Ajanta Pharma Limited

September 12, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term/Short Term Bank Facilities	65.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**65.00 (₹ Sixty Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities of Ajanta Pharma Limited (APL) continues to derive strength from strong business profile with focus on specialty therapeutic segments, diversified geographic and product profile, healthy growth in the total operating income and profitability levels during FY22 (refers to the period April 01 to March 31) and healthy financial risk profile with strong liquidity position. The ratings also factor experienced promoters and management team with a long track record in the pharmaceutical industry, well-established brands catering to multiple therapeutic segments, presence in the major regulated markets and its diversified revenue profile with vertically integrated operations, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network. The ratings are partially offset on account of its exposure to inherent regulatory risk associated with the pharmaceutical industry coupled with intense competition and resultant pricing pressure in both domestic and export markets.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in sales with better utilization of expanded capacities with turnover increasing above Rs.4000 crore
- Sustaining of PBILDT % of over 28% consistently
- Improvement in the operating cycle to below 100 days

Negative factors – Factors that could lead to negative rating action/downgrade:

- Reduction in PBILDT margin below 20%
- Weakening of financial profile because of significant increase in working capital requirements and/or large, debt funded capex or acquisitions

Detailed description of the key rating drivers

Key rating strengths

Strong business profile with focus on specialty therapeutic segments

APL has a well-established and diversified product portfolio across many therapeutic segments including niche speciality segments with focus on ophthalmology, dermatology, cardiology and pain management. 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 (Hyper tension), Atorfit (High cholesterol), Rosofit, Cinode (Cardiology), Melacare (Dermatology), Unibrom (Opthalmology), Kamagra (Male erectile dysfunction) etc. amongst others.

Healthy growth in total operating income

The total operating income of the company, at consolidated level, increased to Rs.3438.31 crore in FY22 from Rs.2910.07 crore in FY21 on the back of improving demand for branded business. The revenue from India and Emerging Markets (Asia +Africa) grew from Rs 2051 crore in FY21 to Rs 2494 crore in FY22, registering a 4% growth. However, the revenue from USA subsidiary has declined from Rs.614 crore in FY21 to Rs. 580 crore in FY22--a decline by about 6%. This was due to increased

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

competitive intensity leading to higher than anticipated price erosion. APL has recorded 73% of its business contribution from Branded Generics. The same was well diversified from 30+ countries which includes India, rest of Asia and Africa.

In line with expectation, the PBILDT margin has moderated to 30.09% in FY22 as against 35.00% in FY21. The decline in PBILDT margin was on account of increase in raw material prices, spiking of freight costs, normalisation of R&D, marketing and other cost which were subdued due to Covid related lock downs during FY21.

Healthy financial profile

The company's capital structure continues to remain healthy with total debt of Rs.34.52 crore as on March 31, 2022 (Rs.37.75 crore as on March 31, 2021). The decrease in total debt was due to reduction in outstanding working capital limits as on March 31, 2022. The overall gearing ratio continues to remain comfortable at 0.01x as on March 31, 2022. Further, with low debt levels and increasing profit levels, the debt coverage indicators and interest coverage indicators have also been at comfortable level.

Established Marketing network with wide geographical reach and diversified geographical profile

During FY22, APL had a healthy mix of export (68%) and domestic sales (32%). 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 of over 30 countries across the globe. Going forward, the company aims to strengthen its presence in semi/non-regulated markets as well as regulated markets. Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue. APL launched total 16 new products in India including 4 first to market products during FY22. In emerging markets company has a large range of specialty and general practitioner product portfolio of 200+ products. The company has MR (Medical Representative) strength of about 3,000.

Accredited manufacturing facilities supported with well-equipped R&D facility

APL has total seven manufacturing facility out of which two are US FDA approved. Four out of seven are situated in Aurangabad-Maharashtra, one in Pithampur-Madhya Pradesh, one in Dahej-Gujarat and one in Guwahati-Assam. Out of seven manufacturing facilities six manufacturing facilities are for formulations and one is for API (Active Pharmaceutical Ingredient) for captive consumption. The manufacturing facility located at Paithan and Dahej are USFDA and WHO Geneva approved, while the other facilities located at Waluj, Chikalthana, Pithampur, Chittegaon are WHO GMP approved. During FY22, Ajanta Pharma Mauritius Ltd (subsidiary of APL), has shut down its manufacturing facility at Mauritius. The manufacturing facility was about 25-year-old and needed upgrade involving major capex, which was commercially unviable. The wide infrastructure of the company is well served with around 750+ scientists and a research and development centre named as Advent in Kandivali, Mumbai.The R&D spends for the company stood at 6% of the total sales during FY22 as against 5% during FY21.

Experienced promoters

The company has successful track record of around four decades in the pharmaceuticals business. APL is spearheaded by Mr Mannalal B. Agrawal (Chairman), Mr Madhusudan Agarwal (Vice Chairman), Mr Yogesh M. Agrawal (Managing Director), Mr Rajesh M Agarwal (Jt. Managing Director) and the Board is ably supported by qualified and professional senior management team heading various verticals. Mr Yogesh M. Agarwal has been looking after the international market, such as USA, Africa and Latin America. Mr Rajesh Agarwal looks after the entire Asian market segment.

Key rating weaknesses

Intense competition from both domestic and overseas players

APL faces intense competition and pricing pressure in the global as well as domestic markets. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

Volatility in raw material prices

With limited ability to pass on the increase in raw material costs, any substantial increase in raw material costs may affect the company's profitability in the near term. Although, company procures almost 90-95% of its raw material from domestic market, however, the suppliers of raw materials in turn import from China, which indirectly put APL dependent on China. Nevertheless, over the years the company's PBILDT margin has remained healthy, and the company has been able to procure raw material at lower price as it is purchasing raw materials at lower credit period and availing better bargained prices for its raw materials.

Foreign exchange fluctuation risk

The company derived about 68% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY22, on consolidated basis APL reported Rs. 1867.82 crore earnings (previous year Rs. 1809.65 crore) and an outgo of Rs.366.23 crore (Previous year Rs.231.45 crore) in foreign currency. The currencies in which these transactions are primarily denominated are US Dollars, Euro, Mauritian Rupee, Philippine Peso and Nigerian Naira. APL generally does currency hedging up to a maximum period of 6 to 18 months and up to the extent of 50% to 150% of its net foreign exchange earnings. Company hedges its foreign exchange risk exposure by forward exchange contracts.

Increase in pledge of shares

During FY22, Promoters have pledged 20.09% shares (PY:14.95%) which constitutes 14.16% of the total share capital of the company. Any further increase in the pledge of the shares shall be viewed negatively from the credit risk point of view. CareEdge has also noted that these pledged shares pertain to Mr. Aayush Agrawal and Mr Ravi Agrawal and as per the APL's management neither of them are involved in day to day operations of the company nor are they part of company's management.

Regulatory Risk

APL has its presence in multiple countries across the world and it has seven 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 have an impact on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, all manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

Liquidity: Strong

The liquidity profile of the company is strong with comfortable liquidity marked by healthy cash and liquid investments, comfortable capital structure, no term debt obligations and healthy cash accruals projected for FY23. The operating cycle remained elongated at 193 days (PY:178 days) as on March 31, 2022. The elongation is on account of increase in inventory period as the company maintains additional inventory for both raw material and finished goods to ensure adequate supply requirements of the diverse geographical regions. Further, the company has shortened its average payment period to creditors from 70 days in FY21 to 52 days in FY22. The company has an overall inventory period of 150 days in FY22 (153 days in FY21). The current ratio of the company stood at 2.92x as on March 31, 2022. The company, at consolidated level, has cash and equivalent to the tune of Rs.210.79 crore and has no term debt obligation apart from lease liability. Moreover, the company only utilizes non-fund-based limit which stood at 24% for the past 12 months ending June 2022.

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. The subsidiaries of APL which have been consolidated are mentioned under Annexure-6.

Applicable criteria

[Policy on default recognition](#)
[Consolidation](#)
[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

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, Ophthalmology etc. Some of the company's leading brands include Artefan (Anti-malarials), Met XL (Hypetension), Atorfit (High cholesterol), Rosofit, Cinode (Cardiology), Melacare (Dermatology), Unibrom (Opthalmology), Kamagra (Male erectile dysfunction) etc. APL's manufacturing operations are spread across seven manufacturing plants, out of which two are US FDA approved. Of these, the company has six manufacturing facilities for formulations and one manufacturing facility for API (Active Pharmaceutical Ingredient) for captive consumption located near Aurangabad, Maharashtra.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	2910.07	3438.31	950.93
PBILDT	1028.71	1034.50	221.76
PAT	653.87	712.72	174.62
Overall gearing (times)	0.01	0.01	-
Interest coverage (times)	124.39	101.42	-

A: Audited, UA: Un-audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	55.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	10.00	CARE AA; Stable / CARE A1+

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	55.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (31-Aug-21)	1)CARE AA; Stable / CARE A1+ (05-Oct-20)	1)CARE A1+ (25-Sep-19)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	10.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (31-Aug-21)	1)CARE AA; Stable / CARE A1+ (05-Oct-20)	1)CARE AA; Stable / CARE A1+ (25-Sep-19)

*Long term/Short term.

.Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-5: Bank lender details for this company

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

Annexure-6: List of subsidiaries

Name of Subsidiaries	Country	% Holding
Ajanta Pharma (Mauritius) Limited (APML)	Mauritius	100%
Ajanta Pharma (Mauritius) Intl. Limited (Wholly owned subsidiary of APML)	Mauritius	100%
Ajanta Pharma USA Inc.	USA	100%
Ajanta Pharma Philippines Inc.	Philippines	100%
Ajanta Pharma Nigeria Limited	Nigeria	100%

Note on 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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