# Amanta Healthcare Limited

March 26, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 46.53 (Reduced from Rs.56.51 crore) | **CARE BBB-; Stable (Triple B Minus; Outlook: Stable)** | **Revised from CARE BBB (Triple B); Removed from credit watch with negative implications** |
| Short-term Bank Facilities | 13.55 | **CARE A3 (A Three)** | **Reaffirmed; Removed from credit watch with negative implications** |
| **Total Facilities** | **60.08 (Rupees sixty crore and eight lakh only)** | | |
| Medium Term Instrument - Fixed Deposit | 12.00 (Enhanced from Rs.10 crore) | **CARE BBB- (FD); Stable [Triple B Minus (Fixed Deposit); Outlook: Stable]** | **Revised from CARE BBB (FD) [Triple B; (Fixed Deposit)]; Removed from credit watch with negative implications** |
| **Total Instruments** | **12.00 (Rupees Twelve crore only)** | | |

*Details of facilities/instruments in Anneuxre-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities and instruments of Amanta Healthcare Limited (AHL) have been removed from the credit watch on completion of amalgamation of Merck Remedies Private Limited (MRPL), a group company with AHL. Further, the revision in the long-term rating assigned to the bank facilities and instruments of AHL takes into account deterioration in capital structure and debt coverage indicators followed by transferred of large size debt of MRPL to AHL subsequent to amalgamation of MRPL with AHL. MRPL has availed the debt to fund the acquisition of equity stake in AHL held by venture capital/ private equity firms. However, AHL is actively considering the raising of fresh equity through another private equity infusion to replace the debt.

The ratings continue to derive strength from the vast experience of the promoters in Intravenous Fluids (IVF) business and AHL's established, long track record of operations supported by diversified product-mix and clientele, and benefit of ramp up in production and sales volume of newly launched product, 'Steriport'. The ratings also continue to take into account healthy operating profitability margins backed by favourable product mix in competitive industry.

The ratings, however, constrained by its capital intensive operation leading to modest return indicators, moderate liquidity due to high working capital intensity, 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 IVF and AHL's presence in highly competitive and price controlled IVF market.

AHL's ability to increase its scale of operations by optimum capacity utilization while maintaining healthy operating profitability margin and effective management of its working capital requirement shall remain key rating sensitivities. Moreover, AHL's ability to timely raise the equity and rationalization of debt shall also remain key monitorable.

**Detailed description of the key rating drivers**

**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. Over the years, the promoters have infused funds for the expansion projects. Further, AHL has well-qualified and experienced second tier management with well-defined organisational 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

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

manufacturing facility where AHL can handle manufacturing and packaging of Sterile Liquid Parenterals from 5 ml to 1000 ml. Over the years, AHL has expanded its installed capacities on the back of effective utilisation 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 in the water used for production. Subsequent to closure of Goa plant capacity utilization increased to 85% for LVP and 72% for SVP during FY18 as against 79% and 70% respectively in FY17.

**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. During FY18, AHL earned 75% of gross revenue from sale of LVP products and remaining 25% from sale of SVP products. AHL launched new product 'Steriport' under LVP segment during FY16 which has distinct product features like better sterilisation, superior transparency and ease of administration. 'Steriport' fetches around 30% to 35% higher average sales realization than traditional LVP due to its distinct features. Contribution of sales from 'Steriport' brand in total LVP sales has increased to 44% during FY18 from 13% in FY16 due to consistent improvement in its sales volume and average sales realization since its launch.

AHL also has a diversified clientele spread over more than 70 countries across five continents with major exports to Africa and South East Asia. Further, AHL has nearly 250 product registrations in various countries to serve export demand. Export contributed around 42% of AHL's gross sales during FY18. Furthermore, sales to top 10 customers in the domestic market and export market contributed around 19% and 39% of total domestic sales and total export sales respectively during FY18 indicating fairly diversified customer base.

**Healthy operating profitability:** AHL's scale of operations remained moderate marked by total operating income (TOI) of Rs.194 crore during FY18 which declined by 5.93% over FY17 mainly on account of closure of Goa plant resulting in decline in production and sales volume of LVP. However, sales volume of SVP has consistently improved during the last three years ended FY18 on the back of growing demand in the export market. Further, sales volume and sales realisation of 'Steriport' brand under LVP segment has consistently increased since its launch in FY16.

AHL's operating profitability marked by PBILDT margin remained healthy at around 25% during last two years ended FY18 on the back of lower raw material prices and consistent increase in the average sales realisation of 'Steriport'. Further, PBILDT margin increased to 27.70% during 9MFY19 due to improved average sales realisation of SVPs by 29% including its major product 'Respule' followed by its good demand in the export market.

**Key Rating Weaknesses**

**Deterioration in capital structure and debt coverage indicators:** Pursuant to amalgamation of MRPL with AHL, debt of Rs.160 crore availed by MRPL to acquire equity shares of AHL, got transferred to AHL. Further, AHL also raised term debt of Rs.25.00 crore for pre-paying the term loan of IFCI venture capital fund to the extent of Rs.12.60 crore and the balance was used to pay transaction cost related to amalgamation and upfront fee for fresh term debt of Rs.160 crore. Further, equity shares held by MRPL prior to amalgamation were cancelled pursuant to amalgamation resulting in net reduction in tangible net-worth by Rs.115 crore during FY18. Increase in total debt and reduction in tangible net-worth resulted in deterioration in capital structure marked by overall gearing ratio of 4.74 times as on March 31, 2018 as compared to 0.86 times as on March 31, 2017. Further, debt coverage indicators also deteriorated due to increase in the interest cost followed by higher debt level.

**Capital intensive nature of operations leading to modest return indicators:** The operations of AHL continued to remain capital intensive marked by fixed asset turnover ratio of 0.5 to 0.6 times during last three years ended FY18 and gross working capital cycle of 188 days during FY18. Therefore, despite earning healthy operating profitability margins, return indicators marked by Return on Capital Employed (ROCE) and Return on Net-worth (RONW) remained modest at around 9% to 11% during last three years ended FY18.

**Moderate liquidity:** Liquidity of AHL remains constrained due to working capital intensive nature of operations indicated by low current ratio, long operating cycle and high average working capital limit utilisations of around 95% for the past 12 months ended December 2018. 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 enhances working capital requirement to that extent. However, AHL has low term-debt repayment liability of around Rs.11 crore in FY19 and in FY20 each due to moratorium period upto September 2020 for repayment of term debt of Rs.160 crore raised during FY18. Further, term debt of Rs.160 crore carry cash coupon of 4.50% per annum and the remaining portion of interest will accrue and will be repaid along with last instalment in 2024 which provides liquidity cushion in near term.

**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 natural hedge available in the form of export which mitigates the risk to certain extent as foreign currency exposure in 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 high reputation risk being in an industry which manufactures critical drugs to human health.

**Presence in price controlled and competitive formulation industry:** Competitive pressure in domestic formulation market has been rising steadily prompted by 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 squeeze the industry growth and profitability. Though, domestic formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income and improvement in access to healthcare facilities along with growing penetration of health insurance.

**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 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, 2017, 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.

**Update on amalgamation of MRPL with AHL:**

AHL had tied up with the venture capitalist for equity infusion viz. IFCI Venture Capital Limited and Tata Capital Limited, which had invested in company over phased manner for various capex programs. The promoters through its other company i.e. MRPL purchased the equity stake from these two venture capital firms during FY18. MRPL raised around Rs.160 crore via structured finance loans from leading debt fund to fund equity purchase. Subsequent to the purchase of equity stake from venture capital firms MRPL was amalgamated with AHL pursuant to the scheme of amalgamation approved by the National Company Law Tribunal (NCLT). All assets and liabilities of MRPL were vested in the AHL with effect from April 01, 2017 ('the appointed date'). With these transfer of MRPL's liabilities, the debt of Rs.160 crore from KKR now stands at AHL. Moreover, the equity stake held by MRPL in AHL stands cancelled leading to reduction in equity base in AHL.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|---|---:|---:|
| Total operating income | 205.84 | 193.64 |
| PBILDT | 52.14 | 48.50 |
| PAT | 23.16 | 11.33 |
| Overall gearing (times) | 0.86 | 4.74 |
| Interest coverage (times) | 4.42 | 2.47 |
| Cash Interest coverage (times) | - | 4.20 @ |

*A – Audited, @ Excluding Non-cash portion of the interest which will accrue and will be repaid in 2024*

During 9MFY19, AHL earned a total operating income (TOI) of around Rs.153.36 crore with PBILDT of Rs.42.48 crore as against TOI of Rs.149.76 crore and PBILDT of Rs.32.78 crore during 9MFY18.

**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.*

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**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 | - | - | July 2019 | 6.28 | CARE BBB-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 40.25 | CARE BBB-; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | 12.75 | CARE A3 |
| Non-fund-based – ST –Credit Exposure Limit | - | - | - | 0.80 | CARE A3 |
| Fixed Deposit | - | 7% to 12% | March 2021 | 12.00 | CARE BBB- (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 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 | 6.28 | CARE BBB-; Stable | 1)CARE BBB (Under Credit watch with Negative Implications) (20-Nov-18) | 1)CARE BBB; Stable (06-Sep-17) | 1)CARE BBB- (26-Sep-16) | 1)CARE BBB- (08-Feb-16) |
| 2. | Fund-based - LT-Cash Credit | LT | 40.25 | CARE BBB-; Stable | 1)CARE BBB (Under Credit watch with Negative Implications) (20-Nov-18) | 1)CARE BBB; Stable (06-Sep-17) | 1)CARE BBB- (26-Sep-16) | 1)CARE BBB- (08-Feb-16) |
| 3. | Non-fund-based - ST-Letter of credit | ST | 12.75 | CARE A3 | 1)CARE A3 (Under Credit watch with Negative Implications) (20-Nov-18) | 1)CARE A3 (06-Sep-17) | 1)CARE A3 (26-Sep-16) | 1)CARE A3 (08-Feb-16) |
| 4. | Non-fund-based - ST-Credit Exposure Limit | ST | 0.80 | CARE A3 | 1)CARE A3 (Under Credit watch with Negative Implications) (20-Nov-18) | 1)CARE A3 (06-Sep-17) | 1)CARE A3 (26-Sep-16) | 1)CARE A3 (08-Feb-16) |
| 5. | Fixed Deposit | LT | 12.00 | CARE BBB- (FD); Stable | 1)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) | 1)CARE BBB- (FD) (08-Feb-16) |

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