ACG Associated Capsules Private Limited

December 7, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	190.05 (Reduced from 228.00)	CARE AA+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the long-term rating of the bank facilities of ACG Associated Capsules Private Limited (ACPL) factors-in its long track record of operations for over six decades as well as its strong business profile. The rating also factors the established market position of ACPL in the manufacturing of capsules in drug administration, both domestically and globally, across product categories, and the reputed clientele with long-standing relationships. The rating further derives strength from the steady growth in the total operating income (TOI) of the company along with healthy profitability margins reported by it during FY20-FY23, the comfortable capital structure as on March 31, 2023, and the strong debt coverage indicators. The rating also factors-in the availability of strong liquidity in the form of cash and liquid investments of around ₹1,229 crore as on March 31, 2023, as opposed to the term debt outstanding of ₹975 crore. Additionally, the extensive and strategic research and development (R&D) investments, strong operating efficiencies, diversified geographic presence and favourable industry outlook bode well for the company.

That said, the rating strengths are partially offset by the regulatory risks associated with the different geographies, the working capital-intensive nature of operations and the increase in the market share by the alternative form of drug administration over the medium to long-term. The rating also takes into consideration the ongoing capex at Croatia expansion, cellulose raw material and capsule plants and Greenfield project for Gelatin Capsules in Thailand at an estimated cost of ₹1,400 crore (80% of the total cost to be funded by external debt). Given the lower average interest expense (around 4-7%) as compared with the return generated on investments, the company opts for external borrowing for capex, despite adequate cash, liquid investment balance and comfortable gross cash accruals (GCA) generated. The company also prefers to maintain adequate liquidity as a measure of protection during distress times. Also, given the fact that majority of these projects are in their advance stage of completion, as well as the past track record of the ACG group in successful project implementation, the total project cost around 38% of the net worth of ACPL as on March 31, 2023, and adequate liquidity available, there is no major project risk envisaged.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in the TOI by about 15% and maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margins over 30%.
- Maintaining an overall gearing below 0.2x and working capital cycle not going beyond 120 days.

Negative factors

- Credit metrics deteriorating significantly because of large debt-funded capex or acquisitions with overall gearing increasing beyond 0.5x.
- Significant weakening of the liquidity profile of the company from the current levels with interest coverage ratio deteriorating below 5x.
- Delay in project implementation causing significant cost or time overruns.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has analysed ACPL's credit profile by considering the consolidated financial statements owing to the financial and operational linkages between the parent and subsidiaries and common management. The subsidiaries of ACPL, which have been consolidated, are mentioned under Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Ratings' expectation that ACPL will continue to derive strength from its strong business profile, and the established market position in the near term.

Detailed description of the key rating drivers:

Key strengths

Long track record of operations for over six decades with strong business profile

Established in 1961, ACPL has a long track record of operations of over six decades. By virtue of being in the industry for a long period, the company has developed strategic and dependable alliances with leading domestic and global pharmaceutical players. The company has an established presence in the market for both, gelatines as well as HPMC-based capsules. Together with

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

integrated manufacturing solutions, these further augmented ACPL's growth, making it one of the world's largest capsule manufacturers, and Asia's largest.

Diversified product range
ACPL offers a diversified product range across multiple business segments. The company manufactures two types of capsules – hard gelatine capsule and hard cellulose-based vegetarian capsule shells. However, within these two types, there are various sub-types of capsules, which find applications in liquid/semiliquid filing capsules, pastes and combination filing capsules, dry powder filing capsules, time delay release, clinical trial capsules, cosmetic and lifestyle products. Over the years, ACPL has adapted itself to the changing market dynamics with various forms of complex formulations, the vegetarian options (HPMC capsules), and even the nutraceuticals and cosmetics. The cellulose segment contributed 26% of FY23 revenues on a standalone basis. The company has, through its subsidiary (Vantage Nutrition LLP) acquired a company named Combocap Inc, USA in March 2023. The acquisition gives the company a unique and a niche product which combines the powder and soft gel capsules.

Geographical distribution and low client concentration risk
The company's revenues are geographically well diversified with approximately half of its revenues coming from exports. By virtue of being in the industry for over six decades, the company has garnered incremental orders from current as well as new addition of prospective clients, and the trend is expected to continue. During FY23, the domestic market contributed about 47% of the TOI on a standalone basis, while US (22%), Europe (12%), Bangladesh (5%), Brazil (4%) and others (10%) contributed about 53%, thus making the revenue profile geographically diversified. Furthermore, the company has over 200 customers in its portfolio; however, the top five non-group company customers contributed only less than 15%. The company caters to some reputed clients, including Dr Reddy's Laboratories Ltd, Aurobindo Pharma Ltd, Alkem Laboratories Ltd, etc.

Steady growth in TOI of the company along with healthy profitability margins
ACPL, during FY18-FY23, exhibited healthy growth in TOI at a compounded annual growth rate (CAGR) of about 17%, growing from ₹1,395 crore in FY18 to ₹2,991 crore in FY23. The company has been able to maintain PBILDT margins at 23-30% in the past six years. In FY23, ACPL's TOI witnessed a growth of 16% to ₹2,991 crore in FY22, primarily driven by a 20% increase in the export sales. The PBILDT margins reduced slightly from 30% in FY22 to 28% in FY23, owing to inflationary environment.

Strong financial and liquidity profile
The company has a strong financial profile as indicated by a robust tangible net worth (TNW) of ₹2,969 crore at the end of FY23 (PY: ₹2,489 crore). The overall gearing moderated slightly to 0.33x as on March 31, 2023 (PY: 0.30x) due to increase in debt in FY23 from ₹747 crore in FY22 to ₹975 crore in FY23 owing to increased term loan for the ongoing capital expenditures. Interest coverage (PBILDT / interest) remains comfortable at 15.86x in FY23 (PY: 13.89x). CARE Ratings expected healthy topline growth, strong profitability and ample cash flow will aid in maintaining adequate liquidity.

Key weaknesses

Ongoing debt-funded capex
ACPL currently has four capital investment projects in the pipeline. The details are as follows:
1) Croatia expansion project: The ongoing expansion of facilities in Croatia, Europe, has a total budget of EUR 18 million (around ₹155-165 crore) that is almost entirely funded through external debt. The company has already availed two loans of EUR 8 million and EUR 7 million. The project is expected to be completed by March 2024.
2) Greenfield project for HPMC raw material: The company is coming up with a greenfield project for cellulose capsule raw material at Aurangabad, Maharashtra, at an estimated cost of ₹301 crore with a sanctioned debt of ₹212 crore. The project is expected to be completed by March 2024. The promoters' contribution stood at ₹51 crore as on March 31, 2023 and ₹133 crore of debt has been drawn as on October 31, 2023.
3) Greenfield project for HPMC capsules: The company is setting up a greenfield project for cellulose capsule manufacturing at Dahej, Gujarat, at an estimated cost of ₹575 crore with a sanctioned debt of ₹462 crore. The project is expected to be completed by Q1FY25. Till October 18, 2023, the company has spent ₹282.27 crore towards the project which had been funded by way of ₹66.10 crore of the promoter's contribution in the form of non-cumulative redeemable preference shares, ₹2.00 crore in the form of equity and the balance ₹214.17 crore by way of loan.
4) Greenfield project for Gelatin capsules: The company is planning for a greenfield project in Thailand costing ₹375 crore for which term loans of USD 15 million and THB 770 million have been sanctioned and the remaining 20% of the cost (amounting to ₹75 crore) will be funded through the promoters. The expected completion date is December 2024.

These projects upon execution would help in backward integration and increase the share of HPMC capsule sales, which has higher margins. Going forward, the product mix of the company is expected to become skewed towards HPMC cellulose in line with the increased demand of HPMC capsules across the globe. With the impact of increase in the debt levels due to the ongoing capex, the overall gearing is expected to moderate to 0.38x, going forward. CARE Ratings notes that the company has adequate cash and liquid asset balance (₹1,229 crore on March 31, 2023) with comfortable yearly cash flow accruals (₹700-900 crore) and the same provides comfort.
Also, given that majority of these projects are in their advance stages, past track record of the ACG group in successful project implementation, the total project cost is around 38% of the net worth of ACPL as on March 31, 2023, adequate liquidity available, there is no major project risk envisaged.

Working capital intensive nature of operations
Historically, ACPL's operations are working capital intensive with debtors' days in the range of 100-120. However, this risk is mitigated by strong credit quality of the debtors. Moreover, with low reliance on external debt, working capital requirements are adequately funded by internal accruals and trade payables, providing additional financial flexibility. The operating cycle during FY23 has slightly increased to 109 days from 99 days in FY22. The collection period increased moderately to 88 days (from 84 days in FY22), while inventory days increased to 65 days (PY: 54 days), as the company is required to maintain substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. The creditors are paid in about 35 - 45 days.

Competition from alternative drug delivery formats
The market is continuously evolving with new substitutes and products, which might impact the market share of both gelatine and cellulose-based capsules. However, with continuous innovation and extensive R&D facilities, the company has been agile to adapt itself to new products, building capability and capacity around it.

Foreign exchange fluctuation risk
On a consolidated basis, the company is export-oriented, with around 50% of its overall revenues being earned in foreign currency mainly denominated in USD (US Dollar), Pound Sterling and Euro. The company enters derivative financial instruments with various counterparties, including foreign exchange forward contracts, interest rate swaps and cross currency interest rate swaps. Moreover, there is a partial natural hedge available as the company's receivables and borrowings are in US Dollars, Thai Bhat and Euro.

Liquidity: Strong
ACG's liquidity remains strong marked by nil utilisation of its fund-based working capital limits on a standalone basis during last 12 months ended August 2023, cash and liquid investments of around ₹1,229 crore as on March 31, 2023 and healthy cash-flow from operations of around ₹700-900 crore during the next 2 years. ACG has scheduled term-debt repayment obligation of around ₹44 crore during FY24 of which the company has already repaid to the extent of ₹22 crore during H1FY24. Furthers, it expects to incur capex of around ₹900 crore in next 2 years towards greenfield projects as mentioned above. Since the company's return generated on investments is more than the interest rates on borrowing, the management has decided to fund 80% of the project cost through debt and the remaining through internal accruals. The cash and liquid balance along with healthy GCA is expected to remain adequate to meet its term-debt repayment obligation comfortably, and any additional capex requirement. This apart, its healthy net worth base and comfortable leverage provides significant financial flexibility to ACG.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks – Not mentioned as the company is not listed.

Applicable criteria

[Consolidation](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Manufacturing Companies](#)
[Policy on default recognition](#)
[Policy on Withdrawal of Ratings](#)
[Rating Outlook and Credit Watch](#)

About the company and industry

Industry classification:

Macro-economic Indicator	Sector	Industry	Basic Industry
Diversified	Diversified	Diversified	Diversified

Incorporated in 1961, ACPL is one of the world's largest and well-equipped modern manufacturers of empty hard gelatine capsules, hydroxypropyl methylcellulose (HPMC) capsules (derived from natural plant-sourced cellulose) and speciality capsules (application-based, for cosmetic and lifestyle products). Headquartered in Mumbai, ACPL has factories in multiple locations, including India, Europe, and Brazil. It caters to the pharmaceutical, nutraceutical and dietary supplement industries across 138 countries. The company is founded and managed by Ajit Singh and Jasjit Singh, and is currently managed majorly by Karan Singh. It generates majority of its revenue from the sale of gelatine capsules; and sold over 100 billion of gelatine (74%) and HPMC capsules (26%) in FY23. With a total annual capacity of more than 120 billion (capacity utilisation consistently above 90% peaking-up to 100%), majority of these capsules are produced at ACPL's five state-of-the-art manufacturing plants in Mumbai, India.

Brief Financials (Consolidated) (₹ crore)	March 31, 2022 (A)	March 31, 2023 (P)	H1FY24 (UA)*
Total operating income	2,570.50	2,991.42	1,028
PBILDT	783.05	827.75	375
PAT	574.69	569.25	233
Overall gearing (times)	0.30	0.33	NA
Interest coverage (times)	13.89	15.86	NA

A: Audited, P: Provisional; *UA: Unaudited and standalone; NA: Not available; Note: 'the above results are latest financial results 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

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-Long term	-	-	-	August 2026	190.05	CARE AA+; Stable

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-Long term	LT*	190.05	CARE AA+; Stable	-	1)CARE AA+; Stable (18-Oct-22)	1)CARE AA+; Stable (15-Feb-22)	-

*Long term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long term	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries considered for consolidation

Name of companies/ Entities	% of holding as of March 31,2023
ACG Europe Ltd.	100%
ACG Europe D.O.O, Croatia	100%
ACG Associated Capsules Philippines Inc	100%
ACG Cellulose Pvt Ltd	100%
ACG Sports Pvt Ltd	100%
Gel Strength Company Ltd., Thailand	100%
PT. ACG Indonesia	100%
Vantage Nutrition LLP	99%
ACG DO Brazil S.A.	100%
ACG Capsules (Thailand) Co. Ltd	100%
ACG Capsules Canada Limited	100%
ACG (FZE) – Dubai	100%
ACG Universal Capsule Pvt Ltd	51%
ACG Gelatin Pvt Ltd	100%
Centercorp	65%

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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-079 4026-5617 E-mail: Ranjan.Sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: +91-022- 6754 3505 E-mail: pulkit.agarwal@careedge.in Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: +91-040-4010-2030 E-mail: dnaveen.kumar@careedge.in

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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in