Ami Lifesciences Private Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	81.00 (Reduced from 95.85)	CARE A-; Negative	Reaffirmed; Outlook revised from Stable
Long-term / short-term bank facilities	166.35 (Enhanced from 151.50)	CARE A-; Negative / CARE A2+	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	48.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Ami Lifesciences Private Limited (ALPL) derive strength from experienced promoters in the pharmaceutical industry, diversified product portfolio spanning several therapeutic segments, wide geographical presence with reputed clientele in domestic and export markets, and regulatory approvals in place. Ratings further continue to derive strength from ALPL's moderate scale of operations, comfortable capital structure, and adequate liquidity. CARE Ratings Limited (CARE Ratings) considers moderation in the company's profitability and debt coverage indicators in FY23 (FY refers to April 01 to March 31) and 11MFY24 (11M refers to April 01 to February 29), which, continued to remain adequate. While profitability is expected to be subdued in FY24, it is envisaged to improve going forward with recovery in demand, commencement of contract development and manufacturing operations (CDMO) and moderation in cost structure.

However, ratings continue to remain constrained due to the company's high working capital requirements, presence in a highly fragmented and competitive bulk drug industry, foreign exchange fluctuation risk, and inherent regulatory risk associated with the pharmaceutical industry. Ratings also factor in weak financial risk profile of ALPL's subsidiary, Raichur Laboratories Private Limited (RLPL), which is non-operational since April 22, 2023, due to a fire incident at its site.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing consolidated total operating income (TOI) to around ₹800-1,000 crore, while maintaining profit before interest, lease, depreciation and tax (PBILDT) margin above 20% and return on capital employed (ROCE) above 25% on a sustained basis; and a comfortable leverage.
- Improving working capital management, resulting in gross working capital cycle to below 150 days on a sustained basis.

Negative factors

- Moderating PBILDT margin to below 12% on a sustained basis, resulting in adverse impact on debt coverage indicators.
- Large side debt funded capex/acquisition and/or stretch in working capital requirement, leading to moderating capital structure, with an overall gearing ratio of more than unity.
- Adverse changes in regulatory policy, impacting ALPL's credit profile.
- Total debt to PBILDT (TD/PBILDT) exceeding 2.50x on sustained basis.

Analytical approach: Consolidated

For the credit risk assessment, CARE Ratings has considered consolidated financials of ALPL. The list of subsidiaries of ALPL is mentioned in **Annexure-6.**

Outlook: Negative

The revision in the outlook from 'Stable' to 'Negative' is considering significant moderation in the company's PBILDT margin in FY23 and 11MFY24, which if continued to remain subdued, may significantly impact ALPL's credit profile going forward. CARE Ratings expects the PBILDT margin for FY24 to remain subdued, however, a gradual improvement is envisaged in FY25 with demand recovery and some moderation in cost structure. CARE Ratings may revise the outlook to 'Stable' if there is an improvement in operating profitability and debt coverage indicators, as envisaged.

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

Detailed description of key rating drivers

Key strengths

Vast experience of promoters in the pharmaceutical industry

ALPL's management consists of four executive directors having a rich experience in the pharmaceutical industry. Girish Chovatia, the Chairman and Managing Director, has more than fifteen years of experience and manages overall operations of the company. Hiren Shah looks after operations in the capacity of President Operation, whereas Virendra Thakrar heads the R&D department. Overall management of ALPL consists of qualified professionals having decade-long experience in their respective fields.
In December 2023, Girish Chovatia bought back the entire shareholding from Private Equity firm Kedaara Capital (holding 32.93% through its fund, Kedaara Capital Fund II LLP) and Intensive Fiscal Services Pvt. Ltd (holding 1.60%). Thus, the promoter family holds the entire shareholding of ALPL as on latest date.

Diversified product portfolio and reputed client base

ALPL offers products across therapeutic segments such as respiratory, musculoskeletal, genitourinary system, cardiovascular diseases, anti-allergic, antifibrinolytics, antihypertensive, central nervous system and nutraceutical products. The company has been able to launch niche molecules regularly, driving growth in its revenue and profitability over the years. ALPL has track record of development of complex and niche molecules regularly over the years, which is reflected in the constitution of its top products to its overall revenue share. Top 10 products contributed around 65-70% to its overall revenue in the last three years ended FY23.
The company has also invested in research and development (R&D) facility by setting-up separate building and addition of scientists in the R&D department in FY22. Overall R&D expenditure remained at around 2-3% of nets sales in the last 3 years ended FY23.
ALPL has an established relationship with its large customer base, from which, it receives repeat orders. Revenue from top 10 customers contributed 35% of its net sales in FY23 (FY22: 29%) and 29% in 11MFY24. CARE Ratings notes that diversity in the customer base reduces vulnerability to a decline in demand from a single customer.

Presence in diversified markets with regulatory approvals in place

ALPL's manufacturing plant is certified by drug regulators such as Ministry of Food and Drug Safety of the Republic of Korea (KFDA; Korea), EU-GMP, Italian Medicine Agency (AIFA), COFEPRIS (France), and WHO-cGMP, and it also carries ISO 9001:2015, ISO 14001:2015, and ISO 45001:2015 certifications.
ALPL has geographically diversified revenue profile, where it earned 62% of its sales from export market (FY22: 53%) and remaining from domestic market in FY23. It exports its products mainly to semi-regulated markets such as Egypt (29% of its sales in FY23), Brazil (around 25%), and South Korea (around 17%), among others.

Moderate scale of operations despite significant decline in profitability in FY23 and 11MFY24

ALPL registered a growth of around 14% in its TOI to ₹636.21 crore in FY23 [PY: ₹558.35 crore], which was backed by increased demand of its existing products in export and domestic markets, its backward integrated operations, and development of niche products. The company's TOI remained stable at ₹502.74 crore in 11MFY24 (UA) [9MFY23: ₹475.30 crore].
ALPL's operating profitability marked by its PBILDT margin moderated significantly by 507 bps y-o-y to 9.87% in FY23 and 9.81% in 11MFY24 due to one-off expenses (including facility up-gradation expenses, professional fees, and provision for slow-moving inventory and bad-debts).
There was significant increase in manpower in the last 1-2 years for R&D and marketing operations, benefit of which, would accrue over the next 2-3 years. There was a moderate increase in depreciation and interest cost due to completion of major capex in FY22. Accordingly, profit after tax (PAT) margin of the company also declined by 407 bps over FY22 and remained at 3.93% in FY23. ALPL reported gross cash accruals (GCA) of ₹43.24 crore in FY23 and ₹28.46 crore in 11FY24; a significant decline over ₹62.49 crore reported in FY22.
The current year performance in terms of revenue and profitability has been impacted due to management's decision to slow down dispatches to Egypt, which is one of its major markets, due to its currency crises. CARE Ratings notes that the situation is gradually stabilising, and the company has restarted dispatches for the Egypt market although on a limited scale.
While CARE Ratings expects PBILDT margin to remain subdued in FY24, it is expected to improve between 13-15% due to envisaged recovery in sales including revenue from the newly established CDMO segment and moderation in cost structure.

Comfortable capital structure and moderate debt protection indicators

ALPL's capital structure marked by its overall gearing ratio continued to remain comfortable at 0.53x as on March 31, 2023, and 0.46x as on December 31, 2023. The same is due to comparatively low level of debt of ₹225.58 crore as on March 31, 2023, and ₹197.33 crore as on December 31, 2023, and a healthy tangible net worth (TNW) of ₹423.94 crore as on March 31, 2023.

With the no major debt-funded capex plan in the near term and the company's focus to operate on an optimum capacity while undertaking incremental capacity addition at nominal cost, CARE Ratings notes that ALPL would maintain its comfortable capital structure in line with the present level.
With decline in profitability, ALPL's debt coverage indicators moderated marked by PBILDT interest coverage and total debt to GCA (TD/GCA) of 3.55x and 5.22x respectively in FY23 and 2.68x and 6.36x respectively in 11MFY24, though remained adequate.

Key weaknesses

Sizeable working capital requirements

The company's operations remained working capital intensive marked by high gross current asset of 237 days [PY: 270 days]. Operating cycle, though moderated, remained higher at 145 days in FY23 as against 154 days in FY22 mainly due to rationalisation of inventory days from 172 days in FY22 to 153 days in FY23. While debtor days increased from 69 days in FY22 to 79 days in FY23, creditors days remained similar. Working capital intensity stems from long-production process for manufacturing APIs and extension of nearly 2-3 months' credit period to its customers in-line with industry norms.

Highly fragmented and competitive bulk drug industry and foreign exchange fluctuation risk

Indian pharmaceutical industry is highly fragmented with presence large number of small to mid-sized entities operating in the bulk drug and formulation segment. Pharmaceutical industry is also saddled with challenges regarding high import dependency in some of segments and competition from China due to its large capacities. Despite growth in scale of operation, over the years, ALPL continued to operate on moderate scale, which may restrict its pricing flexibility to a certain extent. However, CARE Ratings notes that, ALPL has few niche molecules in its portfolio, which partially off-sets pricing challenges and helps maintain profitability. ALPL is a net exporter, and hence, is exposed to adverse fluctuation in foreign exchange rate in absence of active hedging policy. ALPL reported net forex gain of ₹9.45 crore in FY23 (FY22: ₹6.55 crore).

Inherent regulatory risk associated with pharmaceutical industry

Increasing regulation, increased sensitivity towards product performance, and pricing pressure are key challenges faced by the pharmaceutical industry. The company needs to manufacture products that meet quality standards of regulators.
The pharmaceutical industry is highly regulated and requires approvals, licenses, registrations, and permissions for business activities. The approval process for a new product registration is complex, lengthy, and expensive. Non-compliance may result in regulatory ban on products/facilities and may impact a company's further growth. Hence, compliance with evolving regulatory norms becomes critical for un-interrupted operations of pharmaceutical companies.

Fire incident at the subsidiary, RLPL

RLPL is engaged in manufacturing API and intermediates at its plant at Raichur, Karnataka. Historically, it has a weak financial risk profile with continued losses and negative tangible net worth. ALPL supported operations of RLPL with loans and advances of ₹67.71 crore and a corporate guarantee to the tune of ₹13.72 crore towards its bank facilities as on March 31, 2023.
There was a fire incident on April 22, 2023, at RLPL's facility, where plant, machineries and inventories were destroyed. However, as confirmed by the management there were no casualties. RLPL operations are suspended since then. The management expects to receive an insurance claim of around ₹35 crore (which is under process) against estimated losses of around ₹40 crore.
CARE Ratings notes than there was no major impact on ALPL's operation as required intermediates were sourced from nearby contract manufacturers. Considering that RLPL's operations are not expected to commence in the near term, CARE Ratings doesn't envisage major cash outflow from ALPL for next 1-2 years.

Liquidity: Adequate

ALPL's liquidity remained adequate, marked by moderate liquidity ratios and utilisation of its working capital limits. ALPL is expected to achieve GCA of ₹33-36 crore as against term-debt repayment obligation of around ₹30 crore for FY24. Average fund-based working capital utilisation remained moderate at around 80% for 12-months ended February 29, 2024. ALPL has also enhanced its working capital limits by ₹25 crore from October 2023, which is further supported its liquidity. It reported cash flow from operation of ₹55.01 crore in FY23, which was largely remained in-line with FY22 level. ALPL has cash and bank balance of ₹15.86 crore as on December 31, 2023. Current ratio and quick ratio remained moderate at 1.33x and 0.61x as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social and governance risk (ESG) risks: Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

ALPL (CIN: U24110GJ1994PTC021470), part of the Ami group, was incorporated in March 1994 as Sun Scope Laboratories Private Limited (SSLPL), and subsequently, company's name changed to ALPL in June 2006. ALPL is promoted by Girish Chovatia and is engaged in manufacturing active pharmaceutical ingredients (API) and its intermediates at its WHO-cGMP and EU-GMP-certified manufacturing facility in Vadodara, Gujarat.
ALPL's portfolio varies across therapeutic segments, such as respiratory, cardiovascular, nutraceuticals, musculoskeletal, genitourinary system, anti-allergic and central nervous system.
ALPL's subsidiary RLPL has a manufacturing plant at Raichur, Karnataka, with installed capacity of 120 kilo litre (KL) per annum for manufacturing API and its intermediates. RLPL is non-operational since April 22, 2023.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	11MFY24 (UA)
Total operating income	558.35	636.21	502.74
PBILDT	83.43	62.77	49.30
PAT	44.68	25.00	7.30
Overall gearing (times)	0.52	0.53	0.46
Interest coverage (times)	5.66	3.55	2.68

A: Audited; UA: Un-audited; Note: These above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instruments/facilities: Annexure-3

Complexity level of 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 - LT-Term Loan	-	-	-	April 2027	81.00	CARE A-; Negative
Fund-based - LT/ ST-CC/Packing Credit	-	-	-	-	159.85	CARE A-; Negative / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	6.50	CARE A-; Negative / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	-	38.50	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	-	9.50	CARE A2+

Annexure-2: Rating history for 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 - LT/ ST-CC/Packing Credit	LT/ST	159.85	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (08-Mar-23)	1)CARE A-; Stable / CARE A2+ (01-Mar-22)	1)CARE A-; Stable / CARE A2+ (29-Dec-20) 2)CARE A-; Stable / CARE A2+ (08-Dec-20)
2	Non-fund-based - ST-Letter of credit	ST	9.50	CARE A2+	-	1)CARE A2+ (08-Mar-23)	1)CARE A2+ (01-Mar-22)	1)CARE A2+ (29-Dec-20) 2)CARE A2+ (08-Dec-20)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	6.50	CARE A-; Negative / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (08-Mar-23)	1)CARE A-; Stable / CARE A2+ (01-Mar-22)	1)CARE A-; Stable / CARE A2+ (29-Dec-20) 2)CARE A-; Stable / CARE A2+ (08-Dec-20)
4	Non-fund-based - ST-Letter of credit	ST	38.50	CARE A2+	-	1)CARE A2+ (08-Mar-23)	1)CARE A2+ (01-Mar-22)	1)CARE A2+ (29-Dec-20) 2)CARE A2+ (08-Dec-20)

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
5	Fund-based - LT-Term Loan	LT	81.00	CARE A-; Negative	-	1)CARE A-; Stable (08-Mar-23)	1)CARE A-; Stable (01-Mar-22)	1)CARE A-; Stable (29-Dec-20) 2)CARE A-; Stable (08-Dec-20)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/Packing Credit	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Raichur Laboratories Private Limited	Fully consolidated	Subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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