Ami Lifesciences Private Limited

December 29, 2020

Ratings

Facilities / Instruments	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	47.90 (Reduced from Rs.60.68 crore)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	81.50 (Enhanced from Rs.51.50 crore)	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**	**Reaffirmed**
Short Term Bank Facilities	48.00 (Enhanced from Rs.17.50 crore)	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total Facilities	**177.40 (Rupees One Hundred Seventy-seven Crore and Forty Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ami Lifesciences Private Limited (ALPL) continue to derive strength from the rich experience of ALPL's promoters in the pharmaceutical industry, its backward integrated operations, diversified product/revenue mix covering several therapeutic segments and association with reputed clientele in both domestic and export markets. The ratings also take into account healthy growth in its total operating income along with improvement in its profitability margins leading to comfortable debt coverage and strong return indicators during FY20 (Audited; refers to the period April 01 to March 31) and H1FY21 (Un-audited). The ratings also favourably takes into account significant equity infusion in the company by a private equity (PE) firm in FY20 leading to strengthening of its net-worth base and simultaneous reduction in its debt level which has in turn resulted in improvement in its capital structure and liquidity. As informed by ALPL's management, there is no committed return to the PE investor and there is no obligation either on ALPL or on the promoters of ALPL to buy-back the equity shares held by the PE investor in ALPL at any point of time. CARE also notes that the company has not availed any moratorium as a Covid relief measure under the guidelines of RBI for the interest payment or principal repayment on its existing bank facilities which also underlines its adequate liquidity.

The ratings, however, continue to remain constrained due to ALPL's working capital intensive operation, its relatively modest scale restricting pricing flexibility in light of its presence in a highly competitive bulk drug/active pharmaceutical ingredient (API) industry, susceptibility of its profitability to volatility associated with foreign exchange fluctuation and raw material prices, increasing regulatory risk and challenges associated with compliance with stringent pollution control norms. The ratings also continue to be constrained due to the weak financial risk profile of ALPL's recently acquired subsidiary, Raichur Laboratories Private Limited (RLPL), which increases the propensity of ALPL to support the operations of RLPL under its corporate guarantee obligation.

Rating Sensitivities

Positive Factors

- Growth in its consolidated total operating income to around Rs.800-1,000 crore while maintaining its PBILDT margin above 20% and ROCE above 25% on a sustained basis; along with a comfortable leverage
- Turn around in standalone operations of RLPL with sustainable PBILDT margins beyond 10-12%
- Improvement in working capital management resulting in gross working capital cycle to below 150 days on a sustained basis

Negative Factors

- Moderation in its PBILDT margin to below 13% on a sustained basis resulting in adverse impact on its debt coverage indicators
- Any large side debt funded capex/acquisition and/or stretch in its working capital requirement leading to deterioration in its capital structure with an overall gearing ratio of more than unity
- Any adverse change in regulatory policy impacting the credit profile of ALPL

Detailed description of the key rating drivers

Key Rating Strengths

Vast experience of promoters in the pharmaceutical industry: ALPL's management consists of three promoter directors and two executive directors, who have rich experience in the pharmaceutical industry. Mr. Girish Chovatia, Chairman

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

and Managing Director, has over a decade of experience in the industry and is responsible for overall management of the company. Further, the management of ALPL consists of qualified professionals having decade long experience in their respective fields. Over the years, the business acumen of the promoters has led to increased growth of the company. Mr. Girish Chovatia is also associated as an executive Chairman and whole-time director with another group company, Ami Organics Limited (AOL), which is engaged in manufacturing of pharmaceutical intermediates at its plant located in Surat, Gujarat. Moreover, the PE investors (Kedaara Capital) have appointed 2 nominee directors while one nominee director has been appointed by Intensive Fiscal Services Private Limited, a Merchant Banker, on the board of ALPL. All the three nominee directors possess strong education background along with wide industry experience. They play active role in the key strategic decisions of ALPL for sustaining its healthy and profitable growth.

Diversified product portfolio coupled with reputed client base: ALPL offers varied products across various therapeutic segments such as respiratory, musculoskeletal, genitourinary system, cardiovascular diseases, anti-allergic, antifibrinolytics, antihypertensive and central nervous system as well as nutraceutical products. The company has been able to launch niche molecules regularly which have helped in driving the growth in its revenue and profitability. ALPL has an established relationship with its large customer base from which it receives repeat orders. Revenue from top 10 customers contributed 36% of its net sales during FY20 (31% in FY19) and 29% during Q1FY21. Diversity in customer base reduces vulnerability to decline in demand from any single customer.

Presence in diversified markets with regulatory approvals in place: ALPL's manufacturing plant is certified by various drug regulators such as KFDA (Korea), EU GMP (European Union), AIFA (Italy), COFEPRIS (France) and WHO-cGMP, and it also carries ISO 9001:2015, ISO 14001:2015 and ISO 45001:2015 certifications. ALPL has geographically diversified revenue profile, whereby it earned 43% of its gross sales from domestic market and remaining 57% from export market during FY20. The company exports its products mainly to semi regulated markets like South Korea (~13% of its sales in FY20), Brazil (~11), Bangladesh (~6%), Egypt (~6%), Switzerland (~3%), Pakistan (~3%) and Saudi Arabia (~3%) among others. The company is also increasing its thrust on Research & Development (R&D) by adding new equipments and hiring more scientists with relevant experience in pharmaceutical sector.

Healthy growth in total operating income along with improvement in profitability leading to growth in cash accruals and improvement in its return indicators during FY20 and H1FY21: ALPL's total operating income grew by 41% on y-o-y basis and stood at Rs.403 crore during FY20 (A; Consolidated) backed by volume led growth in its products in the export market. ALPL's export revenue grew by 71% on y-o-y basis during FY20. Further, total operating income of ALPL grew by 53% on y-o-y basis and stood at Rs.304 crore during H1FY21 as compared with Rs.198 crore during H1FY20 backed by continued growth in export revenue apart from improvement in average sales realization of its products. The profitability margins of the company are supported by improved operating efficiency and strong backward integrated operation. PBILDT margin and PAT margin of ALPL improved and stood healthy at 21% and 13% respectively during FY20 which further improved to 28% and 18% respectively during H1FY21. Furthermore, the improvement in profitability led to 60% y-o-y growth in its gross cash accruals (GCA) during FY20 which stood at Rs.53 crore and 131% y-o-y growth in its GCA during H1FY21 which stood at Rs.62 crore. Moreover, the return indicators of the company marked by ROCE and RONW also remained healthy at 26.82% and 26.27% respectively during FY20.

Improvement in capital structure due to significant equity infusion along with improvement in debt coverage indicators: In February 2020, a PE firm (Kedaara Capital, through its Kedaara Capital Fund II LLP) acquired significant equity stake in ALPL by investing Rs.160 crore in the company resulting in its healthy net-worth base as on March 31, 2020. The company immediately utilized the fund towards reduction in its working capital borrowings during the months of February and March 2020, thereby resulting in lower debt level as on March 31, 2020. Hence, the capital structure of the company improved significantly and stood comfortable marked by an overall gearing ratio of 0.28 times and TOL/TNW ratio of 0.64 times as on March 31, 2020 as compared with 1.29 times and 1.97 times respectively as on March 31, 2019. Furthermore, due to improvement in profitability and reduction in debt level, the debt coverage indicators also improved and stood comfortable marked by interest coverage of 6.57 times and TD to GCA of 1.55 years in FY20.
The company is currently implementing a large size capex entailing an outlay of around Rs.140 crore (including routine capex) towards the expansion of its existing manufacturing capacities, strengthening of backward integration and building new R&D infrastructure among others. The said capex is expected to be entirely funded through available funds infused by the PE firm and future internal accruals, without any reliance on debt. Hence, the capital structure of the company is expected to remain comfortable in the medium-term. As informed by the management, the company has already completed capex (mainly related to construction work) worth around Rs.50 crore as on November 20, 2020 and is expected to complete the remaining capex by end of FY21. Timely completion of aforesaid capex and subsequent generation of envisaged returns therefrom shall remain crucial for the company's future prospects.

No major adverse impact of Covid-19 pandemic on the performance of ALPL: The pharmaceutical companies were affected temporarily in terms of supply disruption for key starting materials required by the industry due to Covid-19 outbreak in China. However, the same was resumed from the second week of March 2020. The companies like ALPL were less impacted due to the availability of sufficient inventory of raw material and less reliance on China for its intermediate requirements. Further, the operations of the pharmaceutical companies, being an essential activity was relatively less impacted compared to operations of the entities operating in many other industries during the period of national lockdown in the backdrop of Covid-19 pandemic. However, companies including ALPL initially faced challenges pertaining to availability of adequate labor and outbound logistics and were unable to operate at full capacity. Post relaxation of norms and with gradual improvement in economic activities, companies including ALPL were able to operate with full capacity. Moreover, ALPL did not avail any moratorium as a Covid relief measure under the guidelines of RBI for the interest payment or principal repayment on its existing bank facilities.

Key Rating Weaknesses

Weak financial performance of its subsidiary, RLPL: ALPL had equity stake of 49.50% in RLPL as on March 31, 2019 which was further increased to 76.46% as on March 31, 2020. RLPL become a subsidiary of ALPL from May 09, 2019. ALPL has made equity investment of Rs.12.69 crore and extended loan & advances of Rs.31.58 crore in RLPL as on March 31, 2020. Apart from that, ALPL has also extended corporate guarantee towards the bank facilities availed by RLPL. The financial performance of RLPL continued to remain weak marked by net loss incurred during FY20 and negative net-worth base as on March 31, 2020; albeit it is supported by requisite fund infusion by ALPL. As per the management of ALPL, the said acquisition is of strategic importance to the company as it would help ALPL to ramp up its scale of operations with addition of operational capacity of 120 Kilo Liters (KL) per day in RLPL. Moreover, the acquired plant is strategically located with proximity to the customers in Hyderabad region which will also help the company to serve the demand of domestic customers in that region. Presently, the manufacturing site of RLPL is not compliant with WHO-cGMP which restricts the sale of APIs from this site. However, the company is planning to avail WHO-cGMP shortly. Further, ALPL's ability to derive envisaged benefits from the acquisition of RLPL and extent of financial support by ALPL shall also remain key monitorable from credit perspective.

High working capital requirement: The operations of ALPL remained working capital intensive as indicated by its long gross operating cycle of 180 days and gross current assets of around 212 days during FY20 on account of higher inventory holding requirement due to long production process involved in manufacturing coupled with debtor collection of around 2 months. The average monthly fund based working capital limit utilization was in the range of around 80-85% till January 2020. However, after the infusion of equity by PE fund, the limit utilization dropped sharply to almost negligible level. However, as the company gradually deploys the available PE fund for its ongoing capex, the working capital limit utilization is expected to increase.

Susceptibility of profitability to foreign exchange fluctuation and raw material price risk: Export sales constituted 57% of gross sales of ALPL during FY20. Also, ALPL imports raw materials which act as natural hedge to an extent. During FY20, ALPL has imported raw material of Rs.70 crore as against exports of its product worth Rs.251 crore, translating into a net exposure of around Rs.181 crore which is not covered by natural hedge. Hence, ALPL is exposed to adverse fluctuation in foreign exchange rate in the absence of active hedging policy. However, as informed by the management, normally ALPL hedges 50% of its net exposure in foreign exchange receivable through forward contracts and keeps balance 50% unhedged. Further, ALPL avails foreign currency working capital borrowing against exports which insulate the forex risk to certain extent. Moreover, ALPL's profitability is also exposed to volatile prices of raw material i.e. price of intermediates. As witnessed in recent past, the profitability of major API manufacturing companies was impacted due to sharp increase in cost of intermediates on the back of disruption in supply from China. However, ALPL has strong backward integration to manufacture intermediates which insulates it from volatility in intermediate prices as evident from improving profitability margins in recent past.

Presence in highly fragmented and competitive bulk drug industry: Indian pharmaceutical industry is highly fragmented with presence of more than thousands of players in APIs and formulations. Also, pharmaceutical industry is highly regulated, whereby regulations are in place for drug quality, manufacturing process, patents and prices of products. Increasing regulation, increased sensitivity towards product performance and pricing pressure are the key challenges faced by the pharmaceutical industry. Further, the scale of operation of ALPL remains modest in a competitive industry which may restrict its pricing flexibility to a certain extent at times. However, having few niche products in its portfolio partially off-sets the pricing challenges and helps to maintain the profitability margins.

Increasing regulatory risk and stringent pollution control norms: The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. Non-compliance may result in regulatory ban on products/facilities and may impact a company's further growth. Hence, ongoing regulatory compliance has become critical for Indian pharmaceutical companies. Moreover, ALPL being present in the chemical processing industry the company is required to be complaint with stringent pollution control norms set by the regulatory authorities and any violation in compliance with these norms or any further strengthening of these norms would adversely impact operations. ALPL has been complying with prevailing pollution controls norms and has never had any adverse impact on its operation due to breach of pollution control norms. However, the continued compliance with evolving pollution controls norms remains paramount for all industry players including ALPL.

Liquidity: Adequate
The liquidity of ALPL remained adequate marked by healthy gross cash accruals during FY20 and H1FY21. Furthermore, the current ratio and quick ratio also improved and stood comfortable at 2.31 times and 1.42 times as on March 31, 2020. The liquidity of the company is also expected to remain adequate on the back of expectation of steady gross cash accruals of Rs.90 crore to Rs.100 crore each in next three years as against the scheduled term debt repayment of Rs.14 crore each during the same period. Moreover, the capex requirement is expected to be met out of the available cash and liquid investment of Rs.85 crore as on March 31, 2020 (which is largely out of the equity infusion by PE fund). Apart from available unnumbered cash and liquid investment, the liquidity of the company is also supported by its completely undrawn fund based working capital limits which stood at Rs.50 crore as of August 2020.

Analytical Approach: Consolidated; includes ALPL and its sole subsidiary, RLPL (76.46% equity stake held by ALPL as on March 31, 2020)

Applicable Criteria
Criteria on assigning outlook and credit watch 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
Rating Methodology- Consolidation
Liquidity Analysis of Non-financial sector entities

About the Company
ALPL, part of Ami group, was incorporated in March 1994 as Sun Scope Laboratories Pvt. Ltd. (SSLPL) and subsequently the name of the company was changed to ALPL in June 2006. ALPL is promoted by Mr. Girish Chovatia and it is engaged in manufacturing active pharmaceutical ingredients (APIs) at its WHO-cGMP & EU-GMP certified manufacturing facility located near Vadodara, Gujarat.
ALPL also held 76.46% equity stake in RLPL as on March 31, 2020. RLPL has manufacturing plant at Raichur, Karnataka with installed capacity of 120 kilo liter (KL) per annum for manufacturing of API and its intermediates.
In February 2020, the Private Equity firm, Kedaara Capital through its Kedaara Capital Fund II LLP (Kedaara Capital) bought 32.93% equity stake in ALPL partly by way of fresh issuance and partly by way of offer of sale by the promoters. As on March 31, 2020, the promoters held equity stake of around 65.47% in ALPL.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	FY19 (UA)	FY20 (A)
	Standalone		Combined	Consolidated
Total operating income	285	416	285	403
PBILDT	52	93	51	85
PAT	26	57	18	51
Overall gearing (times)	0.94	0.24	1.29	0.28
PBILDT Interest coverage (times)	6.30	8.31	4.95	6.57

A: Audited; UA: Un-audited
As per the provisional consolidated results for H1FY21, ALPL earned a PAT of Rs.77 crore on total operating income of Rs.304 crore as compared with PAT of Rs.23 crore on total operating income of Rs.198 crore during H1FY20.
Status of non-cooperation with previous CRA: CRISIL vide its press release dated August 19, 2020, put the rating of ALPL under the issuer not cooperating category in absence of requisite information.
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-2
Complexity level of various instruments rated for this company: Please refer Annexure-3

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/ ST-CC/Packing Credit	-	-	-	80.00	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	9.50	CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1.50	CARE A-; Stable / CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	38.50	CARE A2+
Fund-based - LT-Term Loan	-	-	March 2026	47.90	CARE A-; 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 (29-Sep-17)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	80.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (08-Dec-20)	1)CARE BBB; Positive / CARE A3+ (17-Oct-19)	1)CARE BBB; Positive / CARE A3+ (12-Sep-18) 2)CARE BBB; Stable / CARE A3+ (30-Apr-18)	1)CARE BBB; Stable / CARE A3+ (29-Sep-17)
3.	Non-fund-based - ST-Letter of credit	ST	9.50	CARE A2+	1)CARE A2+ (08-Dec-20)	1)CARE A3+ (17-Oct-19)	1)CARE A3+ (12-Sep-18) 2)CARE A3+ (30-Apr-18)	1)CARE A3+ (29-Sep-17)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.50	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (08-Dec-20)	1)CARE BBB; Positive / CARE A3+ (17-Oct-19)	1)CARE BBB; Positive / CARE A3+ (12-Sep-18) 2)CARE BBB; Stable / CARE A3+ (30-Apr-18)	1)CARE BBB; Stable / CARE A3+ (29-Sep-17)
5.	Non-fund-based - ST-Letter of credit	ST	38.50	CARE A2+	1)CARE A2+ (08-Dec-20)	1)CARE A3+ (17-Oct-19)	1)CARE A3+ (12-Sep-18) 2)CARE A3+ (30-Apr-18)	1)CARE A3+ (29-Sep-17)
6.	Fund-based - LT-Term Loan	LT	47.90	CARE A-; Stable	1)CARE A-; Stable (08-Dec-20)	1)CARE BBB; Positive (17-Oct-19)	1)CARE BBB; Positive (12-Sep-18) 2)CARE BBB; Stable (30-Apr-18)	1)CARE BBB; Stable (29-Sep-17)

Annexure – 3 Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-CC/Packing Credit	Simple
3.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
4.	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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