Aarti Drugs Limited

March 09, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term / Short Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable / A One Plus) and Withdrawn
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable (Single A Plus; Outlook: Stable) and Withdrawn
Total Bank Facilities	**-**		

Details of instruments/facilities in Annexure-1

Detailed Rationale, Key Rating Drivers and Detailed description of the key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE A+; Stable/CARE A1+' [Single A Plus; Outlook: Stable/A One Plus] assigned to the bank facilities of Aarti Drugs Ltd. (ADL) with immediate effect. The above action has been taken at the request of ADL and 'No Objection Certificate' & 'No Dues Certificate' received from the banks that have extended the facilities rated by CARE.

Key Rating Strengths

Experienced Promoters: The company has experienced management of which the Chairman and MD has experience in the field of chemical industry of more than 40 years. Also, the other 3 promoter directors have vast experience in this field. The second generation of few promoter directors has also started taking active part in the day-to-day operations of the company from quite some time now (around 3-4 years).

Established market position in the active pharmaceutical ingredients (APIs) business along with strong product portfolio: ADL is among the leading manufacturers of APIs in India with 11 manufacturing facilities of which nine manufacturing facilities are located at Tarapur, Maharashtra and two manufacturing facilities at Sarigam, Gujarat. It has also got approval from WHO-GMP, EUGMP, accreditation from JAPAN, IDL, ANVISA, ISO, TGA Australia, COFEPRIS and COS. ADL has a strong product portfolio of about 80+ finished products.

ADL is having presence across 11 therapeutic segments with strong presence in antibiotic, antidiarrheal and anti-inflammatory segments. Top 10 products contribute to around 76.43% of total sales in FY20.

***Long standing relationship with reputed clientele along with geographic diversification of revenues*:** ADL has diversified client base, including most of the major pharmaceuticals players in India, European and Gulf countries. Domestic sales account for 66% of total sales. The company exports its products to around 104 countries worldwide and thus there is a comfortable geographic diversification of revenues. The same is evident from top 10 export customers contributing to only 19.64% of company's export sales.

Comfortable capital structure with further improvements in FY20: Overall gearing of ADL improved at 0.52x as on March 31, 2020, from 1.06x as on March 31, 2019. The overall capital structure as at March 31, 2020 has improved on the back of improved net worth, on the back of increasing profits & consequent transfer to reserves & surplus which has boosted the net worth.

The interest coverage ratio has also improved from 5 4.87x in FY19 to 7.76x in FY20 largely on account of decrease in interest and high operating profit. The term debt to GCA has remained steady at 1.00x in FY20.

Improvement in profitability margins in FY20: The total operating income has shown an increase of 15.62% from FY19 to FY20, increasing from Rs.1562.10 crore to Rs.1806.09 crore, primarily on the back of increasing revenue from its API segment, which increased from Rs.1308.6 crore to Rs.1441.4 crore, an increase of 10.15%. PBILDT has increased by 23%, as PBILDT increased from Rs.212.08 crore to Rs.261.81 crore, on account of better realisation and operating efficiency. During 9MFY21, the company earned a PAT of Rs.228.74 crore on total income of Rs.1656.58 crore.

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

Key Rating Weaknesses

High geographical concentration risk for import of raw material: During FY19, around 54% of raw materials requirement of the company were met through imports out of which around 70% is from China indicating high concentration risk. However, the company has started sourcing some of the raw material from local market to reduce the dependency on imports.

Regulatory risk and intense competition: The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from USFDA. Hence, on-going regulatory compliance has become critical for Indian pharma companies including ADL as it seeks to strengthen its position in the regulated markets like USA, UK, etc.

Analytical approach: Consolidated including ADL's subsidiary Pinnacle Life Science Private Limited. Pinnacle Life Science Private Limited is into the formulation business. It uses API input from ADL along with other suppliers.

Applicable Criteria

Policy on Withdrawal of ratings
Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Factoring Linkages in Ratings
Rating Methodology-Pharmaceutical Sector
Rating Methodology- Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

Aarti Drugs Limited (ADL) is a manufacturer of bulk drugs in therapeutic groups and of specialty chemicals. ADL was founded in 1984 and later listed on Bombay and National Stock Exchanges. The company was promoted by four chemical engineering graduates from UDCT Mumbai (now Institute of Chemical Technology). ADL exports to 104 countries with a strong presence in antibiotic, antidiarrheal and anti-inflammatory segments. Its share in lifestyle based drugs like Anti-diabetic and cardioprotective is also increasing. The company has its manufacturing facilities located at Tarapur, Maharashtra and at Sarigam, Gujarat. The Company is engaged in the manufacturing of Active Pharmaceutical Ingredients (APIs), Pharma Intermediates and Specialty Chemicals with its wholly-owned subsidiary- Pinnacle Life Science Private Limited. Products under APIs include Ciprofloxacin Hydrochloride, Metronidazole, Metformin HCL, Ketoconazole, Ofloxacin etc. whereas Specialty Chemicals includes Benzene Sulphonyl Chloride, Methyl Nicotinate etc. Company has also got approval from WHO-GMP, EUGMP, ACCREDITATION from JAPAN, IDL, ANVISA, ISO, TGA Australia, COFEPRIS and COS.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	1562.10	1806.09	1656.58
PBILDT	212.08	261.81	359.72
PAT	89.75	141.39	228.74
Overall gearing (times)	1.06	0.52	NA
Interest coverage (times)	4.87	7.76	NA

A: Audited; UA : Un- Audited; NA: Not 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

Complexity level of various instruments rated for this company: Annexure 3

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
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Limits	-	-	-	0.00	Withdrawn

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	1)Withdrawn (22-Dec-20)	1)CARE A1+ (25-Dec-19)	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (09-Jan-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (25-Dec-19)	1)CARE A+; Stable (08-Jan-19)	1)CARE A+; Stable (09-Jan-18)
3.	Fund-based - LT-Cash Credit	-	-	-	-	-	-	-
4.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	1)CARE A+; Stable / CARE A1+ (25-Dec-19)	1)CARE A+; Stable / CARE A1+ (08-Jan-19)	1)CARE A+; Stable / CARE A1+ (09-Jan-18)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Working Capital Limits	Simple

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

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