Alembic Pharmaceuticals Limited

July 22, 2019

Rating

Instruments	Amount (Rs. Crore)	Ratings[1]	Rating Action
Commercial Paper (CP) Issue	750.00 (Enhanced from Rs.500 crore)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Instruments	**750.00 (Rupees Seven Hundred Fifty crore only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the commercial paper (CP) issue of Alembic Pharmaceuticals Limited (APL) derives strength from its experienced and qualified management, long and established track record of operations in the Indian pharmaceutical industry along with increasing presence in developed markets and vertically integrated operations. The rating further derives comfort from its strong domestic formulation brand portfolio, its growing scale of operations with diversified revenue profile and healthy financial risk profile.

The above rating strengths are partially off-set by salability risk associated with its recently commissioned large size partly debt funded manufacturing plant which is mainly oriented towards catering to the demand from the highly regulated developed market, exposure to inherent regulatory risk associated with the pharmaceutical industry coupled with intense competition leading to pricing pressure in both domestic and export markets.

APL's ability to timely and successfully secure various regulatory and product approvals for its newly built manufacturing units so as to generate envisaged returns thereof along with its ability to gradually reduce its reliance on acute therapeutic segments and increase its presence in specialized segments are the key rating sensitivities. Further, maintaining its healthy financial risk profile by generating healthy operating cash flows and efficiently deploying capital to fund its regular capex and increasing working capital requirement would also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experienced management: Since its incorporation in the year 1907 (earlier known as Alembic Chemical Works) by Mr. B.D. Amin, the Amin family has driven the operations of APL. Mr. Chirayu Amin (Chairman) is a third generation entrepreneur and has more than three decades of experience in the Indian pharmaceutical industry. Mr. Pranav Amin (MD) and Mr. Shaunak Amin (MD), sons of Mr. Chirayu Amin, also possess experience of more than a decade in the pharmaceutical industry. Further, APL has well-qualified and experienced second tier management with well-defined organisational structure and strong management information system.

Long and established track record in the Indian pharmaceutical industry with vertically integrated operation: APL has an operational track record of over a century in the Indian pharmaceutical industry and is among the top 20 players in domestic formulation market with market share of around 1.64% (Source: Company). APL benefits from its vertically integrated operations as it manufactures Active Pharmaceutical Ingredient (API; key raw material for manufacturing of formulations) as well as formulations for domestic and international markets. APL sells its product under its well-known own brand name and through its own marketing and distribution network in domestic market and overseas market (majorly in USA). APL meets around 50-70% of its API requirement through captive sources, which protects its profitability from volatility in prices of APIs to a large extent.

Strong domestic brand portfolio with increasing presence in developed markets: APL has a wide marketing team of more than 5,000 personnel including field force of over 3,800 personnel spread across India. Further, APL has a strong product portfolio of 185 formulation brands (15 launched during FY19) with five of its formulation brands featuring among the top 300 domestic formulation brands in India. Moreover, APL is increasingly expanding its footprint in international generic market with primary focus on the USA market. Share of revenue from international generics in total revenue has gradually increased from around 29% in FY15 to around 45% in FY19. APL has increased its Abbreviated New Drug Application (ANDA) filings during last five years, including 29 filings during FY19. APL has launched 54 products in US market up to March 31, 2019 including 9 products launched in FY19.

Growing scale of operations supported by diversified revenue stream: Pharmaceutical business of APL is primarily divided into three divisions (I) API (bulk drug) (II) Domestic branded formulations (III) International generics formulations. The total operating income (TOI) of APL on a consolidated basis grew at a healthy compounded annual growth rate

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

(CAGR) of 16.17% during last five years ended FY19 with y-o-y growth of 25% during FY19 mainly driven by 48% increase in revenue from international generic business. Healthy growth in revenue from international generic formulations was partly on account of supply opportunity for hypertension drug Valsartan during Q2FY19 & Q3FY19. Further, revenue from API business and branded domestic formulation also reported growth of 20% and 8% during FY19 on Y-o-Y basis.
Revenue profile of APL remains fairly diversified as sales from International generic formulations, domestic branded formulation and API business contributed 45%, 35% and 20% respectively of its total revenue during FY19. Further, domestic revenue, US revenue and revenue from rest of the world (ROW) contributed 42%, 37% and 21% of its total revenue respectively indicating fair geographical diversification.

Healthy financial risk profile: APL's PBILDT increased by 37% during FY19 on Y-o-Y basis mainly driven by increase in scale of operations along with marginal improvement in operating profitability margin. Further, PAT also increased by 41% during FY19 on Y-o-Y basis on the back of increase in PBILDT and limited interest/finance cost.
Capital structure of APL remains comfortable marked by overall gearing ratio of 0.42 times as on March 31, 2019. APL undertook capex programme for setting up three new manufacturing facilities under APL and one new manufacturing facility under its Joint Venture (JV). The capex was partially funded by debt which resulted in moderation of its overall gearing ratio during last two years ended FY19. Further, working capital borrowing also increased due to application of internal accruals towards capex. However, capital structure of APL is expected to remain comfortable on account of healthy net-worth base and moderate capex requirement going forward. Comfortable capital structure along with healthy profitability has resulted in strong debt coverage indicators for APL.

Stable demand growth prospects for Indian pharmaceutical Industry (IPI): Outlook for Indian Pharmaceutical Industry (IPI) remains stable in medium to long term backed by growth opportunity in terms of capitalizing on major blockbuster drugs coming off-patent paving the way for entry of generics, especially in the USA market, and geographical diversification into emerging markets. In the domestic market, the formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income, government initiatives like new national health protection scheme & Ayushman Bharat program, improvement in access to healthcare facilities along with growing penetration of health insurance.

Key Rating Weaknesses
Salability risk associated with recently commissioned large size, partially debt funded manufacturing units: APL has set up four new manufacturing facilities along with a JV company, targeted towards regulated market. All these facilities are yet to start commercial production. One manufacturing facility (under its JV) has started filing ANDAs for the products. However, other manufacturing facilities are producing exhibit batches and are expected to file ANDAs in H2FY20. Commercial production from these facilities can only be started after receiving product approvals and successful inspection of theses manufacturing facilities by relevant regulatory authorities. Although, APL has already received the USFDA approval for its oral solid oncology unit and dermatology units under its JV company. US generic market is highly regulated and delays in product approvals and pricing pressure due to intense competition may affect the optimum utilization of its new facilities. APL's ability to generate envisaged returns from these new manufacturing facilities would be a key rating sensitivity.

Inherent regulatory risk associated with pharmaceutical Industry: APL derives around 35% of its revenue from domestic formulation business, majorly driven by acute therapeutic segment. Around 15% of its formulations (including top selling formulation Azithromycin) feature in the National List of Essential Medicine (NLEM) and it also derives around 18% of its revenue from formulations included in the Drug Price Control Order (DPCO). Inclusion of APL's formulations in NLEM/ DPCO restricts the profitability margin. APL is also exposed to regulatory changes in global markets (primarily USA) as international generic business contributes nearly 45% to its revenue. Moreover, continuous efforts by the US government to bring down drug prices, intense competition in US generic market and consolidation of US pharmaceuticals distributors, may pose vulnerability to its profitability margin.

Liquidity Analysis
The liquidity of APL is strong marked by healthy cash accrual of Rs.681 crore and operating cash flow of Rs.621 crore during FY19 resulting in low reliance on external debt. Further, the average of month-end fund based working capital limit utilization of APL (including outstanding CPs) remained comfortable at around 46% during trailing 12 months ended May 2019. Furthermore, APL had unencumbered cash and bank balance of Rs.199 crore as on March 31, 2019, which provides additional liquidity cushion. The cash accruals of APL are expected to remain strong and sufficient enough to take care of the current debt servicing obligation, regular capex and incremental working capital requirements. Moreover, low leverage provides financial flexibility to raise the resources in case of contingencies.

Analytical approach: Consolidated. For the purpose of analysis, CARE has considered the consolidated financials of APL because of operational and financial linkages with its subsidiaries/JVs/associates. List of entities consolidated in APL as on March 31, 2019 are mentioned in **Annexure 3**.

Applicable Criteria:
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
CARE's methodology for Pharmaceutical companies
Financial ratios – Non-Financial Sector

About the Company
APL is engaged in the manufacturing and marketing of branded formulations (Domestic market), International generic formulation and bulk drug in domestic and export markets. With effect from April 1, 2010, the core pharmaceutical business of Alembic Limited (AL; which was incorporated in 1907 as Alembic Chemical Works) was demerged in to APL. APL caters to several therapeutic segments, which include anti-infective, gynaecology, cardio, diabetic, derma and oncology, whereby anti-infective segment contributes the most to its revenue in the domestic market.

Brief Financials - Consolidated (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	3,153	3,949
PBILDT	637	871
PAT	413	583
Overall Gearing (times)*	0.32	0.42
Interest Coverage (times)	61.76	47.30

*A: Audited, * considering intangible asset being core part of pharmaceuticals operations and acquired goodwill as part of tangible net-worth*

Status of non-cooperation with previous CRA: Not Applicable

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
Commercial Paper Issue (Standalone)	-	-	7 to 364 days	750.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	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.	Commercial Paper Issue (Standalone)	ST	750.00	CARE A1+	-	1)CARE A1+ (29-Oct-18)	-	-

Annexure-3: List of entities consolidated in APL as on March 31, 2019

Sr. No.	Name of the entity	% Holding of APL as on March 31, 2019	Relationship
1	Alembic Global Holding SA (AGH)	100%	Direct subsidiaries
2	AG Research Private Limited	100%	
3	Aleor Dermaceuticals Limited	60%	
4	Alembic Pharmaceuticals Europe Limited	100%	Step down subsidiaries
5	Alembic Pharmaceuticals Inc.	100%	
6	Alembic Pharmaceuticals Canada Limited	100%	
7	Alembic Pharmaceuticals Australia Pty Limited	100%	
8	Alnova Pharmaceuticals SA	100%	
9	Genius LLC	100%	
10	Orit Laboratories LLC	100%	Step down subsidiaries
11	Okner Realty LLC	100%	
12	Incozen Therapeutics Pvt. Ltd.	50%	Associate of APL
13	Rhizen Pharmaceuticals SA (RPSA)	50%	Associate of AGH
14	Dahlia Therapeutics SA	50%	Subsidiary of RPSA
15	Rhizen Pharmaceuticals Inc.	50%	
16	Alembic Mami SPA	49%	Joint venture of AGH

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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