Ajanta Pharma Limited

September 25, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	42.50 (reduced from Rs.75.00 crore)	**CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)**	Reaffirmed
Short term Bank Facilities	45.00 (45.00)	**CARE A1+ (A One Plus)**	Reaffirmed
Total	**87.50 (Rs. Eighty Seven crore & fifty lacs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating 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 & product profile and healthy financial risk profile with comfortable liquidity position The rating takes cognizance of long track record and experience of promoter in pharmaceutical industry & its strong relationship with the clients. The rating also factors in well- established brands catering to multiple therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network.

The aforementioned rating strengths are partially offset by APL's dependence on regulated market, increasing pricing pressure in domestic and export markets amidst intense competition, declining trend of PBILDT margin during FY17 FY19 (refers to period from April 01 to March 31)and foreign exchange fluctuation risk.

Going forward, APL's ability to successful implement capex and realize benefits at envisaged levels will remain key rating monitorable. The company's ability to efficiently manage its working capital requirements is a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record in the pharmaceutical industry:

The company has successful track record of around four decades in the pharmaceutical business. APL is spearheaded by Mr. Mannalal B. Agrawal (Chairman) and Mr. Yogesh M. Agrawal (Managing Director), Mr. Rajesh M Agarwal (Joint Managing Director) and the Board is ably supported by qualified and professional senior management team heading various verticals.

Accredited manufacturing facilities supported with well-equipped R&D facility:

The company has 7 manufacturing plants (6 in India, and one in Mauritius). These manufacturing facilities are at Paithan, Aurangabad, Chikalthana, Chitegaon in Maharashtra & Guwahati, Dahej in Gujarat. Also, The Company's upcoming facility at Pithampura is scheduled to start commercial operations by March 2020. This plant will cater to the emerging markets, i.e. Asia & Africa. The manufacturing facility located at Paithan & Dahej SEZ is USFDA and WHO Geneva approved while the other facilities located at Chikalthana, Chitegaon and Mauritius are WHO GMP approved. 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. APL's R&D focuses mainly on development of innovative formulations across various therapeutic segments. Further, all manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies.

Strong business profile with focus on specialty therapeutic segments with diversified geographic, customer and product profile:

APL has a well-established and diversified product portfolio across many therapeutic segments including niche speciality segments with focus on ophthalmology, dermatology, cardiology, etc. 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 Artefan (Anti-malarials), Met XL, Atorfit, Rosofit, Cinode (Cardiology), Melacare (Dermatology), Unibrom (Opthalmology), Kamagra (Male erectile dysfunction) etc. amongst othersThe company also has a diversified customer base.The company has a wide geographical presence with sales to semi/non-regulated markets like India, Central Asia, USA,West Asia, West Europe & Africa etc. comprising of over 30 countries across the globe. *Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue.*

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

Healthy financial profile with comfortable liquidity position:

The company's capital structure continues to remain healthy with total debt of Rs.54.12 crore as on March 31, 2019 (Rs.4.12 crore as on March 31, 2018). The overall gearing ratio remained comfortable at 0.02x as on March 31, 2019. The liquidity position of the company remained comfortable marked by the current ratio of 3.11x as on March 31, 2019 as against 3.53x as on March 31, 2018. Furthermore, average fund-based working capital utilization also remained low at 4.55% during the 12-month period ended June 2019. Moreover, the company has cushion available from free cash & bank balance which stood at Rs.95.16 crore as on March 31, 2019 vis-à-vis Rs.90.64 crore as on March 31, 2018. The capex for FY19 is Rs.398 crore & for FY20 the capex will be Rs.366 crores, the entire capex for FY19 & FY20 will be funded through internal accruals of the company.

Low Project implementation risk:

During FY19, the company has incurred capex of Rs.398 crore which involves Rs. 66 crore towards Mumbai R&D office, Rs.125 crore towards Guwahati plant, Rs.30 crore towards new plant at Pithampur. The plant at pithampur will cater to the emerging markets of Asia & Africa. The balance to the extent of Rs.177 crore is incurred towards regular maintenance capex. The aforementioned capex during FY19 was entirely funded through internal accruals. The project implementation risk is considered to be low as Guwahati plant is in final stage of completion & the company has a successful track record of implementing such large projects in the past and this being an expansion project in a similar line of business.

During FY20, the company proposes to incur capex of around Rs.366 crore, of which Rs.80 crore will be towards the completion of final stage of Guwahati plant which will be commercialised by end of March 2020. About Rs.150 crore will be spent in the current year, for a new plant being set up in Pithampur, the balance 136 crores will be spent on maintenance capex. The entire capex is expected to be funded through internal accruals.

Key Rating Weaknesses

High dependence on regulated markets for Pharmaceutical segment:

APL has its presence in multiple countries across the world and it has 7 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. Further, all manufacturing sites of continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies. The manufacturing facility located at Paithan & Dahej SEZ is USFDA and WHO Geneva approved while the other facilities located at Chikalthana, Chitegaon and Mauritius are WHO GMP approved.

Decline in revenue coupled with reducing PBILDT margins:

The total operating income of the company decreased to Rs.2075.30 crore in FY19 from Rs.2,149.41 crore in FY18 on the back of lower demand for anti-malaria drug in Africa, which has led to a reduction in price by 10-15%. However, the company is expanding its business in its subsidiary in USA, on account of which the company has taken additional working capital borrowings to the tune of Rs.41.42 crore (outstanding amount of Rs.33.34 Crore as on March 31, 2019). The revenue from USA subsidiary has increased from Rs.156 crore in FY18 to Rs.253 crore in FY19, an increase of 62.18%. This was on the back of 8 new product launches during FY19, with the company filing 13 new ANDAs. For FY20, the company plans to file 10-12 ANDAs & expect 8-10 new product launches during the same period (FY20). PBILDT margin declined from 32.12% in FY18 to 28.67% in FY19, on account of increase in marketing & selling expenditure on account of company's expanding business in USA and commercialization of new plants. APL's strategy of launching first-time combinations in India and marketing them to specialists has enabled the company to enjoy strong brand equity with specialists.

Susceptible to 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. Company procures almost 95% of its raw material from domestic market and balance imports mainly from China.

Intense competition from both MNCs and Indian companies in India and abroad:

The company faces intense competition in the domestic as well as regulated markets that it operates in. Pricing pressure in key markets, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry.

Foreign exchange fluctuation risk:

The company derived about 60% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY19, on consolidated basis APL reported Rs.1068.17 crore earnings (previous year Rs.1,163.73 crore) and an outgo of Rs.210.19 crore (Previous year Rs.161.55 crore) in foreign currency. The currencies in which these transactions are primarily denominated are US Dollars, Euro, Mauritian Rupee, Philippine Peso and Nigerian Naira.
APL covers its foreign currency risk exposure by hedging 50% of net exports. The group 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. However, the company is still exposed to some foreign currency fluctuation risks.

Industry Outlook:

The Indian pharmaceutical industry (IPI) comprises mainly of formulations, active pharmaceutical ingredients (API). By volume, Indian companies produce about one-fifth of the global generic medicines. The industry has registered a revenue growth of around 3-4% on y-o-y basis and stood at around USD 35 billion in FY18. However, the industry players are facing headwinds in terms of structural reforms by governments, stringent regulation both in regulated and semi regulated market, intensification of competition in generic and channel consolidation which has led to pricing pressure to the company together impacting the profitability of the industry players. Recent rupee depreciation against USD benefits the export oriented pharma sector.

Liquidity Analysis

The liquidity position is comfortable. The current & quick ratio stands at 3.11x & 1.96x respectively for year ended March 31, 2019. The operating cycle was 152 days during FY19. The company's liquidity is supported by healthy gross cash accruals, nil term loan repayments and cushion in fund based working capital limits which are utilized on average of 4.55% for the 12 months ended June 2019.The Company has cash & bank balance of Rs.95.16 crore as on March 31, 2019.

Analytical approach: Consolidated

CARE has analyzed 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.

Applicable Criteria

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Pharmaceutical Sector
Rating Methodology- Manufacturing Companies
Financial ratios – Non-Financial Sector

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 and Ophthalmology. Besides, APL also increasing its presence in other specialty therapeutic segments such as ENT, Gastroenterology, Orthopaedic, Male erectile dysfunction, Musculoskeletal as well as Antibiotics. APL's manufacturing operations span at six manufacturing plants (5 in India and 1 in Mauritius). Of these, the company has five manufacturing facilities for formulations and one manufacturing facility for API (Active Pharmaceutical Ingredient) 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) centre under the name of "Advent" at Mumbai well supported by a team of over 650 scientists enabling the company to introduce innovative products for various markets across the globe.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2149.41	2075.30
PBILDT	690.41	595.07
PAT	468.64	386.97
Overall gearing (times)	0.00	0.02
Interest coverage (times)	1683.93	512.99

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	42.50	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (04-Dec-17)	1)CARE AA (21-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (04-Dec-17)	1)CARE A1+ (21-Oct-16)
3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	42.50	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (03-Oct-18)	1)CARE AA; Stable / CARE A1+ (04-Dec-17)	1)CARE AA / CARE A1+ (21-Oct-16)

Annexure 3- List of companies consolidated

S. No.	Name of Companies
1	Ajanta Pharma (Mauritius) Limited
2	Ajanta Pharma Philippines Inc.
3	Ajanta Pharma USA Inc.
4	Ajanta Pharma Nigeria Limited

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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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 various 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.

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