Amanta Healthcare Limited

February 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	40.25 (Reduced from Rs.46.53 crore)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities	13.55	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total Facilities	**53.80 (Rupees Fifty Three crore and Eight lakh only)**		
Medium Term Instrument - Fixed Deposit	8.00 (Reduced from Rs.12.00 crore)	**CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]**	**Reaffirmed**
Total Instruments	**8.00 (Rupees Eight crore only)**		

Note: CARE has withdrawn the rating assigned to the term loan facility of the company since the same has been fully repaid and there is no outstanding under the said facility.
Details of Instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Amanta Healthcare Limited (AHL) are continue to remain constrained on account of decline in total operating income and net loss incurred by the company during FY19 (Audited; refers to the period from April 01 to March 31) leading to erosion in net worth base, its weak capital structure and debt coverage indicators and low return on capital employed (ROCE) resulting from its capital intensive nature of operations. The ratings also constrained due to vulnerability of AHL's profit margins to volatility in packing material prices and foreign exchange rate fluctuations, risk associated with quality assurance and storage of Intravenous Fluids (IVF), AHL's presence in highly competitive and price-controlled IVF market and large working capital requirement marked by elongated operating cycle.
The ratings, however, continue to derive strength from vast experience of AHL's promoters and its established operations and long track record in the IVF business supported by diversified product-mix and clientele. Further, the ratings continue to takes cognizance of AHL's healthy operating profitability margins in a competitive industry although it declined marginally during FY19 (A) over FY18 (A).

Rating Sensitivities
Positive Sensitivities
- Improvement in overall gearing ratio to around 1x along with improvement in return on capital employed (ROCE) on more than 12% on a sustained basis.

Negative Factors
- Inability of the company to raise equity share capital in time bound manner

Detailed description of the key rating drivers
Key Rating Weaknesses
Decline in total operating income and net loss incurred by the company during FY19: AHL's scale of operations marked by total operating income (TOI) declined by 4% during FY19 over FY18. The decline in TOI during FY19 was mainly due to loss in production and sales volume apart from lower export revenue. AHL's export sales have consistently declined during last two years ended FY19. AHL started major maintenance and up gradation in its existing plant during Q4FY19 to improve efficiency and remove bottleneck which was expected to increase its production capacity of its Large Volume Parenteral (LVP). However, the up-gradation activity took longer than expected due to stability issue which resulted in a significantly lower than expected production volume. AHL reported a net loss of Rs.18.75 during FY19 due to a decline in the operating profit, high-interest cost and depreciation charge.
AHL's operating profit (PBILDT) declined by 12% during FY19 over FY18 due to a marginal increase in the operational overheads and a decline in TOI apart leading to lower absorption overheads cost. AHL's TOI remained at similar levels during H1FY20 compared to H1FY19 whereas there was 8% decline in its operating profitability during the same period due to a change in product mix leading to lower sales realization.

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

Weak capital structure and debt coverage indicators: During FY18, AHL undertook capital restructuring to provide exit to its erstwhile private equity investors. AHL along with its one group company Merck Remedies Private Limited (which amalgamated with AHL with effect from April 01, 2017) availed debt of Rs.185 crore through a mix of issues of non-convertible debentures (NCD) and term debt and provided exit to investors. Apart from the increase in the term debt, tangible net-worth was reduced by Rs.115 crore which resulted in significant deterioration in capital structure as on March 31, 2018. Further, the net loss during FY19 resulted in erosion in tangible net-worth base leading to further deterioration in capital structure marked by an overall gearing ratio of 7.14 times as on March 31, 2019 as compared to 4.74 times as on March 31, 2018. Debt coverage indicators also remained weak on account of weak profitability, high borrowing cost, and high reliance on external borrowings.
AHL is actively considering raising of equity capital through private equity investment which will be utilized to repay the high cost debt availed during FY18. The ability of AHL to raise equity share capital in time bound manner shall remain crucial from the credit perspective.

Capital intensive nature of business along with modest return on capital employed: AHL's operations are capital intensive marked by a fixed asset turnover ratio of around 0.50 times for the last three years ended March 31, 2019 despite healthy capacity utilization of its installed capacity. Capex requirement of AHL remains high on account of continuous maintenance and modernization activities to keep up with the changes in the manufacturing technologies. AHL's operating capital turnover ratio consistently declined during the last three years and remained at 0.51 times as of March 31, 2019 due to elongation in the operating cycle. Gross operating cycle of AHL elongated to 205 days during FY19 (193 days in FY18) due to higher inventory holding and debtor collection. Return on capital employed (ROCE) remained low at around 7% during FY19 (around 9% during FY18) due to very high requirement of capital and relatively low operating profits.

Susceptibility of its margins to volatile packing material prices and foreign exchange fluctuation: The basic raw material for AHL is plastic granules apart from other bulk drugs and chemicals. Plastic granules are derivatives of crude oil which makes AHL's profitability susceptible to volatility in international crude oil prices. Moreover, AHL sources its raw material both from domestic and international markets. Hence, AHL is also exposed to adverse fluctuation in the foreign exchange rate in the absence of any active hedging policy. However, AHL has a natural hedge available in the form of export which mitigates the risk to a certain extent as foreign currency exposure in the form of exports is more than imports.

Risk related to the quality assurance and proper storage: IVF products are infused in patient body & directly mix with blood which is very critical to human health, and hence for these products, it is crucial that the hospitals and other customers who buy these products have adequate and proper storage facilities. Also, AHL faces a high reputation risk being in an industry that manufactures critical drugs to human health.

Presence in price-controlled and competitive formulation industry: Competitive pressure in the domestic formulation market has been rising steadily prompted by the significant increase in investments by domestic players in marketing efforts through expansion in field force, on the other hand, multinational companies have also renewed their focus on India. Further, Government regulations, including those implemented by the National Pharmaceutical Pricing Authority (NPPA), may also inhibit the industry growth and profitability. Though, the domestic formulations segment is expected to grow led by a rise in chronic diseases, increasing per capita income and improvement in access to healthcare facilities along with growing penetration of health insurance.

Key Rating Strengths
Experienced promoters: Mr. Rohit J. Patel is the founder and *Chairman* of AHL and has total work experience of more than 30 years. Mr. Bhavesh G. Patel, *Managing Director,* also has an experience of around two decades and actively looks after the day-to-day operations of the company. Further, AHL has well-qualified and experienced second-tier management with well-defined organizational structure and strong management information system to support the top management.

Established and long track record of operations: AHL is engaged in the manufacturing of Large Volume Parenteral (LVP) and Small Volume Parenteral (SVP) with the Blow-Fill-Seal (BFS) technology at its ISO certified and c-GMP compliant manufacturing facility where AHL can handle manufacturing and packaging of Sterile Liquid Parenteral from 5 ml to 1000 ml. Over the years, AHL has expanded its installed capacities on the back of effective utilization of capacities. Earlier, AHL used to operate one manufacturing facility at Goa. However, production in the Goa facility was suspended during FY17 in a phased manner due to traceability issues related to the water used for production. Capacity utilization at its Kheda plant remained healthy at around 80% to 90% during the last three years ended FY19.

Diversified product portfolio and customer base: AHL's product portfolio includes around 80 therapeutic and non-therapeutic products which include fluid therapy products, formulations (injections for various drugs like anti-bacterial,

diuretic, and anti-fungal), ophthalmic, diluents, respiratory products and irrigation solution products. AHL launched a new product 'Steriport' under the LVP segment during FY16 which has distinct product features like better sterilization, superior transparency and ease of administration.
AHL also has a diversified clientele spread over more than 70 countries across five continents with major exports to Africa and Southeast Asia. Further, AHL has nearly 250 product registrations in various countries to serve export demand.

Liquidity Analysis: Stretched
Liquidity of the AHL remains stretched due to elongated gross operating cycle of more than 200 days and high average utilization of fund-based working capital limit of around 92% during the last 12 months ended September 2019. Company needs to extend the credit of nearly 3-6 months to its dealer/ distributors to push the demand of its products in competitive IVF market. Further, in case of tender driven business, the debtor remains elongated for more than 6 months thereby increasing its working capital requirement to that extent. AHL has debtor outstanding for more than 6 months of Rs.12.15 crore (net off provision for the doubtful debtors) as on March 31, 2019 (Rs.11.93 crore as on March 31, 2018) which constituted nearly 23% of total debtors. However, AHL reported operating cash-flow of Rs.22.58 crore (Rs.33.28 crore during FY18) during FY19 providing some comfort to its liquidity.
The debt of Rs.185 crore availed by AHL during FY18 carries an interest rate of 14% p.a. However, debt of Rs.160 crore out of Rs.185 crore carries cash coupon of only 4.5% p.a. and the remaining interest will accrue and will be repaid along with last installment in FY24 which provides liquidity cushion in near term. AHL is expected to meet its debt servicing and capex requirement from its internal accruals (supported by deferment of interest repayment) and unencumbered cash and cash equivalent of around Rs.9 crore as on March 31, 2019. However, AHL has scheduled debt repayment of around Rs.45 crore during FY21 which is expected to stretch the liquidity of AHL in absence of adequate cash accruals.

Analytical approach: Standalone

Applicable Criteria
CARE's policy on withdrawal of ratings
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating methodology for manufacturing companies
Rating methodology for Pharmaceutical sector
Financial ratios – Non-Financial Sector

About the Company
AHL is a closely-held public limited company promoted by Mr. Rohit J. Patel, Mr. Bhavesh G. Patel and other family members in 1995. AHL's product portfolio comprises both Large Volume Parenteral (LVP) and SVP IVF for fluid therapy, formulations, anti-biotic, anti-fungal, ophthalmic, diuretics and other injectable. As on March 31, 2019, AHL had an installed capacity of 960 lakh bottles and 2,525 lakh bottles per annum of LVP and SVP, respectively at it ISO-certified and cGMP compliant manufacturing facilities at Kheda, Gujarat.

(Rs. Crore)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	193.64	186.55
PBILDT	48.50	42.85
PAT	11.33	-18.75
Overall gearing (times)	4.74	7.13
PBILDT Interest coverage (times)	2.47	1.06
Cash PBILDT Interest coverage (times) @	4.20	2.82

@ Excluding Non-cash portion of the interest
As per the provisional result for 9MFY20, AHL earned a total operating income of Rs.144.11 crore and PBILDT of Rs.31.21 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

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
Fund-based - LT-Cash Credit	-	-	-	40.25	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	12.75	CARE A4+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.80	CARE A4+
Fixed Deposit	-	-	January 2023	8.00	CARE BB+ (FD); Stable

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	-	Withdrawn	1)CARE BB+; Stable (28-Jun-19)	1)CARE BBB-; Stable (26-Mar-19) 2)CARE BBB (Under Credit watch with Negative Implications) (20-Nov-18)	1)CARE BBB; Stable (06-Sep-17)	1)CARE BBB- (26-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	40.25	CARE BB+; Stable	1)CARE BB+; Stable (28-Jun-19)	1)CARE BBB-; Stable (26-Mar-19) 2)CARE BBB (Under Credit watch with Negative Implications) (20-Nov-18)	1)CARE BBB; Stable (06-Sep-17)	1)CARE BBB- (26-Sep-16)
3.	Non-fund-based - ST-Letter of credit	ST	12.75	CARE A4+	1)CARE A4+ (28-Jun-19)	1)CARE A3 (26-Mar-19) 2)CARE A3 (Under Credit watch with Negative Implications) (20-Nov-18)	1)CARE A3 (06-Sep-17)	1)CARE A3 (26-Sep-16)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.80	CARE A4+	1)CARE A4+ (28-Jun-19)	1)CARE A3 (26-Mar-19) 2)CARE A3 (Under Credit watch with Negative Implications) (20-Nov-18)	1)CARE A3 (06-Sep-17)	1)CARE A3 (26-Sep-16)
5.	Fixed Deposit	LT	8.00	CARE BB+ (FD); Stable	1)CARE BB+ (FD); Stable (28-Jun-19)	1)CARE BBB- (FD); Stable (26-Mar-19) 2)CARE BBB (FD) (Under Credit watch with Negative Implications) (20-Nov-18)	1)CARE BBB (FD); Stable (06-Sep-17)	1)CARE BBB- (FD) (26-Sep-16)

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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