Alembic Pharmaceuticals Limited

October 29, 2018

Ratings

Instruments	Amount (Rs. Crore)	Ratings[1]	Remarks
Proposed Commercial Paper (CP) Issue	500.00	**CARE A1+ (A One Plus)**	**Assigned**
Total Instruments	**500.00 (Rupees Five hundred crore only)**		

Details of Instruments in Anneuxre-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 in 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 geographically diversified revenue profile, and healthy financial risk profile providing financial flexibility.

These rating strengths are partially off-set by uncertainty associated with its large size, partially debt funded capex plan which is largely oriented towards catering to the demand from 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 complete its ongoing capex within envisaged cost and time parameters along with timely receipt of necessary regulatory approvals and its ability to generate envisaged returns thereof are the key rating sensitivities. Moreover, gradually reducing its reliance on acute therapeutic segments and increasing its presence in specialized segment would also remain key sensitivity.

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 operation of APL. Mr. Chirayu Amin (Chairman) is a third generation entrepreneur and has more than three decade of experience in 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 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 100 years in Indian pharmaceutical industry. APL is among top 20 players in domestic formulation market with market share of around 1.54% (Source: Company). APL is a vertically integrated pharmaceutical company which manufactures Active Pharmaceutical Ingredient (API; key raw material for manufacturing of formulations) along with formulations for domestic and international markets. APL sells its product under its own brand name and through its own marketing and distribution network in domestic market and overseas market (majorly in USA). APL sources around 50-70% of its API requirement through captive sources, which protects it from volatility in prices of API.

Strong domestic brand portfolio with increasing presence in developed market: APL has 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 170 branded formulations with its five formulation brands featuring in 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 40% in FY18. APL has increased its Abbreviated New Drug Application ANDA filings during last four years with 26 filings during FY18. APL launched 41 products in US market up to September 30, 2018 including 9 products launched in FY18 and 3 products launched in H1FY19. During FY16, APL formed JV with Aleor Dermaceuticals (Algeria) to benefit from its research in dermatology segment and to expand in the European market. Further, APL acquired US based Orit Laboratories LLC (Orit) during FY18, which is focused on developing and filing OSD and liquid products.

Growing scale of operations and diversified revenue profile: The total operating income (TOI) of APL on a consolidated basis grew at healthy CAGR 13.46% during last six years ended FY18. Growth in TOI remained muted during FY18 over FY17 due to several regulatory headwinds faced by pharmaceutical industry including price erosion in developed market and price control in domestic market. However, during H1FY19, the TOI of APL grew by 38% over H1FY18. Some part of the growth in TOI during H1FY19 was attributable to one time supply opportunity of valsartan formulation in the US.

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

Pharmaceutical business of APL is primarily divided into three segments (I) API (bulk drug) (II) Domestic Branded formulations (III) International generics, contributing around 40%, 40% and 20% respectively in total revenue during last two years ended during FY18. Further, APL's operations are also geographically diversified with contribution of export sales in total revenue remained around 55% to 60% during last three years ended FY18.

Healthy financial risk profile providing financial flexibility: APL availed term debt of Rs.500 crore during FY18 for implementation of planned capex of around Rs.1,275 crore. Further, working capital borrowing also increased due to application of internal accruals towards capex. However, APL's capital structure continued to remain comfortable as on March 31, 2018 due to strong net-worth base. Moreover, low leverage also provides financial flexibility to raise the resources in contingencies. Debt coverage indicators also remained strong backed by healthy cash accruals.

Stable demand growth of Indian pharmaceutical Industry (IPI): Outlook for IPI remains stable in medium to long term backed by growth opportunity in terms of capitalization 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

Large size, partially debt funded capex plan: APL is undertaking capex of around Rs.1,275 crore to increase its manufacturing capacity of general Injectables and OSD, and explore opportunity in specialized therapeutic segments like dermatology and oncology which is being funded by debt of Rs.500 crore and rest through internal accruals. Above facilities are being developed keeping in mind the growing demand in the US market. US generic market is highly regulated along with uncertainties and delays in regulatory approvals and pricing pressure due to intense competition which may affect the optimum utilization of its new facilities.

Inherent regulatory risk associated with pharmaceutical Industry: APL derives around 40% of its revenue from domestic formulation business, majorly driven by acute therapeutic segment. Around 15% of the formulation (Including top selling formulation Azithromycin) features in National List of Essential Medicine (NLEM). 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 also contributes nearly 40% to 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, pose vulnerability to profitability margin.

Analytical approach: For the purpose of Analysis, CARE has considered the consolidated financials of APL.

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

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 operates six formulations (Domestic and Export) manufacturing facilities, one at Sikkim and other near Vadodara, and three API manufacturing facilities near Vadodara catering several therapeutic segments, which includes anti-infective, gynecology, cardio, diabetic, derma and oncology, where anti-infective segment contributing most to the revenue.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total Operating Income	3,133	3,153
PBILDT	614	637
PAT	403	413
Overall Gearing (times)	0.05	0.34
Interest Coverage (times)	187.41	61.76

A – Audited

APL reported total income of Rs.1,992 crore and PAT of Rs.290 crore during H1FY19 (Un-audited) as against total income of Rs.1,445 crore and PAT of Rs.188 crore during H1FY18.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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.*

Analyst Contact
Name: Mr. Krunal Modi
Tel: 079-40265614
Mobile: +91-8511190084
Email: krunal.modi@careratings.com

****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 nearly 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
Commercial Paper - (Standalone)	-	-	7 to 364 days	500.00	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper-(Standalone)	ST	500.00	CARE A1+	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691