Amanta Healthcare Limited

September 09, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	38.25 (Reduced from Rs.40.25)	**CARE BB; Stable (Double B; Outlook: Stable)**	**Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)**
Short Term Bank Facilities	11.55 (Reduced from Rs.13.55)	**CARE A4 (A Four)**	**Revised from CARE A4+ (A Four Plus)**
Long Term Bank Facilities	3.80	**CARE BB; Stable (Double B; Outlook: Stable)**	**Assigned**
Total Facilities	**53.60 (Rupees Fifty Three Crore and Sixty Lakhs Only)**		
Long Term/ Medium Term Instruments	**8.00 (Rupees Eight Crore Only)**	**CARE BB (FD); Stable [Double B (Fixed Deposit); Outlook: Stable]**	**Revised from CARE BB+ (FD); Stable [Double B Plus (Fixed Deposit); Outlook: Stable]**

Details of instruments/facilities 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 delays in raising equity share capital to strengthen its capital structure. AHL's capital structure remains weak due to its high reliance on external borrowing and was further exacerbated by erosion in its net-worth base due to net loss reported during FY19 (Audited) and FY20 (Provisional; refers to the period from April 01 to March 31).

The ratings further continue to remain constrained due to declining operating profitability along with continued high interest cost and depreciation charges resulting into net losses during FY19 and FY20, AHL's capital intensive operations leading to low return indicators and elongated working capital cycle. 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) and AHL's presence in highly competitive and price controlled IVF market.

The ratings, however, continue to derive strength from vast experience of AHL's promoters and its established and long track record in the IVF business supported by diversified nature of operations.

Rating Sensitivities

Positive Factors

- AHL raising equity share capital in excess of Rs.150 crore
- Improvement in return on capital employed (ROCE) to more than 12% on sustained basis

Negative Factors

- Inordinate delay in raising equity share capital
- Significant decline in the total income and operating profit margin

Detailed description of the key rating drivers

Key Rating Weaknesses

Delays in raising equity share capital leading to continued weak capital structure: AHL is planning to raise equity share capital from secondary market to replace its existing high cost debt availed to provide exist to its erstwhile Private Equity (PE) investors. Merck Remedies Private Limited (MRPL), a promoter group company of AHL, raised term debt to buyback equity stake in AHL held by certain PE holders. Later MRPL was merged with AHL resulting into transfer to debt to AHL which has impacted the leverage of the company. Presently, AHL is actively looking to raise the equity share capital to replace the debt before the sizable repayment of the term-debt starts from September 2021. Delays in raising equity share capital may adversely affects the financial risk profile of AHL due to very high cost associated with existing debt.

AHL's overall gearing ratio deteriorated to 10.49x as on March 31, 2020 (Provisional) compared with 7.14x as on March 31, 2019 and 4.74x as on March 31, 2018. AHL's total debt significantly increased during FY18 due to the merger with MRPL. Further, AHL reported net loss of Rs.18.75 crore and Rs.14.81 crore during FY19 and FY20 respectively which

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

eroded its net-worth base. AHL's capital structure and its debt-coverage indicators are expected to deteriorate going forward if it is unable to raise meaningful amount of equity share capital to replace the debt.

Declining operating profitability: AHL's total operating income (TOI) remained stable on Y-o-Y basis but its remained lower by around 4% compared with TOI reported during FY18. Further, AHL's operating profit (PBILDT) also declined by 8% on Y-o-Y basis and declined by 13% compared with operating profit reported during FY18 due to relatively stagnant total operating income leading to lower absorption of increased overhead cost over the years. Intense competition due to commoditized nature of the product and AHL's capacity constrained have adversely impacted its scale of operations and profitability. Moreover, the company also incurred a significant net loss of Rs.14.81 crore in FY20 loss due to higher interest expenses and depreciation charge.

Low return on capital employed due to high capital intensity: AHL's operations are capital intensive marked by a fixed asset turnover ratio of around 0.50x for the last three years ended FY20, 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 working capital turnover ratio consistently declined during the last three years and remained at 2.42x as of March 31, 2020 due to elongation in the operating cycle. Due to very high requirement of capital, its Return on capital employed (ROCE) remained low at around 7% during last two years ended FY20.

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. The company has operational track record of around 25 years. Over the years, AHL has expanded its installed capacities on the back of effective utilization of capacities. Capacity utilization at its Kheda plant remained healthy at around 80% to 85% during the last three years ended FY20.

Diversified operations: 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 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: Stretched

The operations of AHL continued to remain working capital intensive as indicated by working capital turnover ratio and long operating cycle. The 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. In case of tender driven business, the debtor remains elongated for more than 6 months. AHL has debtors amounting to Rs.17.22 crore outstanding for more than 6 months past due date as on March 31, 2020 which has increased from Rs.14.28 crore as on March 31, 2019 and Rs.13.83 crore as on March 31, 2018. The gross operating cycle (inventory + debtors) stood at 209 days in FY20 as against 205 days in FY19. In the near term, liquidity of AHL remains adequate due to modest average utilization of around 80% of its fund based working capital limits during last 12 months ended June 2020 and healthy cash flow from operations of around Rs.38.66 crore during FY20.

The banker of AHL granted it a moratorium for the repayment of interest on its fund based working capital limits up to August 2020 under RBI's Covid-19 relief measures. Further, other lenders also provided moratorium to AHL for the repayment of the term debt by six months. Hence, the sizable term-debt instalments starting from March 31, 2021 will now start from September 30, 2021. During FY21, AHL's term-debt (including deposits) repayment liability stands at around Rs.6 crore. AHL's cash accruals are expected to be sufficient to meet its term-debt and cash portion of interest servicing requirements in FY21. However, AHL has term debt repayment obligation of around Rs.51 crore during FY22, which is expected to put pressure on liquidity of the company, unless the company is able to raise the sufficient equity share capital to meet its term-debt repayment obligations.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]
[Rating methodology for Pharmaceutical sector]
[CARE's methodology for manufacturing companies]
[Liquidity Analysis of Non-Financial Sector Entities]

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, 2020, AHL had an installed capacity of 1,081 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.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (Prov.)
Total operating income	186.55	186.50
PBILDT	44.47	42.39
PAT	-18.75	-14.81
Overall gearing (times)	7.14	10.49
PBILDT Interest coverage (times)	1.10	1.11
Cash PBILDT Interest coverage (times) @	2.92	2.07

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

During Q1FY21, AHL earned sales of around Rs.36.98 crore with PBILDT margin of around 13%. The PBILDT margin for Q1FY21 was impacted due to lower production and sales volumes in the month of April-May 2020 due to Covid-19 induced lockdown and resultant labour shortage.

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-Cash Credit	-	-	-	38.25	CARE BB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	10.75	CARE A4
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.80	CARE A4
Fund-based - LT-Working Capital Demand loan	-	-	April 2022	3.80	CARE BB; Stable
Fixed Deposit	-	-	March 31, 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Feb-20) 2)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)
2.	Fund-based - LT-Cash Credit	LT	38.25	CARE BB; Stable	-	1)CARE BB+; Stable (05-Feb-20) 2)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)
3.	Non-fund-based - ST-Letter of credit	ST	10.75	CARE A4	-	1)CARE A4+ (05-Feb-20) 2)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)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	0.80	CARE A4	-	1)CARE A4+ (05-Feb-20) 2)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)
5.	Fund-based - LT-Working Capital Demand loan	LT	3.80	CARE BB; Stable	-	-	-	-
6.	Fixed Deposit	LT	8.00	CARE BB (FD);	-	1)CARE BB+ (FD); Stable	1)CARE BBB- (FD); Stable	1)CARE BBB

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
				Stable		(05-Feb-20) 2)CARE BB+ (FD); Stable (28-Jun-19)	(26-Mar-19) 2)CARE BBB (FD) (Under Credit watch with Negative Implications) (20-Nov-18)	(FD); Stable (06-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple
5.	Non-fund-based - ST-Letter of credit	Simple

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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