**December 28, 2023**

# Anuh Pharma Limited: Ratings reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term, interchangeable** | (5.00)^ | (5.00)^ | [ICRA]A-(stable); reaffirmed |
| **Short-term, interchangeable** | (60.00)^ | (60.00)^ | [ICRA]A2+; reaffirmed |
| **Short-term, non-fund based limits** | 90.00 | 90.00 | [ICRA]A2+; reaffirmed |
| **Long-term/ short-term, interchangeable** | (90.00)^ | (90.00)^ | [ICRA]A-(stable)/ [ICRA]A2+; reaffirmed |
| **Total** | **90.00** | **90.00** | |

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

## Rationale

The reaffirmation of ratings for Anuh Pharma Limited (APL) takes into account the healthy financial profile for the company as well as expectation of the continuation of the same in FY2024, driven by steady growth in top line as well as stable margin levels, with limited reliance on debt, leading to robust debt protection metrics. APL reported moderate revenue growth of 8% to Rs. 527.5 crore in FY2023 over FY2022, though reported healthy YoY revenue growth of 34% to Rs. 311 crore in H1 FY2024. This was primarily driven by expansion in active pharmaceutical ingredients (API) manufacturing capacity in H1 FY2024 to 1,500 MT from the earlier 1,200 MT along with market penetration and geographical expansion, with rising demand for its anti-malarial, corticosteroids and macrolides products. ICRA notes that the company is planning to expand its current API manufacturing capacity from 1,500 MTPA to 1,800 MTPA, which is expected to be commercialised in FY2025 to further aid in revenue growth and product diversification. The planned capex is expected to be funded by internal accrual and existing cash and liquid investments. The rating also considers the established track record of APL in manufacturing APIs, along with a diversified customer base across domestic as well as export markets. The ratings also take into consideration the company's endeavour towards gradual diversification of product portfolio through its R&D efforts, which has led to reduction in product concentration over the years. The company's liquidity position is also strong, underpinned by healthy unencumbered cash and liquid investments of Rs. 56.5 crore and non-current investments of Rs. 37.8 crore as on September 30, 2023, against a total debt of Rs. 8.2 crore (including lease liabilities).

The rating, however, remains constrained by APL's growing, though relatively moderate scale of operations with a product profile of mature and commoditised molecules, which exposes its profit margins to price-based competition. Furthermore, APL remains exposed to regulatory and foreign exchange (forex) 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 a product portfolio of erythromycin and 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.

**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, 2023, APL did not have any long-term debt outstanding (excluding lease liabilities) and its total debt decreased to Rs. 0.9 crore from Rs. 4.2 crore as of March 31, 2022, primarily on account of lower utilisation of working capital facilities. Further, the company maintained its cash surplus status, with unencumbered cash and liquid investments of Rs. 56.5 crore and non-current investments of Rs. 37.8 crore as on September 30, 2023. Its debt coverage indicators also remained robust, as evinced by an interest coverage of 72.3x and debt service coverage ratio (DSCR) of 48.1 times in FY2023.

**Gradual diversification of products along with focus on introduction of new products –** The company has been gradually reducing its product concentration risk, through new product offering. Earlier, the company was exposed to product concentration risk with erythromycin accounting for 46% of its FY2018 sales; however, the same reduced to 29% and 26% in FY2023 and H1 FY2024, respectively, as APL has been diversifying its product profile over the years. New products like Allopurinol and Moxifloxacin witnessed moderate sales in FY2023. Further, APL applied for the European Directorate for Quality Medicine (EDQM) for application of certification of suitability (CEP) for Allupurinol in FY2023. With this approval, the opportunity for sales in the European market and institutional business is expected to open up. Also, new products such as Sulfadimethoxine, Citicoline sodium, Ticagrelor, Dapagliflozin, Empagliflozin and Canagliflozin are under the development stage, which is expected to further diversify APL's product profile.

## Credit challenges

**Relatively moderate scale of operations –** The company reported moderate revenue growth of 8% in FY2023 to Rs. 527.5 crore over Rs. 486.6 crore in FY2022 owing to subdued growth for its mature and commoditised molecule. However, in H1 FY2024, the revenue grew by 34% YoY, owing to increase in API manufacturing capacity to 1,500 MT from the earlier 1,200 MT by technological upgradations along with market penetration and geographical expansion, as demand rose for its anti-malarial, corticosteroids and macrolides products. Despite the sustained growth in scale of operations in FY2023 and H1 FY2024, the company remains a moderate size player in the bulk drug industry. The company plans to further increase its API manufacturing capacity to 1,800 MT in FY2025, to support its revenue growth. Timely receipt of regulatory approvals for its new products to further diversify its product profile will remain an important driver for revenues and profit margins and will remain critical for the credit perspective on an ongoing basis .

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

**Exposure to regulatory and forex risks owing to nature of operations –** APL caters to regulated markets like Western Europe and semi-regulated markets like West Asia, Latin America and Southern Europe. The company holds CEP, World Health Organization Good Manufacturing Practices (WHO GMP1), COFEPRIS2 (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. Further, the company will require regulatory approvals for its planned enhanced capacity in FY2025. The profit margins of the company also remain vulnerable to forex fluctuations on account of its export operations.

## Environmental and Social Risks

**Environmental considerations –** APL does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations for breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation. However, APL has constantly been making efforts to minimise the impact of environmental risks on its operations. The company has successfully commissioned its new expansion project in December 2019 after receiving environmental clearance from the State Government of Maharashtra. It adopts relevant techniques and methods, such as safety audits and periodic assessments for environmental, health and safety risks and takes all the required remedial measures, as and when needed, impacting the business positively. The company has also commissioned Zero Liquid Discharge (ZLD) for effluent treatment plant.

**Social considerations –** The industry faces social risks related to product safety and associated litigation risk, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. However, the company has also adopted an environment, health and safety policy. Further, Government intervention related to price caps/ control also remains a social risk faced by entities in the pharmaceutical industry. However, the company takes all the required regulatory approvals/ certificates before introducing any new products in the market. The company holds CEP, WHO GMP1, COFEPRIS2 (Mexico) and EDQM certifications for manufacturing various bulk drugs, which are reviewed on a periodic basis by the respective regulatory agencies.

## Liquidity position: Strong

The company's liquidity profile is strong, underpinned by healthy free cash and liquid investments of Rs. 56.54 crore, and noncurrent investments of Rs. 37.8 crore as on September 30, 2023. 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 (except lease liabilities), nor any plans to incur debt-funded capital expenditure (capex) in the near term.

## 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 rating trigger. Further, 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 Credit Rating Methodology<br>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 in the world. It is also the largest producer of pyrazinamide in the world. APL's manufacturing facility at Boisar, Thane (Maharashtra), has an annual production capacity of 1,800 MT (1,500 MT APIs and 300 MT intermediates). The company also has an R&D centre at Mahape, Navi Mumbai.

### Key financial indicators (audited)

| | FY2022 | FY2023 | H1 FY2024 |
|---|---|---|---|
| **Operating income** | 486.6 | 527.5 | 311.0 |
| **PAT** | 30.6 | 36.2 | 25.6 |
| **OPBDIT/OI** | 10.1% | 10.2% | 10.3% |
| **PAT/OI** | 6.3% | 6.9% | 8.2% |
| **Total outside liabilities/Tangible net worth (times)** | 0.6 | 0.7 | 0.6 |
| **Total debt/OPBDIT (times)** | 0.1 | 0.0 | 0.1 |
| **Interest coverage (times)** | 31.1 | 72.3 | 289.0 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore*

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of March 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | December 28, 2023 | October 20, 2022 | August 19, 2021 | October 29, 2020 |
| 1 | **Cash Credit** | Long-term | 0.0 | - | - | - | - | [ICRA]BBB+ (Positive) |
| 2 | **Cash Credit, interchangeable** | Long-term | (5.0) * | - | [ICRA]A- (Stable) | [ICRA]A- (Stable) | [ICRA]A- (Stable) | - |
| 3 | **Bank Guarantee, interchangeable** | Short-term | 0.0 | - | - | - | - | [ICRA]A2+ |
| 4 | **Bank Guarantee, interchangeable** | Long-term/ Short Term | (90.0) * | - | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | [ICRA]A- (Stable)/ [ICRA]A2+ | - |
| 5 | **Export credit, interchangeable** | Short-term | (60.0) * | - | [ICRA]A2+ | [ICRA]A2+ | [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 analysing 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 are available on ICRA's website: Click Here

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Cash Credit, interchangeable** | NA | NA | NA | (5.0)* | [ICRA]A-(stable) |
| **NA** | **Export Credit, interchangeable** | NA | NA | NA | (60.0)* | [ICRA]A2+ |
| **NA** | **Letter of credit/ SBLC/ Buyers Credit** | NA | NA | NA | 90.0 | [ICRA]A2+ |
| **NA** | **Bank Guarantee, interchangeable** | NA | NA | NA | (90.0)* | [ICRA]A-(stable)/ [ICRA]A2+ |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis: 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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