ICRA

August 19, 2021

Anuh Pharma Limited: Long-term rating upgraded; Outlook revised to Stable from Positive; Short-term rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based limits (CC/WCDL)	5.00	0.00	-
Long-term Fund based limits (CC/WCDL), interchangeable	0.00	(5.00)^	[ICRA]A- (stable) upgraded from [ICRA]BBB+ (Positive); outlook revised to Stable from Positive
Short-term Fund based limits, interchangeable	0.00	(60.00)^	[ICRA]A2+; Reaffirmed
Short-term, Non-fund Based Limits	70.00	90.00	[ICRA]A2+; Reaffirmed
Short-term, interchangeable	(2.50)	0.00	-
Long-term/ short term Non-fund Based Limits, interchangeable	0.00	(90.00)^	[ICRA]A-(stable) upgraded from [ICRA]BBB+(Positive) outlook revised to Stable from Positive /[ICRA]A2+; reaffirmed
Total	**75.00**	**90.00**	

**Instrument details are provided in Annexure-1; ^Sub-limit of Rs. 90.0 crore non-fund-based facilities*

Rationale

The revision in the ratings follows the healthy improvement in Anuh Pharma Limited's (APL's) scale of operations in FY2021 driven by healthy demand for its existing products, especially erythromycin and azithromycin (as these are also being used for the treatment of Covid-19), new product launches and the enhancement in its production capacity to 1,500 MTPA (from 900 MTPA) with effect from December 2019. The margin for FY2021 also posted a rise, largely driven by a rise in realisations in the initial part of the last fiscal for its key product segments. The company also received approval from the European Directorate for the Quality of Medicines and HealthCare (EDQM) in FY2021 for the enhanced capacity, which assisted its revenue growth in the export market. Further, APL is looking to ramp up sales of its newly launched products like Gliclazide, Pyrimethamine, Telmisartan, Moxifloxacin and Isoniazid in FY2022, in addition to the launch of four new products in FY2022, which are under development. The rating continues to derive comfort from the established track record of APL in manufacturing active pharmaceutical ingredients (APIs), along with a diversified customer base across domestic as well as export markets. The ratings also derive strength from APL's continued strong financial profile, as evinced by its limited dependence on debt and robust debt protection metrics. The company's liquidity position is strong, underpinned by healthy unencumbered cash and liquid investments of Rs. 31.1 crore and non-current investments of Rs. 20.4 crore as on March 31, 2021, against a total debt of Rs. 13.7 crore.

The rating, however, remains constrained by the current moderate scale of operations of the company, with a product profile comprising mature and commoditised molecules, which exposes its profit margins to price-based competition. The company also remains exposed to concentration risk, including product concentration (with erythromycin accounting for 38% of its FY2021 sales) and concentrated manufacturing base with the company operating primarily out of a single manufacturing facility at Boisar (Thane, Maharashtra). Furthermore, APL remains exposed to regulatory and foreign exchange risks due to the nature of its operations.

The Stable outlook reflects ICRA's opinion that APL will continue to benefit from its established market position in key product segments while maintaining its credit profile, aided by its strong liquidity position.

Key rating drivers and their description

Credit strengths

Established track record in API manufacturing – APL has been manufacturing APIs since 1960, with its product portfolio comprising erythromycin and its salts, and higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol. As per the company, it occupies a healthy share in the global market for its key products and is among the leaders in erythromycin and its salts.

Robust top-line growth reported in FY2021 – The company witnessed strong revenue growth to Rs. 432.0 crore in FY2021 over Rs. 307.0 crore in FY2020 on account of increased demand for its existing products and ramp-up of enhanced production capacity from December 2019. The company also reported healthy revenue growth from exports as it received EDQM approval for the enhanced capacity. Further, the operating margins improved to 10.5% in FY2021 compared to operating margins of 8.9% in FY2020 owing to healthy demand of various products in H1 FY2021. However, the operating margins were impacted by increase in raw material prices and lower demand in H2 FY2021, as many companies had procured inventory due to Covid related uncertainty in H1 FY2021. The improvement in operating margins remains a key monitorable, going forward.

Healthy financial risk profile – Aided by adequate retained cash flows and unencumbered cash and liquid investments, APL's dependence on external debt has remained limited. As on March 31, 2021, APL did not have any long-term debt outstanding (excluding lease liabilities) and the company's total debt decreased to Rs. 13.7 crore as of March 31, 2021 from Rs. 45.2 crore as on March 31, 2020, primarily on account of lower utilisation of the export packing credit facility. Further, the company maintained its cash surplus status, with unencumbered cash and liquid investments of Rs. 31.1 crore and non-current investments of Rs. 20.4 crore as on March 31, 2021. Its debt coverage indicators also remained robust, as evinced by an interest coverage of 22.2x, total debt/ operating profit before depreciation, interest and tax or TD/OPBDITA of 0.3x and net cash accruals/ total debt or NCA/TD of 324% as on March 31, 2021.

Credit challenges

Moderate scale of operations – Despite the sustained growth in scale of operations over FY2021, the company remains a moderate-size player in the bulk drug industry with a revenue base of Rs. 432 crore in FY2021. Also, timely receipt of regulatory approvals for the new products will remain an important driver for revenues and profit margins, going forward.

Product profile of mature and commoditised products, exposing APL to intense price-based competition – APL's product profile comprises mature and commoditised molecules, including erythromycin, pyrazinamide and corticosteroids, which expose it to intense price-based competition. Given the commoditised nature, the margin remains susceptible to raw material movements, which is also reflected by fluctuation of margins witnessed on a quarterly basis during FY2021.

Concentration risk – The company remains exposed to product concentration risks (with erythromycin accounting for 38% of its FY2021 sales) and a concentrated manufacturing base as it operates primarily out of a manufacturing facility at Boisar.

Exposure to regulatory and foreign exchange risks owing to nature of operations– APL caters to regulated markets like Europe and semi-regulated markets like West Asia, Latin America, Spain and Italy. The company holds WHO GMP[1], COFEPRIS[2] (Mexico) and EDQM certifications for manufacturing various bulk drugs, which are reviewed on a periodic basis by the respective regulatory agencies. Any suspension of these certifications can impact its exports to these regulated and semi-regulated markets, as witnessed in FY2017. The profit margins of the company also remain vulnerable to foreign exchange fluctuations on account of its foreign operations.

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[1] *WHO Good Manufacturing Practice*

[2] *Comisión Federal para la Protección contra Riesgos Sanitarios (COFEPRIS), or the Federal Commission for Protection against Sanitary Risks, is the authority with competence to control and regulate drug products in Mexico.*

Liquidity position: Strong

The company's liquidity profile is **strong**, underpinned by healthy free cash and liquid investments of Rs. 31.1 crore, and non-current investments of Rs. 20.4 crore as on March 31, 2021. Coupled with largely unutilised working capital limits, these provide a strong liquidity cushion. Against this, the company does not have any long-term debt obligations and plans to incur minor capital expenditure in FY2022.

Rating sensitivities

Positive factors – APL's ratings may be upgraded if it significantly improves its scale of operations and profitability along with diversification of its product portfolio.

Negative factors – Pressure on the ratings could arise in case the company's operating margins fall below 7% on a sustained basis. Any regulatory non-compliance issued to APL for its products and/or manufacturing facilities that could impact its revenues and profitability, would also be a negative trigger. Furthermore, any large debt-funded capex exerting pressure on the company's credit metrics or any significant weakening of the liquidity position would be negative triggers as well.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate rating methodology Rating Methodology for Pharmaceutical Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Anuh Pharma Limited, a part of the SK Group of companies, is a medium-sized player in the API/bulk drugs industry, manufacturing products such as erythromycin and its salts, and higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol. As per the company, it is the largest producer of erythromycin salts in India and among the top five producers of erythromycin in the world. It is also the largest producer of pyrazinamide in the world. APL's manufacturing facility, located at Boisar, Thane (Maharashtra), has an annual production capacity of 1,500 MT (enhanced from 900 MT in December 2019). The company also has a research and development (R&D) centre at Mahape, Navi Mumbai.

In Q1 FY2022, APL reported a profit after tax (PAT) of Rs. 5.6 crore on an operating income (OI) of Rs. 117.3 crore, against a PAT of Rs. 16.7 crore on an OI of Rs. 124.2 crore in Q1 FY2021.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	307.0	432.0
PAT (Rs. crore)	14.3	28.4
OPBDIT/OI (%)	8.9%	10.5%
PAT/OI (%)	4.7%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.7
Total Debt/OPBDIT (times)	1.7	0.3
Interest Coverage (times)	21.6	22.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation. All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					August 19, 2021	October 29, 2020	September 19, 2019	August 9, 2018
1	Cash Credit	Long-term	0.0	-	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2	Cash Credit, interchangeable	Long-term	(5.0)*	-	[ICRA]A- (Stable)	-	-	-
3	Bank Guarantee, interchangeable	Short-term	0.0	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Bank Guarantee, interchangeable	Long-term/ Short Term	(90.0)*	-	[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-
5	Export credit, interchangeable	Short-term	(60.0)*	-	[ICRA]A2+	-	-	-
6	Letter of credit/ SBLC/ Buyers Credit	Short-term	90.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

**Sublimit of Rs. 90 crore non fund based limits*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based limits, interchangeable	Simple
Short-term Fund based limits, interchangeable	Simple
Short-term, Non-fund Based Limits	Very Simple
Long-term/ short term Non-fund Based Limits, interchangeable	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Cash Credit, interchangeable	-	-	-	(5.0)*	[ICRA]A- (stable)
-	Export Credit, interchangeable	-	-	-	(60.0)*	[ICRA]A2+
-	Letter of credit/ SBLC/ Buyers Credit	-	-	-	90.0	[ICRA]A2+
-	Bank Guarantee, interchangeable	-	-	-	(90.0)*	[ICRA]A-(stable)/[ICRA]A2+

Source: *Company, *Sublimit of Rs. 90 crore non fund based limits*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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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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