Ajanta Pharma Limited

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	65.00	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Ajanta Pharma Limited (APL) continue to derive strength from its strong business profile with focus on specialty therapeutic segments as well as diversified geographic and product profile. The ratings also derive strength from the healthy growth in the total operating income (TOI) during FY23 (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, and its presence in the major regulated markets. The ratings also take in account APL's diversified revenue profile with vertically integrated operations, accredited manufacturing facilities with well-equipped research and development (R&D) facilities and well-established marketing network. The ratings are partially offset on account of moderation of profitability margins during FY23, 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: Factors likely to lead to rating actions

Positive factors

- Increase in the sales with better utilisation of expanded capacities with turnover increasing by 10% to 15% on sustained basis.
- Sustaining of return on capital employed (ROCE) over 30% consistently.
- Sustaining of PBILDT% over 25% consistently.
- Improvement in the operating cycle to below 100 days.

Negative factors

- Reduction in PBILDT margin below 18%.
- Weakening of financial profile because of significant increase in working capital requirements and/or large, debt-funded capex or acquisitions.

Analytical approach: Consolidated.

CARE Ratings Limited (CARE Ratings) 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.

Outlook: Stable

The stable outlook reflects that the rated entity is likely to maintain its established market position and would have comfortable liquidity profile.

Detailed description of the key rating drivers:

Key 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, etc. Moreover, the company also has presence in other segments, viz., antimalarial, 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-malarial), Met XL (hyper tension), Atorfit (high cholesterol), Rosofit, Cinode (cardiology), Melacare (dermatology), Unibrom (ophthalmology), Kamagra (male erectile dysfunction), etc., amongst others.

Healthy growth in TOI

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

The TOI of the company, at consolidated level, increased to ₹3,808.71 crore in FY23 from ₹3,397.36 crore in FY22 and ₹2,894.20 crore in FY21, indicating a growth of 12.1% and 17.4% in FY23 and FY22, respectively, on the back of improving demand for branded business. The revenue from India and Emerging Markets (Asia + Africa) grew from ₹2,494 crore in FY22 to ₹2,711 crore in FY23, registering 8.7% growth, and revenue from USA subsidiary has grown from ₹589 crore in FY22 to ₹665 crore in FY23 indicating a growth of 13%. APL has recorded 73% of its business contribution from branded generics. The same was well diversified from more than 30 countries which includes India, rest of Asia and Africa. In line with expectations, the PBILDT margin has moderated to 23% in FY23 as against 29% in FY22. The decline in PBILDT margin was on account of increase in the raw material prices, spiking of freight costs, normalisation of R&D and pricing pressures in US markets. During Q1FY24, the company has reported TOI of ₹1,021.04 crore with PBILDT margin of 26.54%.

Healthy financial profile

The company's capital structure continues to remain healthy with total debt of ₹39.47 crore as on March 31, 2023 (₹34.52 crore as on March 31, 2022). The change in total debt was due to reduction in outstanding working capital limits and increase in financial lease liability as on March 31, 2023. The overall gearing ratio remained comfortable at 0.01x as on March 31, 2023. Furthermore, CARE Ratings notes that with low debt levels and sufficient 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 FY23, APL had a healthy mix of export (65%) and domestic sales (35%). 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 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 23 new products in India including six initially to market products during FY23. In emerging markets, the company has a large range of specialty and general practitioner product portfolio of 200+ products. The company has Medical Representative (MR) strength of about 2,800.

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

APL has total seven manufacturing facilities 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 active pharmaceutical ingredient (API) for captive consumption. The manufacturing facilities located at Paithan and Dahej are approved by USFDA and WHO Geneva, while the other facilities located at Waluj, Chikalthana, Pithampur, Chittegaon are approved by WHO GMP. The wide infrastructure of the company is well served with around 850+ scientists and a R&D centre named as Advent in Kandivali, Mumbai. The R&D spends for the company stood at 6% of the total sales during FY23 and FY22.

Experienced promoters

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

Key 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 these costs may affect the company's profitability in the near term. Although the company procures almost 90-95% of its raw material from domestic market, the suppliers of raw materials in turn import from China, which indirectly makes 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 has been purchasing raw materials at lower credit period and availing better bargained prices for its raw materials.

Foreign exchange fluctuation risk

As the company derived about 68% of its overall revenues from exports, it is exposed to the foreign currency fluctuation risk. In FY23, on a consolidated basis, APL reported ₹2,242.02 crore earnings (previous year ₹1,867.82 crore) and an outgo of ₹429.31 crore (previous year: ₹366.23 crore) in foreign currency. The currencies in which these transactions are primarily denominated are US Dollars, Euro, Mauritian Rupee, Philippine Peso and Nigerian Naira. The company has made net forex earning amounting to ₹1,812.71 crore during FY23. APL generally does currency hedging up to a maximum period of 6 to 18 months. The company hedges its foreign exchange risk exposure by forward exchange contracts.

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. CARE Ratings notes that the company is continuously taking adequate steps to address the regulatory risks. Furthermore, 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 FY24. The operating cycle remained elongated at 174 days (PY: 187 days) as on March 31, 2023. The elongation is on account of increase in the 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. The company has an overall inventory period of 174 days in FY23 (187 days in FY22). The current ratio of the company stood at 2.47x as on March 31, 2023. The company, at consolidated level, has cash equivalent to the tune of ₹283.3 crore and has no term debt obligation apart from lease liability. Moreover, the company only utilises non-fund-based limit which stood at 24% for the past 12 months ending June 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

For the pharma industry, the main factor of ESG affecting the sector is the social aspects like product safety and quality, human capital & development, and access to healthcare. Governance remains a universal concept affecting all the sectors and geographies. Amongst the ESG factors, majority of the pharma companies seem to be focusing on product quality & safety and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements which are continuously evolving, any non-compliance with regulations or scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation and related expenses. It might also 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 regulators like USFDA.

APL implemented solar energy generation at its various units which is currently fulfilling 11% of its energy requirement and has implemented energy conservation projects across its units during FY23, on account of which, it is expected to meet 32% of energy requirements, going forward. In next 2 years, the company expects to reach up to 50% green power. It is also conserving consumption of water by recycling the water used.

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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 1973, Ajanta Pharma is engaged in branded generics by catering to cardiology, ophthalmology, dermatology, Pain management, antimalarial, gastroenterology, antihistamine and respiratory, therapeutic segments, etc. APL is spearheaded by Mannalal B. Agrawal (Chairman), Madhusudan Agarwal (Vice Chairman), Yogesh M. Agrawal (Managing Director), and Rajesh M Agarwal (Jt. Managing Director).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	3,199.49	3,479.75	1,021.04
PBILDT	953.61	790.40	271.00
PAT	719.86	558.72	241.30
Overall gearing (times)	0.01	0.01	NA
Interest coverage (times)	104.56	151.13	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not available

Any other information: Not available

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	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 2023-2024	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	55.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (12-Sep-22)	1)CARE AA; Stable / CARE A1+ (31-Aug-21)	1)CARE AA; Stable / CARE A1+ (05-Oct-20)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	10.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (12-Sep-22)	1)CARE AA; Stable / CARE A1+ (31-Aug-21)	1)CARE AA; Stable / CARE A1+ (05-Oct-20)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries/associates considered for consolidation

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

Note on the 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.

Contact us

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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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