Ajanta Pharma Limited

December 04, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long Term Bank Facilities (Term Loan)	-	-	Withdrawn
Long Term/Short Term Bank Facilities (Fund Based)	75.00	CARE AA; Stable/CARE A1+ [Double AA; Outlook Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities (Non Fund Based)	45.00	CARE A1+ [A One Plus]	Reaffirmed
Total Facilities	**120.00 (Rs. One hundred twenty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ajanta Pharma Limited (APL) continues to derive strength from strong business profile with focus on speciality therapeutic segments and diversified geographic and product profile and healthy financial risk profile with comfortable liquidity position aided by consistent growth in revenue coupled with healthy profitability margins. The rating positively factors long track record and experience of promoter in pharmaceutical industry. The rating also takes cognizance of bouquet of well- established brands catering to multiple therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network.

The aforementioned strengths are however partially offset by APL's dependence on regulated market, increasing pricing pressure in domestic and export markets amidst intense competition and foreign exchange fluctuation risk.

Going forward, APL's ability to successful implementation of capex and consequent revenue ramp-up will remain rating monitorable. Any significant debt-funded acquisitions, any adverse regulatory development will be the key rating sensitivities.

CARE has also noted that APL has repaid the aforementioned term loan in full and there is no outstanding under the said loan as on date. Taking cognizance of this, we hereby withdraw our rating for APL.'s term loan, with immediate effect.

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) and the Board is ably supported by qualified and professional senior management team heading various verticals with adequate and relevant experience in their respective fields.

Accredited manufacturing facilities supported with well-equipped R&D facility: APL has 6 manufacturing plants (5 in India, and one in Mauritius). The manufacturing facility located at Paithan is USFDA, UKMHRA, Brazil ANVISA and WHO Geneva approved while the other facilities located at Chikalthana, Chitegaon and Mauritius are WHO GMP approved. The manufacturing facility at Dahej (Gujarat) was given EIR in May 2017 by USFDA. Further, all manufacturing sites have successfully cleared regulatory audits, conducted by various leading global regulatory agencies.

Strong business profile with focus on specialty therapeutic segments and diversified geographic as well as product profile

It has a well-established and diversified product portfolio across many therapeutic segments including niche speciality segments with focus on ophthalmology, dermatology, cardiology which together accounted for ~90% of domestic sales in FY17. 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 others. The company has a wide geographical presence with sales to

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

semi/non-regulated markets like India, Central Asia, West Asia, West Europe & Africa etc. comprising of over 33 countries across the globe. *Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue.*

Consistent growth in revenue coupled with healthy profitability margins

On standalone basis, operating margin (PBILDT) continued to remain healthy in FY17 at 38% on account of better realizations and growth in quality business and new product launches. Margins are expected to remain under pressure in FY18 as new plants at Dahej and Guwahati (Phase-I) have been commissioned in 1QFY18, which have led to rise in fixed cost whereas revenue from these plants is expected to ramp up to estimated level in next 2-3 yrs.

Healthy financial profile with comfortable liquidity position

The company's capital structure continues to remain healthy with total debt of Rs. 33.33 crore as on March 31, 2017 (only working capital; Rs.79.66 crore as on March 31, 2016). the company has been able to generate healthy cash accruals. As a result, the liquidity position of the company remained comfortable. Moreover, the company has cushion available from comfortable cash & bank balance (including short term investments) which stood at Rs.190.49 crore(Rs. 98.22 crore prev. yr) .

Key Rating Weaknesses

High dependence on regulated markets for Pharmaceutical segment

APL has its presence in multiple countries across the world and it has 5 production units. Considering the nature of the product usage and application, and consequent impacts, APLL 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 a serious consequence 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.

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, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry.

Foreign exchange fluctuation risk

The company derives about 63% of its overall revenues from sales outside India thus, company is exposed to foreign currency fluctuation risk. APL covers its foreign currency risk exposure by hedging 75 % of net exposure. 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. India. However, the company is still exposed to some foreign currency fluctuation risks.

Analytical approach: *Standalone*

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-Pharmaceutical Sector
Financial ratios-Non-Financial Sector
Policy on Withdrawal of ratings

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 Opthalmology. Besides, APL also increasing its presence in other specialty therapeutic segments such as ENT, Gastroenterology, Orthopedic, Male erectile dysfunction, Musculoeskeletal 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. Further, as on March 31 2017, APL has more than 1,400 approved product registrations and an equal number of product registrations awaiting approval. Till end of FY17, company had filed 34 Abbreviated New Drug Applications (ANDAs), of which it received 17 final approvals and two tentative approvals and APL is further awaiting approvals for 15 ANDAs and plans to file 12-15 ANDAs in FY18. Till September 30, 2017, APL has filed 39 ANDAs and of this 21 are already approved, 2 tentative approvals, while 16 are awaiting approval from USFDA.

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total operating income	1,644	1,867
PBILDT	616	726
PAT	422	500
Overall gearing (times)	0.07	0.02
Interest coverage (times)	146.62	256.61

Status of non-cooperation with previous CRA: None
Any other information: Not Applicable

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

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

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 - LT-Term Loan	-	-	-	-	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	45.00	CARE A1+
Fund-based - LT/ ST-EPC/PSC	-	-	-	75.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA (21-Oct-16)	1)CARE AA (03-Jul-15)	1)CARE AA- (10-Oct-14)
2.	Non-fund-based - ST-BG/LC	ST	45.00	CARE A1+	-	1)CARE A1+ (21-Oct-16)	1)CARE A1+ (03-Jul-15)	1)CARE A1+ (10-Oct-14)
3.	Fund-based - LT/ ST-EPC/PSC	LT/ST	75.00	CARE AA; Stable / CARE A1+	-	1)CARE AA / CARE A1+ (21-Oct-16)	1)CARE AA / CARE A1+ (03-Jul-15)	1)CARE AA- / CARE A1+ (10-Oct-14)

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