

November 07, 2019

ANG Lifesciences India Limited: Ratings reaffirmed

Summary of rating action

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

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the 59% increase in ANG Lifesciences India Limited's (ANG) operating income (OI) in FY2019 and the improvement in cash accruals. However, this was accompanied with continued stretched liquidity position as reflected in the full utilisation of working capital limits.

The rating continues to draw comfort from ANG's established and diversified customer base via institutional sales, contract manufacturing, export and sales under its own brands that result in repeat orders and facilitate additions of new customers from private and public sectors. ICRA also continues to consider the significant experience of the promoters in the pharmaceuticals industry. Moreover, there has been a sustained improvement in ANG's OI since FY2016, led by higher marketing efforts. Furthermore, the strong order book position in the institutional sales segment is expected to augur well for the company in the near to medium term.

ICRA's ratings continue to be constrained by the company's working capital-intensive nature of business characterised by high debtors and creditor days, leading to high utilisation of bank limits in the recent past, as well as the repayment burden of the term loan in the near term. Moreover, the ratings remain subdued on account of the modest net worth base as well as moderate, albeit improving, scale of operations in an intensely fragmented and competitive industry.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that ANG will continue to benefit from the extensive experience of its promoters and its established track record in the pharmaceuticals industry.

Key rating drivers and their description

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, its promoters have been involved in the 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 and undertakes contract manufacturing for other brands. ANG's clientele includes reputed names from both the generic and contract

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 and strong order book - The company has diversified its business into sales under own brand name and the export segment in the recent past. Earlier, it used to manufacture mainly in the generic and contract manufacturing segments. The diversification of the revenue segment has reduced the company's dependence on the performance of any single segment. It has orders of more than Rs. 121 crore as on September 2019.

Increasing revenues during last four years - ANG's sales have been increasing over the last four 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 high receivables and full utilisation of working capital limits - The company's liquidity profile is stretched due to the high receivable days and full utilisation of working capital limits. The high receivables days can be attributed to the increase in revenues from various Government departments, which have more liberal credit terms than the revenue segments.

Moderate scale of operations in intensely competitive bulk drug industry – ANG has a moderate scale of operations, given the presence of various reputed companies in the intensely competitive bulk drug industry. This limits the pricing power and keeps the profitability under check.

Exposure to regulatory changes - The pharmaceutical industry is intensely regulated due to 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.

Liquidity position: Stretched

IOL's liquidity is **stretched** due to full utilisation of working capital limits.

Rating sensitivities

Positive triggers: ICRA could upgrade the rating if there is a sustained improvement in the sales turnover and profitability margins coupled with the sufficient cushion in the working capital limit on a sustained basis.

Negative triggers: ICRA could downgrade the rating if there is a deterioration in the working capital parameters or major debt-funded capital expenditure weakens the financial risk profile. Specific credit metrics include total outside liability/total net worth of more than 2.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of ANG

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 to 14 crore from 7 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 be the last year of tax benefit for the newly acquired unit.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	76.73	121.93
PAT (Rs. crore)	3.74	5.65
OPBDITA/ OI (%)	10.08%	9.49%
RoCE (%)	20.90%	22.99%
Total Outside Liabilities/Tangible Net Worth (times)	1.94x	1.81x
Total Debt/ OPBDITA (times)	2.25x	1.80x
Interest Coverage (times)	4.89x	4.95x
DSCR (times)	1.62x	1.89x

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating November 7, 2019	Date & Rating in FY2019 June 19, 2018	Date & Rating in FY2018 October 3, 2017	Date & Rating in FY2018 April 10, 2017
1	Cash Credit	Long Term	7.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]B (Stable)
2	Term Loan - 1	Long Term	0.48	0.48	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]B (Stable)
3	Term Loan – 2	Long Term	3.52	3.52	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]B (Stable)
4	Bank Guarantee	Short Term	2.00	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4	[ICRA]A4
5	Letter of Credit	Short Term	4.00	-	[ICRA]A4+	[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	-	March 2020	0.48	[ICRA]BB+ (Stable)
NA	Term Loan – 2	January 2018	-	January 2023	3.52	[ICRA]BB+ (Stable)
NA	Bank Guarantee	-	-	-	2.00	[ICRA]A4+
NA	Letter of Credit	-	-	-	4.00	[ICRA]A4+

Source: ANG

Annexure-2: List of entities considered for consolidation: Not applicable

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