Allchem Lifescience Private Limited

February 20, 2019

Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	11.32	**CARE BB; Stable (Double B; Outlook: Stable)**	**Assigned**
Long Term/ Short Term Bank Facilities	13.50	**CARE BB; Stable/ CARE A4 (Double B; Outlook: Stable/ A Four)**	**Assigned**
Total	**24.82 (Rupees Twenty four crore eighty two lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Allchem Lifescience Private Limited (ALPL) are constrained on account of its moderate scale of operations with thin profitability reported during the year ended FY18 (refers to period April 01 to March 31) and modest liquidity.

The ratings are further constrained on account of susceptibility of its profit margins to volatility in raw material prices and foreign exchange fluctuation risk and presence into highly fragmented and regulated pharmaceuticals industry. The ratings, however, favorably take into consideration experience of the directors, reputed client base, moderate capital structure and debt coverage indicators and successful completion of a debt-funded expansion project.

ALPL's ability to increase its scale of operations with improvement in overall financial risk profile remains key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations with thin profitability reported during the year ended FY18

ALPL's scale of operations remains moderate marked by total operating income (TOI) of Rs.28.39 crore during FY18 as against TOI of Rs.18.72 crore in FY17. Further, operating profitability of ALPL also stood moderate as marked by PBILDT margin of 10.84% during FY18 (A) as against PBILDT margin of 12.48% during FY17 (A), with marginal dip mainly on account of higher material costs. As a consequence of high amount of interest costs and depreciation costs during the year ALPL reported low PAT margins of 1.32% during FY18 as against PAT margins of 6.39% during FY17.

Modest liquidity

Liquidity remained modest marked by current ratio of 0.84 times as on March 31, 2018. The cash flow from operating activity was at negative Rs.2.58 crore during FY18 and cash on hand stood low at Rs.0.15 crore as on March 31, 2018. However, operating cycle remained lean at 33 days in FY18. Further, the average utilization of its working capital limit during past one year ended January 2019 remained moderate at 70%.

Susceptibility of profit margins to volatility in raw material prices and foreign exchange fluctuation risk

ALPL's key raw material includes basic chemicals used in manufacturing of products being used in Pharmaceuticals industry. Any adverse change in price of this material will directly affect the profitability of ALPL. Since the company is engaged in direct exports, which accounts for 40-50 percent of its total turnover and in absence of any prudent hedging policy company has to face the foreign exchange fluctuation risk.

Presence into highly fragmented and regulated industry

Indian Pharmaceutical Industry is highly fragmented having presence of large number of unorganized players along with presence of organized players as well. Key factors that are expected to drive the growth of IPI in the medium term are increasing penetration of generic drugs in regulated markets on the back of significant patent expiries, outsourcing by global pharmaceutical companies to India and steady growth in the domestic market

Key Rating Strengths

Experienced directors

ALPL has been promoted by three directors namely Mr. Bipin Patel, Mr. Kantilal Patel and Ms. Manisha Patel. Mr. Kantilal Patel has experience of more than four decades in same industry and Mr. Bipin Patel has experience of more than two decades in same industry

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

**Issuer did not cooperate; Based on best available information*

Reputed client base

The company has been dealing with the reputed clients in pharmaceutical industry. ALPL has managed to get repetitive orders from them thereby mitigating the counter-party risk to an extent on the back of healthy credit profile of these reputed clients.

Successful Completion of project

ALPL has successfully completed its capex for expansion and increase in install capacity, which is funded by debt/equity mix of 2.00 times. The capex has been completed within envisaged time and cost parameters and started its commercial production with new plant by August 2018 which is in line with the initial estimation and there was no such major cost overrun.

Moderate capital structure and debt protection indicators

ALPL's capital structure remained moderate marked by an overall gearing ratio of 1.75 times as on March 31, 2018 (A) as compare to 0.33 times as on March 31, 2017 on account of higher amount of total debt with moderate networth base.

The debt coverage indicators of the company remained moderate on account of lower operating profit with low cash accruals; marked by high total debt to GCA ratio of 9.02 times and interest coverage ratio of 3.81 times during FY18 (A).

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
CARE's methodology for manufacturing companies
Rating Methodology-Pharmaceutical Companies
Financial Ratios - Non-Financial Sector

About the Company

Vadodara-based Allchem Lifescience Private Limited (ALPL) is an ISO 14001:2004 certified private limited company, which was originally promoted by Mr. Bipin Patel as proprietorship firm namely Allchem Laboratories in 2003 and subsequently got reconstituted into private limited company in January 2017, however operations has been commenced from in April, 2017.

At present, there are three directors namely Mr. Bipin Patel, Mr. Kantilal Patel and Ms. Manisha Patel, however overall operations have been managed by Mr. Bipin Patel.

ALPL is engaged in manufacturing of pharmaceuticals intermediates for Pharmaceuticals Intermediates for Active Pharmaceutical Ingredients (APIs), mainly used in pharma industry. ALPL has an installed capacity of 660 metric tons per annum (MTPA) as on January 31, 2019. It partly exports its intermediates to European countries and also caters to some reputed cliental.

Brief Financials (Rs. crore)	FY 17 (A)	FY 18 (A)
Total operating income	18.72	28.39
PBILDT	2.34	3.08
PAT	1.20	0.37
Overall gearing (times)	0.33	1.75
Interest coverage (times)	15.62	3.81

A: Audited

During 9MFY19 (Prov.) ALPL has achieved turnover of Rs.28.33 crore

Status of non-cooperation with previous CRA: Not Applicable

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*

Analyst Contact:
Name: Mr. Kalpesh Patel
Tel: (079) 40265611
Mobile: +91- 99090 26322
Email: kalpesh.patel@careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	November, 2023	11.32	CARE BB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	13.50	CARE BB; Stable / CARE A4

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 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.	Fund-based - LT-Term Loan	LT	11.32	CARE BB; Stable	-	-	-	-
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	13.50	CARE BB; Stable / CARE A4	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms.Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 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
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 KumarSenate,
Plot No. 970, Bhamburda, SenapatiBapat Road,
ShivajiNagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

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