Ajanta Pharma Limited

August 29, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the long term rating assigned to bank facilities of Ajanta Pharma Limited (APL) considers consistent improvement in the company's performance, where its total operating income (TOI) increased at a compound annual growth rate (CAGR) of ~12% from FY15-24, profitability margins remained healthy at over 23% consistently, strong credit metrics with minimal reliance on debt and regular launches of new products in cardiac, ophthalmology and dermatology therapeutic segments. It has also penetrated new geographies and successfully implemented three green field projects, resulting in capacity expansion. APL also entered new markets, including the United States, and has maintained a satisfactory regulatory inspection record.

Ratings also derive strength from its strong business profile, which focuses on specialised therapeutic segments and features a broad geographic and product reach. Ratings are also underpinned by healthy financial risk profile, its well-established brands catering to multiple therapeutic segments, diversified revenue profile with vertically integrated operations, accredited manufacturing facilities with well-equipped research and development (R&D) facilities and well-established marketing network. Ratings are partially offset due to its exposure to inherent regulatory risk associated with the pharmaceutical industry, intense competition and resultant pricing pressure in domestic and export markets. CARE Ratings Limited (CARE Ratings) also notes pledging of ~7% shares, by the promotor group, who holds ~31% of the company's shares and are not directly involved in APL's management, further increase in pledge and/or decline in shareholding shall remain key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly increasing turnover with better utilisation of expanded capacities, while sustaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) of over 28% consistently.
- Improving operating cycle to below 100 days.

Negative factors

- Reducing PBILDT margin below 20% on sustained basis.
- Weakening financial risk profile because of large debt funded capex/acquisition or increasing working capital requirements resulting in total debt to PBILDT going above 1.50x.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for arriving at ratings of APL given the strong operational linkages among its subsidiaries. Companies considered for consolidation are listed 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 in the medium term.

Detailed description of 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, and pain management among others. Moreover, the company also has presence in other segments including antimalarial, ENT and paediatric, orthopaedic, antibiotics among others. The company also has a basket of brands in each of the key therapeutic segments such as Artefan (antimalarial), Met XL (hypertension), Atorfit (high cholesterol), Rosofit, Cinode (cardiology), Melacare (dermatology), and Unibrom (ophthalmology) among others.

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

Significant presence in key therapeutic segments

The company has significant presence in some key therapeutic segments such as cardiology, dermatology and ophthalmology. Per the IQVAI report March 2024, the company is among top 30 companies with 26th rank in India. In the last decade, the company has surged in the Indian market by targeting several fast-expanding therapeutic segments. It now holds a strong position across the key areas of cardiology, dermatology, ophthalmology, and pain management, with many of its brands leading in their sub-segments.

In ophthalmology, the company has been pioneer in launching liquid eye drop formulations for the first time in India. Products such as Bimat (for treating glaucoma), Nepaflam (for anti-inflammatory purposes), and Softdrops (lubricant) are among these innovations. The company holds second position in the ophthalmology segment. The company has strong presence in the dermatology segment, where its holds 15th position in India. Products such as Melacare cream for melasma, Pacroma (a topical immune modulator), and Salisia KT (an anti-dandruff shampoo) are leading in their respective sub-therapeutic segments. In the cardiology segment, the company has innovative products such as MET XL (the first extended-release Metoprolol) and Cinod (an antihypertensive), where it holds 17th rank. In the pain management, APL is ranked 28th in India. The company's brand Feburic, used for anti-gout therapy, holds a leading position in its category.

Geographically diversified business profile

The company's branded generics division is well-diversified, generating sales in India and over 30 emerging markets across Asia and Africa. The company's business includes branded generics in India, emerging markets of Asia and Africa, generics in the US and institution sales in Africa. This widespread market coverage has contributed to business reliability, scalability, and long-term sustainability. In FY24, APL had a healthy mix of export (67%) and domestic sales (33%). In export, the US market contributed ~22%, Asian market (apart from India) contributed ~24% and African market 21% of the total revenue. CARE Ratings expects that the company's geographical profile will continue to remain well-diversified despite focussing to penetrate the US market with 8-10 additional abbreviated new drug application (ANDA) filings every year.

Steady growth backed by chronic focused portfolio and launch of new products

The company has been steadily growing its business operations supported by launch of new products every year. The company has a portfolio of over 500 products and over 4800 medical representatives. In India company has over 300 products in branded generics in four therapeutic segments, in Asia and Africa it has over 200 products in branded generics in eight therapeutic segment and in the US generic business it has 55 approved ANDAs (including two tentative). In India and Asia, chronic therapies make up 65% and 75% of the revenue, indicating a highly stable and dependable market. The company has been focusing on increasing its share in chronic portfolio such as cardiology, anti-diabetic, ophthalmology, dermatology and pain management and has been launching new products in these segments. In FY24, company launched 42 new products.

Sustained revenue growth with healthy operating margins

APL witnessed steady growth in its revenue and has reported healthy operating margins from FY20-24. Its revenue has improved at compound annual growth rate (CAGR) of ~12% from ₹2662 crore in FY20 to ₹4225 crore in FY24. When evaluated from FY15 the company's revenue has nearly tripled from ₹1496 crore in FY15 to ₹4225 crore in FY24. In FY24, company's revenue grew by about 11% from ₹3809 crore in FY23 to ₹4225 crore. Alongside the steady revenue growth, the company's PBILDT margins, though fluctuated, always remained healthy above 23%. In FY24, considering the company adopting a collaborative approach entailing partnering with vendors and industry experts to mitigate volatility in active pharmaceutical ingredient (API) prices and international logistic cost and favourable market conditions resulted in improvement in PBILDT margins by about 531 bps to above 28% from about 23% in FY23. In FY23, considering surge in cost of raw material consumption and freight costs, the company's PBILDT margins were adversely impacted. CARE Ratings anticipate that the company will continue to grow at 10-12% y-o-y in its revenue and would sustain PBILDT margins above 25%.

Comfortable capital structure and debt coverage indicators

The company's capital structure remained comfortable as on March 31, 2024. The company does not have term loans and the debt represents lease liability and working capital borrowings. At a consolidated level, debt to equity ratio and overall gearing stood at 0.01x as on March 31, 2024 (0.01x as on March 31, 2023). Other debt coverage indicators such as term debt to gross cash accrual (GCA) and total debt/GCA remained comfortable at 0.04x. Interest coverage parameters (PBILDT/interest and profit before interest and tax (PBIT)/interest) further improved to 166.01x (PY: 150.11x) and 147.23x (PY: 127.71x).

Key weaknesses

Volatility in raw material prices

With limited ability to pass on increase in raw material costs, substantial increase in raw material costs may affect the company's profitability in the near term. Over the years, the company's PBILDT margin remained healthy and it 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. The company procures almost 90-95% of its raw material from domestic market and imports remaining mainly from China. Hence, APL does not face major concerns in raw material procurement due to issues in China.

Foreign exchange fluctuation risk

The company derived about 67% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY24, APL reported ₹2386.47 crore earnings (PY: ₹2242.02 crore) and an outgo of ₹398.83 crore (PY: ₹429.31 crore) in foreign currency. The company's major currency exposure is USD and Euro. The company generally does currency hedging for6-18 months and up to the extent of 50-75% of its net foreign exchange earnings. It uses forward exchange contracts and/or options to hedge against its net foreign currency exposures as advised by the risk management committee and forex consultants.

Regulatory Risk

APL presence in multiple countries across and seven production units. Considering the nature of product usage and application, and consequent impacts, APL is required to comply with laws, rules and regulations and operate under strict regulatory environment. Thus, infringement of the law, and significant adverse change in the import/export policy or environmental/regulatory policies in the company's area of operations, can have an impact. The company is continuously taking adequate steps to address regulatory risks. All manufacturing sites continue to successfully clear regulatory audits, conducted by leading global regulatory agencies.

Liquidity: Strong

The company's liquidity position is strong marked by healthy cash accruals of ~₹900 crore in FY24 against nil term loan repayment. The operating cycle, although improved, is still extended at 163 days (down from 174 days the previous year) as of March 31, 2024, consisting of 100 days for receivables, 116 days for inventory with 53 days of creditor period. Extended operating cycle is due to high inventory days, as the company holds extra stock of raw materials and finished goods to meet the supply needs of regions, and the credit terms offered to clients. At a consolidated level, the company has cash and equivalent to the tune of ~₹160 crore. The company only utilises non fund-based limit, which stood at 20% for 12-months ending June 2024. With overall gearing at 0.01x as on March 31, 2024, and with the unutilised lines providing additional cushion and cash accruals estimated to be about ₹1000 crore going forward, CARE Ratings expects APL to have comfortable liquidity position. The current ratio of the company also stood comfortable at 3.03x as on March 31, 2024.

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 such as product safety and quality, human capital and development, and access to healthcare. Governance remains a universal concept affecting all sectors and geographies. Among the ESG factors, majority pharma companies seem to be focusing on product quality and safety, and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements, which are continuously evolving, 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 and may impact a company's future approvals from regulators such as the USFDA.

For safeguarding the environment, APL has taken initiatives such as waste reduction, energy efficiency improvements, renewable energy projects and water conservation. During the year, it installed an additional 8.8 MW solar unit. This addition contributed to reduce CO_2 emissions by about 7066 Mt per annum. The company has also implemented projects to collect and recycle solvent waste generated from quality control at Paithan and Chitegaon sites. The hazardous waste generated from the company's Guwahati and Dahej plants now undergo processing in the cement industry. The company is also providing healthcare services, supporting education and is instrumental in developing rural and tribal areas. The company has an independent and professional board at the helm, ensuring transparency and accountability.

Applicable criteria

[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](#)
[Consolidation](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

Incorporated in 1973, APL is engaged in branded generics by catering to cardiology, ophthalmology, dermatology, Pain management, antimalarial, gastroenterology, antihistamine and respiratory, and therapeutic segments, among others. APL is spearheaded by Mannalal B. Agrawal (Chairman), Madhusudan Agarwal (Vice Chairman), Yogesh M. Agrawal (Managing Director), and Rajesh M Agarwal (Jt. Managing Director). APL's manufacturing operations are spread across seven manufacturing plants, of which, two are USFDA approved. The company has six manufacturing facilities for formulations and one manufacturing facility for API for captive consumption. The company also has a Research Development (R&D) centre at Mumbai, which is well-supported by a team of over 850 scientists, enabling it to introduce innovative products for markets across the globe.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	3808.71	4224.58	1144.92
PBILDT	876.64	1196.91	330.35
PAT	587.99	816.16	245.77
Overall gearing (times)	0.01	0.01	-
Interest coverage (times)	150.11	166.01	453.04

A: Audited UA: Unaudited; Note: these are latest available financial results

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 instrument / facility: 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/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 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 2024-2025	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
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-23)	1)CARE AA; Stable / CARE A1+ (12-Sep-22)	1)CARE AA; Stable / CARE A1+ (31-Aug-21)
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-23)	1)CARE AA; Stable / CARE A1+ (12-Sep-22)	1)CARE AA; Stable / CARE A1+ (31-Aug-21)

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/Non-fund-based-LT/ST	Simple

Annexure-5: Lender details

To view 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	Ajanta Pharma (Mauritius) Limited	Full	Subsidiary
2	Ajanta Pharma Philippines Inc.	Full	Subsidiary
3	Ajanta Pharma USA Inc	Full	Subsidiary
4	Ajanta Pharma Nigeria Limited	Full	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:
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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