

Ramky Pharma City (India) Limited
October 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ^[1]	Rating Action
Long Term Bank Facilities	14.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Total Facilities	14.00 (Rs. Fourteen Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ramky Pharma City (India) Limited (RPCIL) draws strength from experienced promoters and management, successful track record of operations with assured source of revenue and marquee clientele, favourable location of the Pharma City, stable financial performance during FY18-FY20 (refers to the period from April 01 to March 31), comfortable capital structure manifested by healthy debt coverage metrics and adequate liquidity profile. The rating takes cognizance of rate revision for RPCIL's Effluent Treatment Plant (ETP) which is expected to improve the financial profile and significant loan prepayments done by the company and at group level. The rating strength is however tempered by the decline in profitability margins and return indicators, pending outcome of Central Bureau of Investigation (CBI) litigation for reduction of green belt area and extended working capital cycle.

Key Rating Sensitivities:**Positive Factors:**

- Improvement in the scale of operations, revenue and hence, profitability on a sustained basis in the long-term.
- Improvement in ROCE on a sustained basis.

Negative factors:

- Any major liability arising out of outcome of ongoing litigation by CBI pertaining to reduction of green belt area.
- Any un-envisaged debt availed which may impact the debt metrics of RPCIL and deteriorate the capital structure with overall gearing ratio weakening to 0.50x or above
- ROCE declining below 8% on a sustained basis.

Detailed description of the key rating drivers:**Key Rating Strengths:**

Experienced promoters and management: RPCIL is an SPV created through a collaboration between Hyderabad-based Ramky group and Andhra Pradesh Industrial Infrastructure Corporation Limited (APIICL). The Ramky group has over three decades of presence in varied sectors including environment management, waste and water management, transportation, industrial infrastructure, etc. The group has executed projects for design, engineering and construction on BOT and BOOT basis, while handling many public private partnership (PPP) projects. The company is ably supported by an experienced team of professionals down the line.

Successful track record of operations with assured revenue and marquee clientele: RPCIL has a successful track record of operating for over 10 years with its Pharma City project being completed in FY09. RPCIL had initially reported revenue from sale of land; however, the proportion of same has reduced and the major revenue source comprises providing effluent treatment services to the pharma entities located at the pharma city. The company derives nearly 70% of its revenue from effluent treatment and balance 30% from water supply and maintenance charges. RPCIL is the sole ETP service provider to over 100 pharmaceutical companies operating at the pharma city which results in an assured revenue source. RPCIL has a marquee clientele with few of the leading Pharmaceutical players consisting of Laurus Labs Ltd, Mylan Laboratories Ltd, Aurobindo Pharma Ltd, etc.

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

Favourable location of the Pharma City: The Jawaharlal Nehru Pharma City (Pharma-city) is a Pharma sector specific Special Economic Zone developed over 1182 acres of land which provides full-fledged facilities with regard to physical, environmental, civil and social infrastructure to its inhabitants with a Green Belt area of 353 acres. The project is well connected with all road networks and 24*7 water supply. The Pharma city provides employment to over 13,000 employees with close proximity to housing colonies as well. RPCIL has received all necessary environmental clearances from Ministry of Environment and Forest (New Delhi) for the entire park.

Rate Revision for Effluent Treatment: The rates fixed for the ETP are generally determined by RPCIL and is approved by a member committee headed under APIICL. Given the increased O&M cost associated with normal wear & tear of the facilities, the rates for effluent treatment have been revised upwards during April 01, 2020. The same is expected to augur the revenue of RPCIL and benefit the company in improving its profitability in the long-term. While the rates been revised on a retrospective basis from 2013, the likelihood of recovery of arrears remains to be seen.

Stable financial performance during FY18-FY20: RPCIL generates a stable stream of revenue with total operating income (TOI) of Rs.156.30 crore in FY20 against Rs.156.52 crore in FY19 (Rs.157.52 crore in FY18), wherein 70% of the revenue is generated from its waste management services. There has been no significant impact of the novel Coronavirus (Covid-19) pandemic on the business operations of RPCIL.

The company reported TOI of Rs.40.00 crore in Q1FY21 (Prov.) with PAT of Rs.3.22 crore during the quarter.

Comfortable capital structure and debt coverage metrics: The company has a comfortable capital structure with overall gearing ratio below unity at 0.15x as on March 31, 2020 vis-à-vis 0.47x as on March 31, 2019 (0.64x as on March 31, 2018). Healthy networth base and significant prepayments of loans during FY20 (Rs.26 crore) has resulted in reduction of debt and a favourable capital structure. The group as a part of its strategy has been reducing the debt on an overall basis. The company has healthy debt coverage indicators with TDGCA of 1.87x in FY20 against 5.09x as on in FY19 (7.67x in FY18) and interest coverage ratio of 3.01x in FY20 (2.09x in FY19 and 2.30x in FY18).

Key Rating Weaknesses:

Pending outcome of CBI litigation on reduction of green belt area: During FY13, a charge sheet had been filed by CBI against RPCIL with the CBI court, Hyderabad alleging certain irregularities by RPCIL pertaining to reduction of green belt area. There is an allegation against the company of converting unauthorized area pertaining to green belt area into industrial plots and deriving revenue from same. In FY19, the Appellate Tribunal reversed the orders of the Enforcement Directorate courts and passed directions to release the attachment of land parcels in the Pharma City subject to fulfillment of stipulated conditions. However, RPCIL has filed an appeal before the Hon'ble High court of Telangana on the conditions and the matter is pending resolution in the court. Any adverse outcome in the matter and consequent impact on the cashflow of the company is a key rating sensitivity.

Decline in profitability margins during FY18-FY20: The TOI remained stable over the last three years, however, the profit level and margins at the operating level declined y-o-y from 18.27% PBILDT margin in FY18 to 15.63% in FY19 and 11.77% in FY20. The decline in margins has been due to lower revenue generated from land development as well as increased O&M expenses associated with the ETP due to normal wear and tear of the unit. The same has also resulted in reduced ROCE from 9.71% in FY18 to 6.79% in FY20. As a result of lower operating profit coupled with higher depreciation, PAT declined from Rs.9.84 crore in FY19 to Rs.5.95 crore in FY20 (Rs.8.19 crore in FY18).

Stretched working capital cycle: RPCIL has a stretched working capital cycle of 239 days during FY20 as against 304 days in FY19 (315 days in FY18). The company has high inventory days in lieu of unsold land parcels under litigation which aggregates to nearly 200 days. The collection period is relatively higher at 149 days in FY20 as nearly Rs.20-22 crore has been under dispute with balance Rs.40-50 crore of debtors generally realized within 2-3 months. Debtors amounting to Rs.40 crore (out of total outstanding amount of Rs.64.81 crore as on March 31, 2020) have been realized as on September 30, 2020.

Liquidity Profile: Adequate

The liquidity position of the company is adequate with RPCIL generating sufficient cash flows from operating activities which has been utilized for significant prepayment of debt. Further, the company draws cushion from free cash balance

which stands at Rs.3.18 crore as on March 31, 2020 (Rs.5.39 crore as on June 30, 2020) and non-current investments amounting to Rs.6.16 crore made in mutual funds (Rs.6.23 crore as on June 30, 2020). The company has not availed any moratorium for term debt as part of Covid relief based on RBI norms.

Analytical approach: Standalone

Applicable criteria:

[Criteria on assigning Outlook to Credit Ratings and watch](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Liquidity Analysis](#)

[Rating Methodology-Service Sector Companies](#)

About the Company

Ramky Pharma City (India) Ltd (RPCIL) is a special purpose vehicle (SPV) incorporated for developing an exclusive hub for bulk drugs, pharmaceuticals, chemical and allied industries under a Public-Private-Partnership at the Jawaharlal Nehru Pharma City, Vishakhapatnam, India. The Govt. of Andhra Pradesh (GoAP) initiated a sector specific industrial park for Pharma and Bulk drug Industries to be developed under the PPP model on BOO basis. The Hyderabad-based Ramky Group won the global bidding for the same wherein, Andhra Pradesh Industrial Infrastructure Corporation Ltd (APIICL) had identified and allotted 2143 acres for development. APIICL and Ramky Group had formed a consortium and launched a special purpose vehicle, i.e., RPCIL to undertake the project with Concession Agreement entered between APIIC and RPCIL in 2004.

Ramky Group, through Ramky Infrastructure Ltd and Ramky Estates and Farms Ltd holds 89% stake in RPCIL with balance 11% stake held by Andhra Pradesh Industrial Infrastructure Corporation Ltd (APIICL).

Covenants of rated instrument/facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	156.52	156.30
PBILDT	24.47	18.40
PAT	9.84	5.95
Overall gearing (times)	0.47	0.15
Interest coverage (times)	2.09	3.01

A: Audited

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-Term Loan	-	-	December 31, 2021	14.00	CARE BBB-; 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	14.00	CARE BBB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**Annexure 4: Complexity level of various instruments rated for this company:**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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