ANG Lifesciences India Limited

June 19, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	7.00	7.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB- (Stable)
Fund-based – Term Loans	4.00	4.00	[ICRA]BB+ (Stable); Upgraded from [ICRA]BB- (Stable)
Non-fund Based	6.00	6.00	[ICRA]A4+; Upgraded from [ICRA]A4
Total	**17.00**	**17.00**	

*Instrument details in Annexure

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB+ (pronounced ICRA double B plus) from [ICRA]BB- (pronounced ICRA double B minus) for the Rs. 11-crore[1] fund-based facilities and the short-term rating to [ICRA]A4+ (pronounced ICRA A four plus) from [ICRA]A4 (pronounced ICRA A four) for the Rs. 6-crore non-fund based bank facilities of ANG Lifesciences India Limited (ANG)[2]. The outlook on the long-term rating is Stable.

Rationale

The rating upgrade takes into account the YoY growth of 13% in the company's operating income (OI) in FY2018 on account of the diversification of its customer base via institutional sales, contract manufacturing, export and sales under its own brands. Moreover, there has been a sustained improvement in ANG's operating profit margin since FY2016, led by the higher marketing efforts and increase in the revenues from own brand which has higher margin than the other revenue segments. ICRA also takes note of the significant improvement in the company's capital structure in FY2018 following an equity infusion of Rs. 12 crore due to initial public offering on the BSE SME platform in September 2017, in turn strengthening the company's net-worth base. Furthermore, the strong order book position in the institutional sale segment is expected to augur well for the company in the near-to-medium term.

ICRA ratings are constrained by the company's high utilisation of bank limits in the recent past as well as a high repayment burden that might put pressure on liquidity in the near term. The ratings are further constrained by the increasing debtor days over the years on account of increased sales to Government institutions. Moreover, the ratings remain subdued on account of modest net-worth base as well as moderate scale of operations in a highly fragmented and competitive industry.

ANG's ability to sustain a healthy growth in revenues, maintain its profitability margins as well as prudently manage its working capital cycle and achieve higher product, client as well as geographical diversification remain the key rating sensitivities.

Outlook: Stable

ICRA believes that ANG will continue to benefit from the extensive experience of its promoters, established relationship with its customers and long track record in pharmaceutical business. The outlook may be revised to Positive if there is a substantial increase in the company's scale of operations, cash accruals and liquidity position. The outlook may be revised to Negative if cash accruals are lower than expected, or there is any major decline in sales turnover, or if a stretch in the working capital cycle weakens liquidity.

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[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

Extensive experience of promoters and established track record in pharmaceutical business - The promoters have been in the pharmaceutical business for around two decades. Though ANG was established in 2006, it must be noted that the company's promoters have been in pharmaceutical business since 1995 in various capacities. The company also manufactures medicine under its own brand – ANG – which shows its established presence in the pharmaceutical industry.

Established relations with reputed customers - The company manufactures generic medicine under its own brand name and undertakes contact manufacturing for other brands. ANG's clientele includes reputed names from both the generic and contact manufacturing segments. Its major customers are various Government departments in the generic segment and the well-known customers such as Hetero Healthcare Limited, Emcure Pharma Limited and Gland Pharma Limited in the manufacturing segment.

Diversified revenue segment - The company has diversified its sales into own brand name and export segment in the recent past. Earlier, it used to manufacture mainly in generic and contract manufacturing segment. The diversification of the revenue segment has reduced the company's dependence on the performance of any single segment**.**

Increasing revenues and profitability - ANG's sales have been increasing over the last four to five years on account of regular orders from the existing customers and the addition of new customers in its clientele. The revenues from export and own brand are also gaining momentum.

Credit challenges

Stretched liquidity due to increasing receivables - The company's liquidity profile is stretched due to the increasing receivable days and almost full utilisation of working capital limits. The increase in the receivables days can be attributed to the increase in revenues from various Government departments which have more liberal credit terms than the revenue segments.

Intensely competitive bulk drug industry limits pricing power - The bulk drug industry is intensely competitive due to the presence of various reputed companies. This limits the pricing power and keeps the profitability under check for the other players.

Substantial debt repayment obligation - The company has acquired another manufacturing unit in February 2018, which is partly funded through a term loan and partly from internal accruals of the company. The repayment is substantial for the existing and new term loans in the near-to-medium term.

Exposure to regulatory changes - The pharmaceutical industry is intensely regulated due to the approval and monitoring by various Indian and international agencies. Any unfavourable changes in regulations and deviation from the stated norms may severely impact the business.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Pharmaceutical Industry

About the company

ANG is promoted by Mr. Rajesh Gupta and family. The company was incorporated 2006 and manufactures antibiotic, anti ulcerant, glucocorticoid and anti-inflammatory, anti-malarial and anaesthetic injectables. The promoters have acquired another manufacturing unit in February 2018, which will double the production capacity from 7 crore to 14 crore injectables on a single shift basis for the company. ANG's equity shares are listed on the BSE SME platform. The plant is located in Baddi, Himachal Pradesh and is approved by WHO-GMP and GLP. The company also enjoys tax and excise duty benefits under various Government laws. The tax benefits for the old unit, however, will expire in the current year and FY2021 will the last year of tax benefit for the newly acquired unit.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	67.92	76.73
PAT (Rs. crore)	2.82	3.74
OPBDIT/OI (%)	9.59%	10.08%
RoCE (%)	26.67%	20.90%
Total Debt/TNW (times)	1.87	0.75
Total Debt/OPBDIT (times)	2.15	2.25
Interest Coverage (times)	4.26	4.89

Status of non-cooperation with previous CRA: CRISIL has moved the ratings to issuer non-cooperating category and also withdrawn the CRISIL D rating as per press release dated February 26, 2018.

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 October 2017	Date & Rating in FY2018 April 2017	-
1	Cash Credit	Long Term	7.00	-	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]B (Stable)	-
2	Term Loan-1	Long Term	1.37	**1.37**	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]B (Stable)	-
3	Term Loan-2	Long Term	2.63	**2.63**	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]B (Stable)	-
4	Letter of Credit	Short Term	4.00	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	-
5	Bank Guarantee	Short term	2.00	-	[ICRA]A4+	[ICRA]A4	[ICRA]A4	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	7.00	[ICRA]BB+ (Stable)
NA	Term Loan-1	January 2017	-	September 2018	1.37	[ICRA]BB+ (Stable)
NA	Term Loan-2	January 2018	-	January 2023	2.63	[ICRA]BB+ (Stable)
NA	Letter of Credit	-	-	-	4.00	[ICRA]A4+
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A4+

Source: ANG Lifesciences India Limited

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About ICRA Limited:

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