Amanta Healthcare Limited

June 28, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	46.53	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Short-term Bank Facilities	13.55	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**60.08 (Rupees sixty crore and eight lakh only)**		
Medium Term Instrument - Fixed Deposit	12.00	**CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]**	**Revised from CARE BBB- (FD); Stable [Triple B Minus (Fixed Deposit); Outlook: Stable]**
Total Instruments	**12.00 (Rupees Twelve crore only)**		

Details of facilities/instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the various bank facilities and instruments of Amanta Healthcare Limited (AHL) takes into account net loss reported by the company during FY19 (Provisional) (FY; refers to the period from April 01 to March 31) which resulted in erosion of its tangible net-worth leading to more than previously expected deterioration in its capital structure and debt coverage indicators. Further, revision in ratings also take into account lower than envisaged total operating income (TOI) and operating profitability (PBILDT) during FY19 (Provisional).

The ratings are constrained by AHL's capital intensive operations leading to modest return indicators, moderate liquidity due to elongated working capital cycle, 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) and AHL's presence in highly competitive and price controlled IVF market. The ratings also continue to remain constrained due to AHL's high debt level post amalgamation of its group company, Merck Remedies Private Limited (MRPL). MRPL has availed the debt to fund the acquisition of equity stake in AHL held by venture capital/ private equity firms. Presently, AHL is planning to raise fresh equity through another private equity infusion to replace the debt.

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 (Provisional) over FY18 (A).

AHL's ability to raise equity capital in a timely manner to rationalize its capital structure is the key rating sensitivity. Further, AHL's ability to increase its scale of operations by optimum capacity utilization, increasing operating profitability margin by improving operating efficiency along with improvement in its debt coverage indicators and effective management of its working capital requirement shall also remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Lower than envisaged total operating income, net loss and weakening of debt coverage indicators in FY19: AHL's scale of operations marked by total operating income (TOI) declined by 4% during FY19 (Prov.) to Rs.187 crore compared to Rs.194 crore in FY18 (A). The decline in TOI was mainly due to loss in production and sales volume during Q4FY19. AHL undertook major maintenance and up gradation in its existing plant 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 the significantly lower than expected production volume during Q4FY19 leading to consequent lower than previously envisaged TOI for FY19. AHL's PBILDT margin also declined marginally during FY19 (Prov.) due to decline in total operating income apart from loss in production and sales volumes to absorb overheads cost. This is in sharp contrast to the improved profitability margins reported by the company in its 9MFY19 (Provi.) results. Further, AHL reported net loss of Rs.14.68 crore during FY19 (Prov.) due to decline

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

in the PBILDT and high interest cost which has also remained weaker than expected. Furthermore, decline in profitability and continued high level of debt also resulted in deterioration in the debt coverage indicators during FY19 (Prov.) as compared FY18 (A).

Erosion in tangible net-worth base and continued high debt level led to deterioration in capital structure: During FY18, AHL undertook capital restructuring to provide exit to its erstwhile equity investors. AHL along with its group company MRPL (which amalgamated with AHL with effect from April 01, 2017) availed debt of Rs.185 crore through mix of issue of NCDs and term debt to provide exit to erstwhile equity investors. Further, due to restructuring exercise, 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 into erosion in tangible net-worth base leading to further deterioration in capital structure marked by overall gearing ratio of 6.49 times as on March 31, 2019 as compared to 4.74 times as on March 31, 2018. Total debt of AHL continues to remain at elevated level which majorly consists of debt availed for providing exit to PE funds. Further, AHL plans to incur capex to increase its installed capacity at Kheda plant during FY20 which is expected to be funded through term debt of Rs.40 crore which is also expected to weaken the capital structure further.

Capital intensive nature of operations leading to modest return indicators: The operations of AHL continue to remain capital intensive marked by fixed asset turnover ratio of 0.5 to 0.6 times during last four years ended FY19. Therefore, despite having 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. Further, ROCE declined to 7.62% during FY19 due to increase in the debt and lower than expected profitability. RONW remained negative during FY19 due to net loss reported on account of higher interest cost.

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 inhibit 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.

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 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 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 in the water used for production. Capacity utilization at its Kheda plant remained healthy at around 80% to 90% during 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 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. Steriport's sales volume and average sales realization has consistently improved 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 37% of AHL's gross sales during FY19. 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 operating profit margin marked by PBILDT margin, although marginally declined during FY19, continued to remain healthy at around 24% to 25% during last three years ended FY19 on the back of lower raw material prices and consistent increase in the average sales realisation of its product, 'Steriport'. PBILDT margin declined marginally during FY19 on account of lower production and sales volumes resulting in lower absorption of overhead cost.

Liquidity Analysis: Liquidity of AHL remains moderate due to working capital intensive nature of operations indicated by long operating cycle of 130 days during FY19 (114 days during FY18) and high average working capital limit utilisation of around 94% for the past 12 months ended May 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. However, AHL's cash flow from operations remained at Rs.34 crore and Rs.25 crore during FY18 and FY19 respectively providing some comfort to its liquidity. AHL has unencumbered cash and cash equivalent of Rs.6.37 crore as on March 31, 2019. The debt of Rs.160 crore out of Rs.185 crore which was availed for providing exit to PE fund has a moratorium period up to March 2021. Also, it carries rate of interest of 14% including cash coupon of 4.50% per annum whereas the remaining portion of interest will accrue and will be repaid along with last instalment in 2024 which provides liquidity cushion in near term.

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
CARE's methodology for Pharmaceutical companies
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	FY18 (A)	FY19 (Prov.)
Total operating income	193.64	186.87
PBILDT	48.50	44.55
PAT	11.33	(14.68)
Overall gearing (times)	4.74	6.49
PBILDT Interest coverage (times)	2.47	1.16
Cash PBILDT Interest coverage (times) @	4.20	3.04

A – Audited, Prov. – Provisional @ Excluding Non-cash portion of the interest

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

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 2020	6.28	CARE BB+; Stable
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	-	7% to 12%	March 2022	12.00	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	6.28	CARE BB+; Stable	-	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 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 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 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	12.00	CARE BB+ (FD); Stable	-	1)CARE BBB- (FD); Stable (26-Mar-19) 2)CARE BBB (FD) (Under Credit watch with	1)CARE BBB (FD); Stable (06-Sep-17)	1)CARE BBB- (FD) (26-Sep-16)

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
						Negative Implications) (20-Nov-18)		

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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