Amanta Healthcare Limited

September 28, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	39.95 (Reduced from 42.05)	**CARE B; Negative (Single B; Outlook: Negative)**	**Revised from CARE BB; Stable (Double B; Outlook: Stable)**
Short Term Bank Facilities	11.55	**CARE A4 (A Four)**	**Reaffirmed**
Total Bank Facilities	**51.50 (Rs. Fifty-One Crore and Fifty Lakhs Only)**		
Fixed Deposit	8.00	**CARE B (FD); Negative [Single B (Fixed Deposit); Outlook: Negative]**	**Revised from CARE BB (FD); Stable [Double B (Fixed Deposit); Outlook: Stable]**
Total Medium Term Instruments	**8.00 (Rs. Eight Crore Only)**		

Details of instruments/ facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities and instruments of Amanta Healthcare Limited (AHL) takes into account inordinate delay in raising the equity share capital leading to poor liquidity and its limited ability to service upcoming large debt repayment obligations. The rating revision also factors in continuous net losses during last three years ended FY21 (FY refers to the period from April 01 to March 31) leading to erosion in tangible net-worth base, weak capital structure and debt coverage indicators.

The ratings continue to remain constrained due to its moderate total operating income (TOI) which declined in FY21, capital intensive nature of operation leading to weak return ratios and elongated operating cycle. The ratings also remained constrained due to vulnerability of AHL's profitability to volatile packing material prices and foreign exchange rate fluctuations, risk associated with quality assurance and storage of Intravenous Fluids (IVF) and AHL's presence in highly competitive and price-controlled IVF market.

The ratings, however, continue to derive strength from vast experience of AHL's promoters and its established and long track record in the IVF business.

Outlook: Negative

The outlook on the long-term rating of the bank facilities/fixed deposit instrument of AHL has been revised to "Negative" on the expectation for further deterioration in AHL's debt coverage and liquidity indicators on the back of upcoming high debt repayment obligations of term loans and NCD (Non-convertible debentures) and accrued interest from certain lenders (not rated by CARE) which are unlikely to be serviced from the envisaged cash accruals of the company.

The outlook may be revised to 'Stable' if AHL is able to raise the fund to refinance this debt along with meaningful improvement in its liquidity and debt coverage indicators.

Rating Sensitivities

Positive Factors

- AHL raising adequate funds to meet its existing high debt repayment obligation
- Improvement in return on capital employed (ROCE) to more than 12% on sustained basis

Negative Factors

- Further delay in raising the equity/debt beyond envisaged timelines
- Significant decline in TOI and operating profit margin

Detailed description of the key rating drivers

Key Rating Weaknesses

Inordinate delays in raising the equity share capital with weak capital structure and debt coverage indicators

There was inordinate delays in raising the equity share capital to replace its existing high-cost debt availed to provide exist to its erstwhile Private Equity (PE) investors whose major repayments are due in FY22. AHL is still actively looking to raise the

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

equity share capital to replace the debt and as articulated by management they have received non-binding term sheet from one of the investors.

AHL had incurred consistent losses at PAT level in last three years ended FY21 with declining cash accruals. Consistent losses at PAT level led to erosion in its net-worth base at Rs.3.29 crore as on March 31, 2021. Total debt had increase from Rs.281.44 crore as on March 31, 2020 to Rs.295.16 crore as on March 31, 2021 which comprises of Term loan from banks of Rs.11.86 crore, Fixed deposit of Rs.5.29 crore, working capital borrowings from banks of Rs.37.03 crore and high cost debt in form of NCD, term loan and accrued interest of Rs.240.98 crore from KKR India Financial Services Limited and others (not rated by CARE). Out of principal repayment of Rs.38.68 crore due in FY22, Rs.34.41 crore is towards this high-cost debt for which company is looking of refinancing option.

Overall debt coverage indicators also remained weak marked by adj. total debt to gross cash accrual (adj. TDGCA) and PBILDT Int. Coverage (excluding non-cash interest) at 22.63x and 1.76x respectively during FY21.

Moderate scale of operations which declined in FY21 amidst Covid 19 disruption and losses at PAT level and weak return ratios

TOI of AHL declined by 8% from Rs.186.50 crore during FY20 to Rs.172.36 crore during FY21 as demand was affected during Q1FY21 due to disruption due to Covid 19 pandemic. Furthermore, AHL has discarded one of its line (for the manufacturing of Large Volume Parenteral (LVP)) during the July 2020 month to replace it with the Steriort line which has started operation from April 2021.

PBILDT margin improved by 133 bps from 21.71% during FY20 to 23.04% during FY21. However, despite its healthy operating profitability, AHL reported losses at PAT level in last three years ended as on March 31, 2021 due to increasing interest and finance cost and moderate depreciation.

Adj. GCA (GCA adjusted with non-cash interest expense) remained low at Rs.13.04 crore during FY21 as compared with 16.64 crore during FY20.

Fixed asset turnover ratio of AHL also remained low in the range of 0.50-0.55x which along with elongated operating cycle increased the capital intensity of the operation. Therefore, despite earning healthy operating profitability margins, ROCE remained low at around 6.53% during FY21 (FY20: 6.68%). The return rations were also impacted by plants being closed due to Covid-19 disruptions and discontinuation of one of the LVP line.

Susceptibility of its margins to volatile packing material prices and foreign exchange fluctuation

The basic raw material for AHL is plastic granules apart from other bulk drugs and chemicals. Plastic granules are derivatives of crude oil which makes AHL's profitability susceptible to volatility in international crude oil prices. Moreover, AHL sources its raw material both from domestic and international markets. Hence, AHL is also exposed to adverse fluctuation in the foreign exchange rate in the absence of any active hedging policy. However, the risk is partially mitigated as AHL has natural hedge available with exports are more than its imports. Total imports were Rs.27.27 crore as compared with total export of Rs.59.28 crore during FY21.

Risk related to the quality assurance and proper storage

IVF products are infused in patient body & directly mix with blood which is very critical to human health, and hence for these products, it is crucial that the hospitals and other customers who buy these products have adequate and proper storage facilities. Also, AHL faces a high reputation risk being in an industry that manufactures critical drugs to human health.

Presence in price-controlled and competitive formulation industry

Competitive pressure in the domestic formulation market has been rising steadily prompted by the significant increase in investments by domestic players in marketing efforts through expansion in field force, on the other hand, multinational companies have also renewed their focus on India. Further, Government regulations, including those implemented by the National Pharmaceutical Pricing Authority (NPPA), may also inhibit the industry growth and profitability. Though, the domestic formulations segment is expected to grow led by a rise in chronic diseases, increasing per capita income and improvement in access to healthcare facilities along with growing penetration of health insurance.

Liquidity - Poor

AHL has poor liquidity with high debt repayment obligation of Rs.48.66 crore (including repayment of accrued interest) during FY22 (which includes Rs.44.39 crore of debt repayment towards debt not rated by CARE) which are unlikely to be funded from its moderate cash accruals and need to be refinanced. Avg. fund based working capital utilization remained high at 90% for past 12 months ended July 31, 2021.

The operations of AHL continued to remain working capital intensive with elongated operating cycle of 204 days during FY21 as compared with 160 days during FY20. In case of tender driven business, the debtor remains elongated for more than 6 months. AHL has debtors outstanding for more than 6 months amounting to Rs.15.26 crore as on March 31, 2021 which improved from Rs.17.22 crore as on March 31, 2020. Avg. collection days increased from 103 days during FY20 to 110 days during FY21. Avg. inventory days too remained high at 152 days during FY21 as compared with 106 days during FY20.

Key Rating Strengths

Experienced promoters

Rohit J. Patel is the founder and Chairman of AHL and has total work experience of more than 30 years. Mr. Bhavesh G. Patel, Managing Director, also has an experience of around two decades and actively looks after the day-to-day operations of the company. Further, AHL has well-qualified and experienced second-tier management with well-defined organizational structure and strong management information system to support the top management.

Established and long track record of operations

AHL is engaged in the manufacturing of LVP and Small Volume Parenteral (SVP) with the Blow-Fill-Seal (BFS) technology at its ISO certified and c-GMP compliant manufacturing facility where AHL can handle manufacturing and packaging of Sterile Liquid Parenteral from 5 ml to 1000 ml. The company has operational track record of around 25 years. Over the years, AHL has expanded its installed capacities on the back of effective utilization of capacities.
AHL's product portfolio includes around 80 therapeutic and non-therapeutic products which include fluid therapy products, formulations (injections for various drugs like anti-bacterial, diuretic, and anti-fungal), ophthalmic, diluents, respiratory products and irrigation solution products. AHL also has a diversified clientele spread over more than 70 countries across five continents with major exports to Africa and Southeast Asia. Further, AHL has nearly 250 product registrations in various countries to serve export demand.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Rating Methodology Pharmaceutical Sector
Financial ratios - Non- Financial Sector
Liquidity Analysis of Non-financial sector entities

About the company

AHL (CIN: U24139GJ1994PLC023944) is a closely held public limited company promoted by Mr. Rohit J. Patel, Mr. Bhavesh G. Patel and other family members in 1995. AHL is engaged in the manufacturing of sterile liquid parenteral using Aseptic BFS technology at its ISO-certified and cGMP compliant manufacturing facility at Kheda, Gujarat, AHL's product portfolio comprises both LVP and SVP for fluid therapy, formulations, anti-biotic, anti-fungal, ophthalmic, diuretics and other injectable. As on March 31, 2021, AHL had an installed capacity of 1081 lakh bottles and 2,525 lakh bottles per annum of LVP and SVP, respectively.

Brief Financials (Rs. Crore)	FY20 (A)	FY21 (Prov.)
Total operating income	186.50	172.36
PBILDT	40.49	39.70
PAT	-18.87	-21.83
Adj. Overall gearing (times)*	11.59	89.71
Interest coverage (times)#	2.09	1.76

*A: Audited; Prov.: Provisional; *adjusted with accrued interest; #excluding non-cash interest*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated instruments/facility: Not Applicable

Complexity level of various instruments rated for this company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	38.25	CARE B; Negative
Non-fund-based - ST-Letter of credit	-	-	-	-	10.75	CARE A4
Non-fund-based - ST-Proposed non fund based limits	-	-	-	-	0.80	CARE A4
Fund-based - LT-Working Capital Demand loan	-	-	-	April 2022	1.70	CARE B; Negative
Fixed Deposit	-	-	-	3 to 36 months	8.00	CARE B (FD); Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT*	38.25	CARE B; Negative	-	1)CARE BB; Stable (09-Sep-20)	1)CARE BB+; Stable (05-Feb-20)2)CARE BB+; Stable (28-Jun-19)	1)CARE BBB-; Stable (26-Mar-19) 2)CARE BBB (CWN) (20-Nov-18)
2.	Non-fund-based - ST-Letter of credit	ST*	10.75	CARE A4	-	1)CARE A4 (09-Sep-20)	1)CARE A4+ (05-Feb-20) 2)CARE A4+ (28-Jun-19)	1)CARE A3 (26-Mar-19) 2)CARE A3 (CWN) (20-Nov-18)
3.	Non-fund-based - ST-Proposed non fund based limits	ST*	0.80	CARE A4	-	1)CARE A4 (09-Sep-20)	1)CARE A4+ (05-Feb-20) 2)CARE A4+ (28-Jun-19)	1)CARE A3 (26-Mar-19) 2)CARE A3 (CWN) (20-Nov-18)
4.	Fixed Deposit	LT*	8.00	CARE B (FD); Negative	-	1)CARE BB (FD); Stable (09-Sep-20)	1)CARE BB+ (FD); Stable (05-Feb-20) 2) CARE BB+ (FD); Stable (28-Jun-19)	1)CARE BBB- (FD); Stable (26-Mar-19) 2)CARE BBB (FD) (CWN) (20-Nov-18)
5.	Fund-based - LT-Working Capital Demand loan	LT*	1.70	CARE B; Negative	-	1)CARE BB; Stable (09-Sep-20)	-	-

Long Term/Short Term

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple
4	Non-fund-based - ST-Letter of credit	Simple
5	Non-fund-based - ST-Proposed non fund based limits	Simple

Annexure 4: Bank Lender Details
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact Us

Media Contact
Name: Mradul Mishra
Contact no.: - +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Akhil Goyal
Group Head Contact no : - +91-79-40265621
Group Head Email ID : akhil.goyal@careratings.com

Business Development Contact
Name: Deepak Prajapati
Contact no. - +91-79-40265602
Email ID: deepak.prajapati@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their arious requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**