Ajanta Pharma Limited

August 31, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long-term / Short-term Bank Facilities	65.00 (Enhanced from 55.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/A One Plus)	Reaffirmed
Total Bank Facilities	**65.00** **(Rs. Sixty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Ajanta Pharma Limited (APL) continues to derive strength from strong business profile with focus on specialty therapeutic segments, diversified geographic and product profile, healthy growth in the total operating income and profitability levels during FY21 (refers to the period April 01 to March 31) and healthy financial risk profile with strong liquidity position. The ratings also factor experienced promoters and management team with a long track record in the pharmaceutical industry, well-established brands catering to multiple therapeutic segments, growing export presence in the major regulated markets and its diversified revenue profile with vertically integrated operations, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network. The ratings are partially offset on account of its exposure to inherent regulatory risk associated with the pharmaceutical industry coupled with intense competition and resultant pricing pressure in both domestic and export markets.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Higher-than-anticipated increase in sales with better utilization of expanded capacities with turnover increasing above Rs.4,000 crore
- Improvement in the operating cycle to below 100 days

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Reduction in PBILDT margin below 25% due to lower-than-expected domestic performance on account of the ongoing pandemic
- Weakening of financial profile because of significant increase in working capital requirements and/or large, debt-funded capex or acquisitions

Detailed description of the key rating drivers

Key Rating Strengths

Healthy growth in total operating income & Profit levels

The total operating income of the company, at consolidated level, increased by 9% to Rs.2,910.07 crore in FY21 from Rs.2,666.81 crore in FY20 on the back of improving demand for Generic brands in USA. The revenue from USA subsidiary has increased from Rs.516 crore in FY20 to Rs.614 crore in FY21, an increase of 19%. This was on the back of nine new product launches during FY21. The revenue contribution from major regulated market, i.e., USA has increased from 20% during FY20 to 23% during FY21.

Furthermore, the PBILDT margin has improved significantly by 645 bps from 28.90% during FY20 to 35.35% during FY21. The main reason for improvement is on account of savings in marketing, R&D and other costs due to lockdown during H1FY21. However, during H2FY21, the operations began to resume to normalcy leading to normalization of the expenses also. Furthermore, going forward, the company expects the PBILDT margin to normalize to its previous level with some improvements at the back of new product launches and increased demands. Moreover, in line with the PBILDT margin, the PAT margin also improved significantly to 22.47% during FY21 as against 17.54% during FY20.

Also, during Q1FY22, the company has generated revenue of Rs.780.62 crore with PBILDT% and PAT% of 32.39% and 22.26%, respectively.

Healthy financial profile

The company's capital structure continues to remain healthy with total debt of Rs.37.75 crore as on March 31, 2021 (Rs.78.62 crore as on March 31, 2020). The decrease in the total debt was due to reduction in outstanding working capital limits as on March 31, 2021. The overall gearing ratio remained comfortable at 0.01x as on March 31, 2021 as against 0.03x as on March 31, 2020. Moreover, the net debt of the company remained nil with a cash and liquid fund investments of Rs.378 crore as on March 31, 2021. Furthermore, with low debt levels and increasing profit levels, the debt coverage indicators and interest coverage indicators have also improved significantly.

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. The top five therapeutic segments such as ophthalmology (22%), dermatology (15%), cardiology (44%), pain management (8%) and OTC, antibiotic and other drugs contributed about 11% to the total domestic sales. Moreover, the company also has presence in other segments, viz., Anti-malarial, ENT and Paediatric, Orthopaedic, Antibiotics, etc. Besides, the company also has a basket of brands in each of the key therapeutic segments such as Met XL (8%), Atorfit (2%), Rosofit (2%), Cinode (2%; Cardiology), Melacare (3%; Dermatology) together contributing about 17% of the total operating income.

Established marketing network with wide geographical reach and diversified geographical profile
During FY21, APL had a healthy mix of export (70%) and domestic sales (30%). The company has a wide geographical presence with sales to semi/non-regulated markets like India, Central Asia, West Asia, West Europe and Africa, etc., consisting of over 30 countries across the globe. Going forward, the company aims to strengthen its presence in semi/non-regulated markets as well as regulated markets. Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue. This is evidenced by its improving operational performance in USA, where its sales have increased over the years and improved by 19.07% and its share in the total sales increased from 20% (FY20) to 23% (FY21). APL launched total 21 products in India including 5 first-time products during FY21. The company launched 19 new products in the emerging markets and 9 new products in USA in FY21. The company has Medical Representative (MR) strength of around 3,000.

Accredited manufacturing facilities supported with well-equipped R&D facility
After the completion of Pithampur plant, APL has 8 facilities in total. Out of 8, one is in Mauritius and others are in India, located at Paithan, Waluj, Chikalthana, Chittegaon, Guwahati, Dahej and Pithampur. Dahej and Paithan (Aurangabad) plants are US FDA approved and received EIR in August 2019 and are majorly dedicated to the US market. APL has commercialized its Pithampur plant in February 2020. There were no audits conducted by the USFDA during FY21 on account of Covid-19 travel restrictions. The manufacturing facility located at Paithan and Dahej is USFDA and WHO Geneva approved, while the other facilities located at Waluj, Chikalthana, Pithampur, Chittegaon and Mauritius are WHO GMP approved. The manufacturing facility at Dahej (Gujarat) is the largest manufacturing facility. The wide infrastructure of the company is well served with around 850+ scientists and a research and development centre named as Advent in Kandivali, Mumbai. The R&D spends for the company stood at 5% of the total sales during FY21 as against 6% during FY20.

Experienced promoters
The company has successful track record of around four decades in the pharmaceuticals business. APL is spearheaded by Mr Mannalal B. Agrawal (Chairman), Mr Madhusudan Agarwal (Vice Chairman), Mr Yogesh M. Agrawal (Managing Director), Mr Rajesh M Agarwal (Jt. Managing Director) and the Board is ably supported by qualified and professional senior management team heading various verticals.
Mr Yogesh M. Agarwal has been looking after the international market, such as USA, Africa and Latin America. Mr Rajesh Agarwal looks after the entire Asian market segment.

Key Rating Weaknesses
Intense competition from both MNCs and Indian companies in India and abroad
APL faces intense competition and pricing pressure in the global as well as domestic markets. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

Volatility in raw material prices
With limited ability to pass on the increase in raw material costs, any substantial increase in raw material costs may affect the company's profitability in the near term. Nevertheless, over the years, the company's PBILDT margin has remained healthy, and the company 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. Apart from above, the company has diversified revenue profile with vertically integrated operations which insulates it from being affected due to rise in the raw material costs to some extent. The company procures almost 90%-95% of its raw material from domestic market and imports the remaining mainly from China. Hence, APL does not face any issues in raw material procurement due to issues in China.

Foreign exchange fluctuation risk
The company derived about 70% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY21, APL, on a consolidated basis, reported Rs.1,809.65 crore earnings (previous year Rs.1,442.05 crore) and an outgo of Rs.231.45 crore (Previous year Rs.164.22 crore) in foreign currency. The currencies in which these transactions are primarily

denominated are US Dollars, Euro, Mauritian Rupee, Philippine Peso and Nigerian Naira. The company has made forex net gains amounting to Rs.4.55 crore at consolidated level.
APL covers its foreign currency risk exposure by hedging 50% of the net exports. The company uses forward exchange contracts to mitigate its currency risk, most with a maturity of less than one year from the reporting date. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Regulatory risk
APL has its presence in multiple countries across the world and it has 8 production units. Considering the nature of the product usage and application, and consequent impacts, APL is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have an impact on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Furthermore, all manufacturing sites continue to successfully clear regulatory audits conducted by various leading global regulatory agencies. The manufacturing facility located at Paithan is USFDA, and WHO Geneva approved while the other facilities located at Chikalthana, Chitegaon and Mauritius are WHO GMP approved. The plants located at Guwahati & Pithampur are WHO-GMP Approved. The manufacturing facility at Dahej (Gujarat), which is USFDA & WHO Geneva approved was given Establishment Inspection Report (EIR) in August 2019 by USFDA.

Industry Risk
With unlocking of economy and announcement of various unlock guidelines, the patient footfalls are gaining traction in healthcare units as demand from non-Covid-19 patients is gathering pace. Also, hospitals and patients are adapting themselves to the Covid-19 environment and social distancing norms. Thus, the operations of healthcare industry have returned to normal levels only from Q3FY21 onwards, which has augured well for the Indian pharma industry as it has resulted in higher prescription of medicines from hospitals, clinics, OPD centres, local clinics and doctors.
In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Moreover, the demand for Indian drugs in the international market will be supported by new product launches thereby aiding the Indian pharma exports. Thus, the demand for drugs is expected to remain steady to a large extent. However, the industry is likely to face delay in product launches and clinical trials given the current scenario. Besides, Covid-19 has also led to deferment of physical inspections by the USFDA, which has delayed in commencement of the pharma units and also launch of products.
The overall Indian pharma industry is expected to grow at about 11% in next two years and reach a size of over USD 60 billion. The main factors that are expected to drive the growth of industry are (a) ability to leverage the opportunity available for Indian pharma companies due to expiry of the patent drugs across the globe, (b) ebbing of regulatory risks, (c) adoption of various strategies to de-risk from dependency on China for key raw materials, (d) increasing trend in PE investments, and (e) solid fundamentals of the industry.

Liquidity: Strong
The liquidity profile of the company is strong with comfortable liquidity marked by healthy cash and liquid investments, comfortable capital structure, no term debt obligations and healthy cash accruals projected for FY22. The operating cycle remained elongated at 178 days as on March 31, 2021, from 147 days as on March 31, 2020. The elongation is on account of increase in inventory period as the company has maintained additional inventory both at raw material level and finished goods level to ensure adequate drugs supply to diverse geographical regions while preparing for second wave of Covid-19. The company has an overall inventory period of 153 days in FY21 (116 days in FY20). The company's creditor period has improved to 70 days in FY21 (as against 56 days in FY20). The current ratio of the company stood comfortable at 2.63x as on March 31, 2021. The company, at consolidated level, has free cash balances and liquid investments of Rs.378 crore and has no term debt obligation apart from lease liability. The company envisages to incur capex of Rs.200 crore during FY22 and the same is routine in nature and it will be entirely funded through internal accruals generated during the year. Moreover, the company only utilizes non-fund-based limit which stood at 26% for the past 12 months ending July 2021.

Analytical approach: Consolidated
CARE has analysed APL's credit profile by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows. The subsidiaries of APL which have been consolidated are mentioned under Annexure-6.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition

[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
Rating Methodology - Consolidation
[Financial ratios – Non-Financial Sector](#)
[Rating Methodology- Pharmaceutical Sector](#)
[Liquidity analysis of Non-financial sector entities](#)

About the Company

Incorporated in 1973, Ajanta Pharma Ltd (APL) is involved in development, manufacturing and marketing of pharmaceutical formulations for both domestic as well as international markets. The company has a well-diversified product portfolio across therapeutic segments such as Anti-malarial,Cardiovascular diseases (CVD), Dermatology, Ophthalmology, etc. Besides, APL is also increasing its presence in other specialty therapeutic segments such as ENT, Gastroenterology, Orthopaedic, Male erectile dysfunction, Musculoeskeletal as well as Antibiotics. Some of the company's leading brands include Artefan (Anti-malarials), Met XL, Atorfit, Rosofit, Cinode (Cardiology), Melacare (Dermatology), Unibrom (Opthalmology), Kamagra (Male erectile dysfunction), etc.

APL's manufacturing operations span at eight manufacturing plants (7 in India and 1 in Mauritius). Of these, the company has six manufacturing facilities for formulations and one manufacturing facility for active pharmaceutical ingredient (API) for captive consumption located near Aurangabad, Maharashtra. Besides, the company has one formulation manufacturing facility at Mauritius, which is directly managed by its wholly-owned subsidiary, Ajanta Pharma Mauritius Ltd. The company also has a Research Development (R&D) center under the name of "Advent" at Mumbai which is well supported by a team of over 700+ scientists enabling the company to introduce innovative products for various markets across the globe.

Brief Financials (Consol.) (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	2666.81	2910.07
PBILDT	770.63	1028.71
PAT	467.70	653.87
Overall gearing (times)	0.03	0.01
Interest coverage (times)	64.70	124.39

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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 for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 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/Non-fund-based-LT/ST	LT/ST	55.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Oct-20)	1)CARE A1+ (25-Sep-19)	1)CARE A1+ (03-Oct-18)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Oct-20)	1)CARE AA; Stable / CARE A1+ (25-Sep-19)	1)CARE AA; Stable / CARE A1+ (03-Oct-18)

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: List of subsidiaries

Name of Subsidiaries	% Holding
Ajanta Pharma (Mauritius) Limited (APML)	100%
Ajanta Pharma (Mauritius) Intl. Limited (Wholly owned subsidiary of APML)	100%
Ajanta Pharma USA Inc.	100%
Ajanta Pharma Philippines Inc.	100%
Ajanta Pharma Nigeria Limited	100%

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.*

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