ACG Associated Capsules Private Limited

January 08, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	17.50 (Reduced from 190.05)	CARE AA+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to long-term bank facilities of ACG Associated Capsules Private Limited (ACPL) continues to factor ACPL's long track record of operations for over six decades and its strong business profile. Rating also continues to factor in established market position of ACPL in manufacturing capsules in drug administration, both domestically and globally, across product categories and long-standing relationships with reputed clientele. Rating further continues to derive strength from its strong financial risk profile and strong liquidity in form of cash and liquid investments of ~₹1,387 crore as on March 31, 2024. Additionally, extensive and strategic research and development (R&D) investments, strong operating efficiencies, diversified geographic presence, and favourable industry outlook augurs well for ACPL. CARE Ratings Limited (CARE Ratings) also notes moderation in ACPL's operating profitability in FY24 (FY refers to April 01 to March 31) on the back of increase in raw material (gelatine) prices which was not fully passed on to the customers; though substantially recovered in H1FY25 with softening of raw material prices and other cost saving measures and is expected to sustain for FY25.

However, these rating strengths are partially offset by regulatory risks associated with the different geographies, working capital intensive operations, competition from alternative drug delivery formats and foreign currency fluctuation risks. Rating also considers the ongoing debt-funded capex under its subsidiaries and revision in their cost and completion timelines mainly on the back of project's scope enhancement. Commercialisation of these projects as envisaged and adequate financial and operational support to the subsidiaries in timely manner shall remain a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent growth in total operating income (TOI) by ~15% while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins over 30%.
- Maintaining an overall gearing below 0.20x while working capital cycle not going over 120 days on a sustained basis.

Negative factors

- Credit metrics deteriorating significantly because of large debt-funded capex or acquisitions with overall gearing increasing over 0.50x on a sustained basis.
- Significant weakening of the liquidity profile of company from current levels with interest coverage ratio deteriorating below 5.00x.

Analytical approach: Consolidated

CARE Ratings has analysed ACPL's credit profile basis its consolidated financial statements owing to operational and financial linkages between ACPL and its subsidiaries/ join ventures/ associate and common management. Entities consolidated in ACPL are mentioned under **Annexure-6**.

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that ACPL shall continue to maintain its strong business and financial risk profiles and established market position in the medium term.

Detailed description of 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. ACPL has an established presence in the market for both, gelatine and hydroxypropyl methylcellulose (HPMC) capsules (derived from natural plant-sourced cellulose). Together with integrated manufacturing solutions and strong credibility, ACPL is 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 (HPMC capsule) shells. However, within these two types, there

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

are various sub-types of capsules, which find application in liquid/ semiliquid filling capsules, pastes and combination filling capsules, dry powder filling capsules, time delay release, clinical trial capsules, cosmetic and lifestyle products. Over the years, with continued research and dedicated R&D centre, ACPL has enhanced its capacity to meet the growing demand and maintaining its market position across the product range. ACPL has adapted itself to the changing market dynamics with various forms of complex formulations, the vegetarian options (HPMC capsules), and even the growing nutraceuticals and cosmetics market. The gelatine capsules segment contributed ~84% of FY24 revenues while balance 16% was contributed by the cellulose capsules segment on a consolidated basis. Also, ACPL, through its subsidiary, Vantage Nutrition LLP acquired a company named Combocap Inc, USA in March 2023, giving it an advantage of a unique and a niche product which combines the powder and soft gel capsules.

Geographical diversification and low client concentration risk
ACPL's revenues are geographically well diversified with ~45-50% of its revenues coming from exports in the last few years. ACPL's exports slightly reduced in FY24 to ~48% (FY23: ~52%) owing to dumping by China in few of ACPL's market. The domestic market contributed ~52% of the TOI on a standalone basis, followed by the US (24%) and Europe (6%), Bangladesh (3%) and others (15%) in FY24, thus making ACPL's revenue profile geographically diversified. By virtue of being in the industry for over six decades, ACPL has garnered incremental orders from existing as well as addition of new prospective clients and the trend is expected to continue. ACPL has over 200 customers in its portfolio; wherein, the top five non-group company customers contributed only ~14-15% in FY24 and H1FY25. ACPL caters to some reputed clients, including Dr Reddy's Laboratories Ltd, Aurobindo Pharma Ltd and Alkem Laboratories Ltd among others.

Expected improvement in operating profitability post substantial moderation in FY24
ACPL's scale of operations marked by TOI grew healthy at a compounded annual growth rate (CAGR) of ~16% in the last four years ended FY24 to ₹3,006 crore. The TOI in FY24 has largely remained in line with FY23 (₹2,991 crore) largely due to lower-than-expected export sales on account of China dumping. Further, ACPL has been reporting healthy PBILDT margins in the range of ~25-30% over last few years. However, ACPL reported PBILDT margin of 15.30% in FY24 (FY23: 27.70%) largely due to sudden increase in raw material prices (gelatine) for part of the year, which was not immediately passed on to the customers due to established relations with them along with liquidation of high-cost inventories when the prices were comparatively stabilised. However, with ease of raw material prices and other cost saving measures undertaken by ACPL, it reported PBILDT margin of 25.51% in H1FY25 and accordingly is expected to sustain this profitability levels and report PBILDT margin of ~25% for FY25.

Strong financial risk profile
ACPL has a strong financial profile as indicated by a robust tangible net worth of ₹3,330 crore as on March 31, 2024 (FY23: ₹2,969 crore as on March 31, 2023). The debt coverage indicators marked by PBILDT interest coverage ratio stood comfortable at 7.34x in FY24 (FY23: 15.88x). Overall gearing slightly moderated to 0.50x as on March 31, 2024 (0.33x as on March 31, 2023) largely due to the ongoing debt-funded capex and delay in commercialisation of same leading to some time and cost overrun. However, the projects are at an advanced stage and shall start to contribute to the revenues in near term. Accordingly, with this and healthy revenue growth from the existing facilities, CARE Ratings expects the overall gearing of ACPL to remain below 0.50x in the medium term.

Liquidity: Strong
ACPL's liquidity remains strong marked by nil utilisation of its fund-based working capital limits on a standalone basis for the last 12 months ended September 2024, cash and liquid investments of ~₹1,387 crore as on March 31, 2024 and expected healthy cash accruals of ~₹700-1,000 crore in the medium term. ACP had standalone scheduled term debt repayment obligation of ₹54 crore in FY25. However, in addition to that, ACPL prepaid to the extent of ₹80 crore in FY25 as of November 30, 2024 on the back of sufficient liquidity. ACPL is currently undergoing three major greenfield capex plans under its subsidiaries. Since ACPL's return generated on investments is comparatively more than average cost on borrowings, these projects are largely debt-funded (~80%) and balance through internal accruals/ available liquidity as articulated by company management. Nevertheless, expected healthy cash accruals and sufficient cash and liquid investments is expected to remain adequate to meet the consolidated term debt repayment obligations and any additional capex requirements in the medium term. This apart, its healthy net worth base and comfortable leverage provides significant financial flexibility.

Key weaknesses

Ongoing debt-funded capex and revision in timelines for their completion
ACPL is currently undergoing three major capex projects under its subsidiaries. These projects are largely debt-funded (~80%) as ACPL's return generated on investments is comparatively more than average cost on borrowings as articulated by company management.
Greenfield project for HPMC capsules raw material under ACG Cellulose Private Limited (ACG Cellulose; rated 'CARE AA; Stable') in Dahej, Gujarat, was earlier expected to be completed by March 2024 at an estimated cost ₹301 crore (funded by debt of ₹238 crore). However, it got delayed as the company was striving to achieve the desired quality standards and accordingly is now expected to be completed by end March 2025 at a revised cost of ₹331 crore; additional cost being funded by ACPL. Cost incurred as on October 31, 2024 is ₹325 crore. On the back of delay and commencement of interest and debt repayments, ACG is expected to support ACG Cellulose in the near term in a timely manner.
Greenfield project for HPMC capsules manufacturing under ACG Universal Capsules Private Limited (AUCPL; rated 'CARE AA; Stable') in Aurangabad, Maharashtra, was earlier expected to be completed in phases and achieve full capacity by June 2025 at an estimated cost of ₹577 crore (funded by term debt of ₹462 crore). However, as informed by company management, AUCPL

has widened its scope for the project and is currently undertaking various changes and innovations in the set-up of machines than earlier envisaged to achieve better quality, efficiency, sustainability and safety to create a differential factor leading to cost and time overrun as earlier envisaged. Cost incurred as on October 01, 2024 stood at ₹551 crore. AUCPL has started generating revenue for the completed phases in H1FY25. The capex is expected to be fully complete by June 2026 at a revised cost of ₹747 crore. The additional cost of ₹170 crore is also expected to be funded in debt-to-equity ratio of 4:1.
The expansion project undertook for Gelatine capsules in Croatia is expected to fully commercialise by end FY25. Further, partial commercialisation has started for its greenfield project of gelatine capsules in Thailand and is expected to be fully complete by end Q1FY26
These projects upon execution would help in backward integration, expand ACPL's share in the HPMC capsules market and enhance its existing gelatine capsules market. However, given that majority of these projects are in their advanced stages and past track record of ACG group in successful projects implementation, there is no major project risk envisaged. Also, strong cash and liquid investments of ~₹1,387 crore as on March 31, 2024 and healthy cash accruals of ₹500-700 crore over last few years provides additional comfort.

Working capital intensive nature of operations
Historically, ACPL's operations are working capital intensive with operating cycle in the range of 100-120 days. However, this risk is mitigated by strong credit quality of debtors. Inventory days remained in the range of 50-60 days as ACPL is required to maintain substantial inventory level to ensure adequate supply requirements of diverse geographical regions. Operating cycle slightly increased to 116 days in FY24 (FY23: 108 days) due to elongation of collection days. However, working capital requirements of ACPL are largely funded by internal accruals and trade payables providing additional financial flexibility apart from sufficient liquidity.

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 HPMC capsules. However, with continuous innovation and extensive R&D facilities, ACPL has been agile to adapt itself to new products, building capability and capacity around it.

Exposure to foreign exchange fluctuation risk
On a consolidated basis, ACPL earns ~60% of its total revenue from outside India exposing it to foreign currency fluctuations risk. It mainly earns in foreign currency denominated in USD (US Dollar), Pound Sterling and Euro. ACPL enters into derivative financial instruments with various counterparties, including foreign exchange forward contracts, interest rate swaps and cross currency interest rate swaps to mitigate this risk. Moreover, there is also mitigated to an extent as there is a partial natural hedge available with ~50-60% of ACPL's raw material requirements met through imports.

Applicable criteria

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

About the company and industry
Industry classification

Macroeconomic 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, HPMC capsules and speciality capsules (application-based, for cosmetic and lifestyle products). Headquartered in Mumbai, ACPL has factories in multiple locations including India, Europe, Brazil and Thailand. It caters to the pharmaceutical, nutraceutical and dietary supplement industries across over 138 countries. The company is founded and managed by the two brothers; Ajit Singh and Jasjit Singh and is currently managed majorly by Karan Singh. ACPL, on a standalone basis, sold ~106 billion capsules in FY24 (FY23: ~103 billion capsules) and generated majority of its revenue from sale of gelatine capsules (76%) and HPMC capsules (24%) in FY24. With a total annual capacity of ~150 billion capsules p.a. on a consolidated basis and ~120 billion capsules p.a. on standalone basis (capacity utilisation consistently above 90%), majority of these capsules are produced at ACPL's five state-of-the-art manufacturing plants in India.

Brief Financials - Consolidated (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (Prov.)
Total operating income	2,991	3,006	1,611
PBILDT	829	460	411
PAT	572	376	329
Overall gearing (times)	0.33	0.50	NA
Interest coverage (times)	15.88	7.34	NA

A: Audited; Prov.: Provisional; NA: Not Available; 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

Detailed explanation of 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 and Rating Outlook
Fund-based-long term	-	-	-	August 2026	17.50	CARE AA+; Stable

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-long term	LT	17.50	CARE AA+; Stable	-	1)CARE AA+; Stable (07-Dec-23)	1)CARE AA+; Stable (18-Oct-22)	1)CARE AA+; Stable (15-Feb-22)

LT: Long 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-Long term	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	ACG Universal Capsule Pvt Ltd	Full	Operational and financial linkages and common management
2	ACG Cellulose Pvt Ltd		
3	Vantage Nutrition LLP		
4	Centercorp		
5	ACG Gelatine Pvt Ltd		
6	ACG Sports Pvt Ltd		
7	ACG Europe Ltd.		
8	ACG Europe D.O.O, Croatia		
9	ACG DO Brazil S.A.		
10	ACG Capsules Canada Limited		
11	ACG Capsules (Thailand) Co. Ltd		
12	ACG (FZE) – Dubai		
13	Gel Strength Company Ltd., Thailand		
14	PT. ACG Indonesia		
15	Vantage Nutrition LLC, USA		
16	Bio Capsule Pharmaceutical and Nutritional Products Proprietary Limited, South Africa		
17	ACG North America LLC	Proportionate	
18	Aries Components Manufacturing company		
19	IQCGNE-X Pharma Private Limited		

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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