August 28, 2020

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	13.00	13.00	[ICRA]BB+ (Stable); reaffirmed
Non-fund Based	8.00	8.00	[ICRA]A4+; reaffirmed
Total	**21.00**	**21.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation factors in the subdued growth in ANG Lifesciences India Limited's (ANG) operating income (OI) and stable profitability margins in FY2020. However, the company expects healthy revenue growth in FY2021 on account of strong orders from Government agencies. However, the OI growth was accompanied with continuously stretched liquidity position as reflected in the full utilisation of working capital limits and increased receivables days in FY2020.

The ratings continue to draw comfort from ANG's established and diversified customer base via institutional sales (Government agencies), contract manufacturing, exports 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 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. The repayment burden of the term loan in the near term has also constrained DSCR levels of the company. 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 pharmaceutical industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters; 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 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 contact manufacturing segments. Its major customers are various Government departments in the generic segment and wellknown 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 ANG's dependence on the performance of any single segment. It has strong order book of ~Rs. 200 crore as on July 31, 2020.

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. However, there was subdued revenue growth in FY2020 due to issues related to supply of raw material amid novel coronavirus (Covid-19) pandemic.

Credit challenges

Stretched liquidity due to high receivables and full utilisation of working capital limits - ANG's liquidity profile is stretched due to the high receivable days and full utilisation of working capital limits. The high receivable days can be attributed to the increase in revenues from various Government agencies, which have more liberal credit terms than the other revenue segments. The substantial receivables from Government agencies could see delays in realisation, given the stretched finances of the state governments in FY2021. This in tun might exert further pressure on the company's liquidity position.

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 its pricing power and keeps its profitability under check.

Exposure to regulatory changes - The pharmaceutical industry is stringently 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

ANG's liquidity is **stretched** due to high receivables and limited cushion in 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 improvement in liquidity position.

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 metrices including total outside liability/total net worth (TOL/TNW) of more than 2.5 times on a sustained basis will be negative triggers for the company.

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 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.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	121.70	126.83
PAT (Rs. crore)	5.65	6.10
OPBDITA/ OI (%)	9.32%	9.53%
PAT (%)	4.64%	4.81%
Total Outside Liabilities/Tangible Net Worth (times)	1.81x	1.72x
Total Debt/ OPBDITA (times)	1.84x	1.71x
Interest Coverage (times)	4.85x	4.21x

Source: Company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 28, 2020	Chronology of Rating History for the past 3 years: Date & Rating in FY2020 February 18, 2020	Date & Rating in FY2020 November 7, 2019	Date & Rating in FY2019 June 19, 2018
1	Cash Credit	Long Term	13.00	-	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**
2	Bank Guarantee	Short Term	4.00	-	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**	**[ICRA]A4+**
3	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	-	-	-	13.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	-	-	-	4.00	[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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody’s Investors Service is ICRA’s largest shareholder.

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