record in the pharmaceutical industry: The company has successful track record of around four decades in the pharmaceutical business. APL is spearheaded by Mr. Mannalal B. Agrawal (Chairman), Mr. Yogesh M. Agrawal (Managing Director) and Mr. Rajesh M. Agrawal (Joint Managing Director) and the board is ably supported by qualified and professional senior management team heading various verticals.

Accredited manufacturing facilities supported with well-equipped R&D facility: APL has 6 manufacturing plants (5 in India, and one in Mauritius). The manufacturing facility located at Paithan is USFDA and WHO Geneva approved while the other facilities located at Chikalthana, Chitegaon and Mauritius are WHO GMP approved. The manufacturing facility at Dahej (Gujarat) was given EIR in May 2017 by USFDA. Further, all manufacturing sites have successfully cleared regulatory audits, conducted by various leading global regulatory agencies.

Strong business profile with focus on specialty therapeutic segments with diversified geographic and product profile

It has a well-established and diversified product portfolio across many therapeutic segments including niche speciality segments with focus on ophthalmology, dermatology, cardiology, etc.. Moreover, the company also has presence in other segments viz. Anti-malarial, ENT and Paediatric, Orthopaedic, Antibiotics etc. Besides, the company also has a basket of brands in each of the key therapeutic segments such as Artefan (Anti-malarials), Met XL, Atorfit, Rosofit, Cinode (Cardiology), Melacare (Dermatology), Unibrom (Opthalmology), Kamagra (Male erectile dysfunction) etc. amongst others. The company has a wide geographical presence with sales to semi/non-regulated markets like India, Central Asia, West Asia, West Europe & Africa etc. comprising

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

of over 30 countries across the globe. Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue.

Consistent growth in revenue coupled with healthy profitability margins albeit decline

On consolidated basis, the total operating income of the company increased to Rs.2149.41 crore in FY18 from Rs.2003.15 crore in FY17. However, PBILDT margin declined from 36.74% in FY17 to 32.12% in FY18 on account of increase in fixed cost because of commissioning of new plants at Dahej and Guwahati. Margins are expected to remain under pressure in FY19 as new plants at Dahej and Guwahati which have led to rise in fixed cost whereas revenue from these plants is expected to ramp up to estimated level in next 2-3 yrs.

On standalone level, total operating income stood at Rs.1898 crore and PAT stood at Rs.428 crore in FY18.

Healthy financial profile with comfortable liquidity position

The company's capital structure continues to remain healthy with total debt of Rs.4.12 crore as on March 31, 2018 as against Rs.33.33 crore as on March 31, 2017. The company has been able to generate healthy cash accruals and as a result, the liquidity position of the company continues to remain comfortable with average fund-based working capital utilization at around 4% during the 12-month period ended August 2018. Moreover, the company has cushion available from comfortable cash & bank balance (including short term investments) which stood at Rs.272 crore in FY18 (Rs.188 crore in FY17). However, the operating cycle increased from 99 days in FY17 to 111 days in FY18 on account of increase in inventory days.

Low Project implementation risk: During FY18, the company has incurred capex of Rs.241 crore which involves Rs.25 crore towards Mumbai R&D office, Rs.100 crore towards Guwahati plant, and balance incurred towards normal maintenance capex. Over the next three years (FY19-FY21), the company is planning to add fixed assets aggregating to Rs.750 crore to be funded through internal accruals. Project implementation risk is considered to be lower as Dahej plant and Phase I &II of Guwahati plant are already completed and the successful track record of the management to implement such large projects in the past and this being an expansion project in a similar line of business.

Key Rating Weaknesses

High dependence on regulated markets for Pharmaceutical segment

APL has its presence in multiple countries across the world and it has 6 production units. Considering the nature of the product usage and application, and consequent impacts, APL is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can may have consequence on the operations of the company.

Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, all manufacturing sites of continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

Intense competition from both MNCs and Indian companies in India and abroad

The company faces intense competition in the domestic as well as regulated markets that it operates in. Pricing pressure in key markets, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry.

Foreign exchange fluctuation risk

The company derives about 64% of its overall revenues from sales outside India thus, company is exposed to foreign currency fluctuation risk. APL covers its foreign currency risk exposure by hedging 75% of net exposure. The Group uses forward exchange contracts to mitigate its currency risk, most with a maturity of less than one year from the reporting date. However, the company is still exposed to some foreign currency fluctuation risks.

Analytical approach: Consolidated

CARE has analysed APL's credit profile by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology- Manufacturing Companies
Rating Methodology-Pharmaceutical Sector
Financial ratios-Non-Financial Sector

Policy on Withdrawal of ratings

About the Company

Incorporated in 1973, Ajanta Pharma Ltd (APL) is involved in development, manufacturing and marketing of pharmaceutical formulations for both domestic as well as international markets. The company has a well-diversified product portfolio across therapeutic segments such as Anti- malarial, Cardiovascular Diseases (CVD), Dermatology and Opthalmology. Besides, APL also increasing its presence in other specialty therapeutic segments such as ENT, Gastroenterology, Orthopedic, Male erectile dysfunction, Musculoeskeletal as well as Antibiotics. APL's manufacturing operations span at six manufacturing plants (5 in India and 1 in Mauritius). Of these, the company has five manufacturing facilities for formulations and one manufacturing facility for API (Active Pharmaceutical Ingredient) for captive consumption located near Aurangabad, Maharashtra. Besides, the company has one formulation manufacturing facility at Mauritius which is directly managed by its wholly owned subsidiary Ajanta Pharma Mauritius Ltd. The company also has a Research Development (R&D) centre under the name of "Advent" at Mumbai well supported by a team of over 850 scientists enabling the company to introduce innovative products for various markets across the globe.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2003.15	2149.41
PBILDT	736.03	690.41
PAT	504.26	468.64
Overall gearing (times)	0.02	0.00
Interest coverage (times)	210.29	1683.93

A: Audited

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	75.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (04-Dec-17)	1)CARE AA (21-Oct-16)	1)CARE AA (03-Jul-15)
2.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (21-Oct-16)	1)CARE A1+ (03-Jul-15)
3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	75.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (04-Dec-17)	1)CARE AA / CARE A1+ (21-Oct-16)	1)CARE AA / CARE A1+ (03-Jul-15)

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