# Amanta Healthcare Limited

November 20, 2018

**Ratings**

| Facilities | Amount (Rs. Crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 56.51 | **CARE BBB (Triple B) (Under Credit watch with negative implications)** | **Ratings Placed on credit watch with negative implications** |
| Short-term Bank Facilities | 13.55 | **CARE A3 (A Three) (Under Credit watch with negative implications)** | **Ratings Placed on credit watch with negative implications** |
| **Total Facilities** | **70.06 (Rupees seventy crore and six lakh only)** | | |
| **Medium Term Instrument – Fixed Deposit** | **10.00 (Rupees Ten crore only)** | **CARE BBB (FD) [Triple B (Fixed Deposit)] (Under Credit watch with negative implications)** | **Ratings Placed on credit watch with negative implications** |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has placed the ratings for the bank facilities and instruments of Amanta Healthcare Limited (AHL) on “Credit Watch with negative implications” due to likely impact on the credit risk profile of AHL in view of amalgamation of Merck Remedies Private Limited (MRPL), a group company. CARE will take a view on the ratings once the exact implications of the amalgamation on the credit risk profile of the company are clear.

The ratings for the bank facilities and instruments of AHL continue to derive strengths from 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 also continue to take into account healthy profitability margins, comfortable debt coverage indicators and moderate leverage.

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.

AHL’s ability to optimum utilisation of installed capacities leading to growth in scale of operation and effective management of working capital are the key rating sensitivities. Furthermore, the impact on credit profile of AHL in light of amalgamation would remain key monitorable.

**Brief about 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 private equity (PE) players during FY18. MRPL had raise around Rs.160 crore via structured finance loans from leading PE fund to fund this transaction.

Post the equity buy back by promoters from PE firms through MRPL, management had planned to amalgamate MRPL with AHL. AHL and MRPL received the order from National Company Law Tribunals (NCLT) at Ahmedabad. Presently, they are in the process of amalgamation where MRPL would be merged with AHL. Upon amalgamation, the entire debt of Rs.160 crore is expected to be transferred to AHL which likely to adversely impact the credit profile of AHL. However, pending the certain regulatory filing and documentation including amalgamated balance sheet, the exact implication on credit profile of AHL is unclear.

**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. 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.

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

**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 two ISO certified and c-GMP 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.

**Modest scale of operation with healthy profitability and moderate leverage**: The total operating income of AHL, which registered a compounded annual growth rate (CAGR) of nearly 8% during past 3 years ended FY17, grew marginally by 3% in FY17. 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.
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. Moreover, the improved profitability led to growth in cash accruals and improvement in debt coverage indicators which stood comfortable during FY17. The leverage of the company marked by an overall gearing continues to remain moderate backed by healthy networth base.

**Key Rating Weaknesses**
**Moderate liquidity due to working capital intensive operation:** 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]
[Criteria for placing rating on credit watch]
[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.

| Brief Financials of AHL (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 |

***A:*** *Audited*
As per provisional results for FY18, AHL earned a total operating income of around Rs.194 crore with PAT of Rs.13 crore (before amalgamation).

**Status of non-cooperation with previous CRA:** Not applicable
**Any other information:** Not applicable
**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.*

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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 | - | - | October 2019 | 16.26 | CARE BBB (Under Credit watch with Negative Implications) |
| Fund-based - LT-Cash Credit | - | - | - | 40.25 | CARE BBB (Under Credit watch with Negative Implications) |
| Non-fund-based - ST-Letter of credit | - | - | - | 12.75 | CARE A3 (Under Credit watch with Negative Implications) |
| Non-fund-based - ST-Credit Exposure Limit | - | - | - | 0.80 | CARE A3 (Under Credit watch with Negative Implications) |
| Fixed Deposit | - | 7%-12% | March 2021 | 10.00 | CARE BBB (FD) (Under Credit watch with Negative Implications) |

**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 | 16.26 | CARE BBB (Under Credit watch with Negative Implications) | - | 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 (Under Credit watch with Negative Implications) | - | 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 (Under Credit watch with Negative Implications) | - | 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 (Under Credit watch with Negative Implications) | - | 1)CARE A3 (06-Sep-17) | 1)CARE A3 (26-Sep-16) | 1)CARE A3 (08-Feb-16) |
| 5. | Fixed Deposit | LT | 10.00 | CARE BBB (FD) (Under Credit watch with Negative Implications) | - | 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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