Amanta Healthcare Limited

September 06, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	56.51 (reduced from Rs.61.65 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB- (Triple B Minus)**
Short-term Bank Facilities	13.55	**CARE A3 (A Three)**	**Reaffirmed**
Total Bank Facilities	**70.06 (Rupees seventy crore and six lakh only)**		
Medium Term Instrument – Fixed Deposit	**10.00 (Rupees Ten crore only)**	**CARE BBB (FD); Stable [Triple B (Fixed Deposit); Outlook: Stable]**	**Revised from CARE BBB- (FD) [Triple B Minus (Fixed Deposit)]**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities and instruments of Amanta Healthcare Limited (AHL) takes into account ramp up in production and sales volume of newly launched product 'Steriport' thereby leading to growth in scale of operation and profitability during FY17 (refer period April 01 to March 31). Moreover, the revision also factors in benefits of capacity expansion of 'Steriport' product which was entirely funded through internal accruals during FY17 leading to continued moderate capital structure.

The rating also continue to take into consideration the vast experience of the promoters in Intravenous Fluids (IVF) business and AHL's established and long track record of operations supported by diversified product-mix and clientele. The ratings further continue to derive strengths from healthy profitability margin and comfortable debt coverage indicators.

The ratings, however, continue to be constrained by its working capital intensive operation, 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. The ratings also factors in elongated receivables with outstanding debtors for more than six months as on March 31, 2017 and overdue in statutory payments as reported by auditors in its audit report for the year ended March 31, 2017.

AHL's ability to resume the Goa plant operation in time bound manner along with optimum utilisation of installed capacities leading to growth in scale of operation and effective management of working capital are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Ramp up in sales volumes of 'Steriport' product leading to growth in scale of operation and improved profitability: Despite discontinuation of Goa plant operation due to consistent availability of quality water supply, the total operating income of AHL grew during FY17 largely backed by higher sales volume of 'Steriport' product. During FY17, the production and sales volumes of 'Steriport' product almost doubled over FY16 leading to more than 130% growth in revenue of 'Steriport' sales. Further, with increasing acceptance of the premium 'Steriport' product by corporate hospitals and large-small nursing homes during FY17, AHL had undertaken the capacity expansion project of Steriport product through debottlenecking of Steriport capacity at Kheda location which was entirely funded through internal accruals.

The operating profitability remained healthy in the range of 20-25% over past five years ended FY17 and improved further by 405 bps during FY17 over FY16 on the back of saving in material cost along with increase in average sales realisation of its products.

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. Eight more directors are on the board of AHL including independent and nominee directors. Over the years, the promoters have infused funds for the expansion project as well as tied up with the venture capitalist for equity infusion, viz, IFCI Venture Capital Limited and Tata Capital Limited, which has invested in AHL in a phased manner for various capex.

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

Established and long track record of operations: AHL is engaged in the manufacturing of LVP and Small Volume Parenteral (SVP) with the Blow-Fill-Seal (BFS) technology at its two ISO certified and cGMP compliant manufacturing facilities 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. The capacity utilization remained at 79% for LVP and 70% for SVP during FY17 as against 74% and 64% respectively in FY16.
Diversified product portfolio: 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 FY17, AHL earned 80% of gross revenue from sale of LVP products and remaining 20% from SVP products. AHL also has a diversified clientele spread over more than 70 countries across five continents with major exports to Africa and South East Asia. Top 10 customers contributed around 17% of gross sales during FY17. Further, AHL has nearly 250 product registrations in various countries to serve export demand. During FY17, AHL earned around 28% of gross sales from export market (including merchant export) and balance from domestic sale.
Moderate capital structure and comfortable debt coverage indicators: The leverage of the company marked by overall gearing ratio remained moderate backed by strong networth base and improved further as on March 31, 2017 due to healthy accretion of profits to networth. Further, debt coverage indicators i.e. Interest coverage and total debt to GCA too have remained comfortable due to healthy profitability and cash accruals.
AHL has investment of Rs.53 crore (in form of convertible preference shares) by funds managed/advised by Tata Capital Limited (TCL). The investors have put option available by December 31, 2017. On exercise of put option, AHL/ promoters of AHL are obliged to provide an exit option to the investors. The management is actively considering various options for the exit to the investors.

Key Rating Weaknesses
Working Capital intensive operations with elongated debtors: The operations of AHL continued to remain working capital intensive as indicated by low current ratio, long operating cycle and high average working capital limit utilisations. Further, company needs to extent 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. AHL has debtors amounting to Rs.12.98 crore outstanding for more than 6 months as on March 31, 2017 which has increased from Rs.7.14 crore as on March 31, 2016. Though, the company has already recovered approx 40% of the outstanding debtors by August 2017.
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.
Low return indicators: AHL's some of the return indicators stood moderate like return of capital employed (ROCE) of 11.27% and fixed asset turnover ratio of 0.58 times during FY17 due to lower than envisaged return on investments and its presence in capital heavy IVF business.
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 1,096 lakh bottles and 2,525 lakh bottles per annum of LVP and SVP, respectively at its two ISO-certified and cGMP compliant manufacturing facilities; one at Kheda, Gujarat, and another at District North Goa, Goa.
AHL had suspended the operations at Goa plant in June - July, 2016 in phase manner. Presently, AHL has LVP capacities in Goa units which required huge water however subsoil water was not sufficient and AHL had to rely on outside sources. This was leading to traceability issue and was not a good manufacturing practice. However, this is not expected to have major impact on the profitability of the company since the Goa operation had historically low margin business and was contributing nearly 10-12% of overall revenue of AHL.

(Rs. Crore)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	199.98	205.84
PBILDT	42.55	52.14
PAT	12.63	23.16
Overall gearing (times)	1.06	0.86
Interest coverage (times)	3.13	4.42

During Q1FY18, as per provisional results, AHL has earned total operating income of around Rs.48 crore with PBT of Rs.4 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: None
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: Krunal Modi
Tel: 079 - 40265614
Mobile: +91 85111 90084
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 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
Fund-based - LT-Term Loan	NA	NA	October 2019	16.26	CARE BBB; Stable
Fund-based - LT-Cash Credit	NA	NA	NA	40.25	CARE BBB; Stable
Non-fund-based - ST-Letter of	NA	NA	NA	12.75	CARE A3

credit					
Non-fund-based - ST-Credit Exposure Limit	NA	NA	NA	0.80	CARE A3
Fixed Deposit	NA	7%-12%	March 2021	10.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	16.26	CARE BBB; Stable	-	1)CARE BBB- (26-Sep-16)	1)CARE BBB- (08-Feb-16)	1)CARE BBB- (05-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	40.25	CARE BBB; Stable	-	1)CARE BBB- (26-Sep-16)	1)CARE BBB- (08-Feb-16)	1)CARE BBB- (05-Dec-14)
3.	Non-fund-based - ST-Letter of credit	ST	12.75	CARE A3	-	1)CARE A3 (26-Sep-16)	1)CARE A3 (08-Feb-16)	1)CARE A3 (05-Dec-14)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.80	CARE A3	-	1)CARE A3 (26-Sep-16)	1)CARE A3 (08-Feb-16)	1)CARE A3 (05-Dec-14)
5.	Fixed Deposit	LT	10.00	CARE BBB (FD); Stable	-	1)CARE BBB- (FD) (26-Sep-16)	1)CARE BBB- (FD) (08-Feb-16)	-

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 99888 05650
Tel: +91-172-5171 100 / 09
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