

February 28, 2024

Alembic Limited: Ratings 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	3.0	34.0	[ICRA]AA- (Stable); reaffirmed/assigned
Long-term – Fund-based/ Non-fund based	25.5	25.5	[ICRA]AA- (Stable); reaffirmed
Long-term/Short-term – Fund-based/ Non-fund based	10.0	10.0	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	38.5	69.5	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings and the assignment for the enhanced limits of Alembic Limited (AL) continues to take into account the high financial flexibility it derives from its sizeable market value of investments, given its 28.54% stake in Alembic Pharmaceutical Limited (APL), the flagship entity of the Alembic Group, as well as the 19.07% stake in another group entity, Paushak Limited. The ratings also continue to factor in the strong promoter group, given the presence of Alembic Group across several businesses. Further, ICRA notes the extensive experience of the promoters in operating and managing multiple and diverse businesses in the Alembic Group. AL's credit profile is supported by sizeable dividend income generated from the stake in its investee company, primarily APL, which stood at ~32% of its top line and ~60% of its operating profit in FY2023.

ICRA, however, notes that the company is likely to pay out the dividend received from its investee companies in form of dividend to its shareholders (as reflected in FY2023 and FY2024), unless there is a better business case in preserving it in the company in terms of generation of returns. Though the same is likely to curtail the on-book liquidity levels, AL's liquidity profile is expected to remain adequate considering the healthy buffer in the working capital limits and the growing rental income. ICRA also draws comfort from the presence of a significant land bank (~102 acres) of the company, which can be monetised in case of exigencies.

On the real estate vertical, ICRA notes that only a few of the commercial units of Veda Phase 1 are left unsold (as of December 31, 2023), of which some units are self-occupied while the rest will be sold whenever AL is able to fetch a favourable realisation. ICRA notes that in FY2023, the YoY growth in revenues from its real estate segment improved given the higher bookings in its projects as they were nearing completion. ICRA also notes the progress in the Townhouse 24 project, which started in FY2021 and received a reasonable response with ~60% of the total units booked as on December 31, 2023. ICRA further notes the progress in The Villa project, which was at drawing stage in FY2021, wherein ~50% of the total units were booked of as of December 31, 2023. Moreover, the company has started a new project, 'The Gardens', in the current fiscal, which is located along side Townhouse 24 and The Villa projects.

Although the ongoing projects are exposed to some degree of project execution risk, their self-funded nature and AL's track record of successfully managing its projects, 'Samsara' and 'Veda Phase I' (residential and commercial), remain a source of comfort. In addition, a growing rental income portfolio (with addition on new lessees) from its commercial real estate projects lends support to AL's revenue profile. Going forward, economic downturns, including rising unemployment and hardening of interest rates on home loans, can impact the operations and cash flows of developers in the real estate sector in general, which might impact the credit risk profile of players like AL.

The company's active pharmaceutical ingredients (APIs) business continues to remain marginal in the bulk drug space, with operating income of Rs. 26.5 crore in FY2023 mainly from job-work activities for Group companies as well as for other

pharmaceutical players. ICRA also notes the appeal in the Supreme Court on the verdict received against the company from the High Court of Gujarat, which pertains to a litigation on the payment of electricity duty against the notice issued by the Chief Auditor (dated 12.1.2004). The company was directed to deposit Rs. 35 crore by the Supreme Court and the same was paid by the company on May 26, 2023, and the appeal filed by the company was admitted. The company has already provisioned an amount of Rs. 20.53 crore against the same and disclosed contingent liability for interest, whose amount is not ascertainable and not acknowledged or accepted by the company. ICRA will continue to monitor the development related to this matter and any adverse ruling against the company, which materially impacts its liquidity profile, will remain a monitorable.

The Stable outlook reflects ICRA's opinion that AL's financial profile will remain supported by the stable dividend income from its investment in Group companies, as well as by the healthy market value of its investments and the low debt on its books, which is likely to continue in the near to medium term.

Key rating drivers and their description

Credit strengths

Healthy financial flexibility – AL currently holds 28.54% stake in APL, the flagship company of the Group, which provides it with a healthy financial flexibility. The market value of AL's stake in APL was valued at ~Rs. 2,615 crore as on February 7, 2024. Furthermore, dividend income from APL has been supporting AL's net profit over the past few years—except FY2021, when APL declared special and interim dividend in March 2020, which was covered in the dividend income under FY2020. In July 2023, APL declared a dividend of Rs. 8 per share (~Rs. 46 crore), which was received in FY2024 providing support to the company's profitability. Dividend income stood at ~32% of top line and ~60% of operating profit in FY2023.

Strong promoter group and management team – The promoters of the company have been in this business for the past many years and have a well-established track record in the pharma and real estate sectors.

Significant land bank, which can be monetised in case of exigencies – The company has sizeable unused land, providing opportunities to monetise the same and improve cash flows.

Strong capital structure driven by minimal debt on the books of the company – The company had been debt free from 2015 to 2023. Although all its real estate projects are self-funded along with stable rental income, the company has taken a term loan in the current fiscal in the form of lease rental discounting amounting to Rs. 10 crore (against a total sanctioned amount of Rs. 31 crore) to fund certain real estate facilities. ICRA expects the operations to utilise minimal debt in the near to medium term, indicating a strong financial risk profile of the company, in the absence of any debt-funded capex plans.

Credit challenges

Limited diversification of investments – APL continues to drive the bulk of AL's revenues from dividend income (~32% of top line) and the standalone OPBITDA (60%) in FY2023. Consequently, AL's cash flows are predominantly dependent on APL's financial performance and dividend policy. However, the strong credit profile of APL and its track record of declaring dividends provide comfort.

Small scale of operations and weak profitability profile of the API business – The company is a marginal player in the bulk drugs business, with revenues from the API division amounting to Rs. 26.5 crore in FY2023, mainly from job-work activities for Group companies as well as for other pharmaceutical players. Further, the API segment reported a moderated PBIT of Rs. 2.03 crore in FY2023 over Rs. 5.2 crore in FY2022. Therefore, the company's ability to materially ramp up its API business and, thereby, improve its scale and earning levels remains to be seen.

Uncertainty attached with contingent liability related to electricity duty issue – On February 14, 2023, AL had intimated the stock exchanges regarding an update on an old litigation it had filed (in 2004) against the Collector of Electricity Duty, Chief Auditor, Industries Commission, State Government of Gujarat. The litigation pertains to the payment of electricity duty against the notice issued by the Chief Auditor (dated 12.1.2004). The High Court of Gujarat has ruled the verdict against the company

in February 2024. Thereafter, the company filed a Special Leave Application at the Supreme Court, challenging the order passed by the High Court of Gujarat. The same has been admitted, subject to the company depositing Rs. 35 crore, which it deposited on May 26, 2023, well within the period prescribed in the said order. Pending the decision of the Supreme Court, the company has made an aggregate provision in its books for the principal amount and disclosed contingent liability for interest, the amount of which is not ascertainable and not acknowledged or accepted by the company. ICRA will continue to monitor the development regarding the same and its impact on the credit risk profile of the company.

Environmental and Social Risks

Environmental considerations: The API division of the company has a mechanism for recycling products as well as waste. Around 5-10% of the division's total effluent generation is recycled, recovered, and reused for gardening and general purpose applications. About 80-85% solvent inputs are redistilled and recovered for recycling purpose. Further, around 45% condensate water is recycled to the boiler for producing steam.

In case of the company's real estate business, it is usually difficult to quantify the reduction achieved in energy and water usage by customers. However, the company has STPs installed in its projects and the STP water is used for landscaping and toilet flushing, thus reducing the usage of fresh water. Moreover, construction waste is reused on site for backfilling or levelling purposes. Further, the environment risk in the real estate sector is typically assessed from the design stage of a project; and adequate steps should be taken to reduce environmental impact at construction and operational stages. Thus, any lapses in taking adequate steps can have adverse impact in terms of regulatory actions, which can cause substantial penalties or fines.

Social considerations: The company's API division faces social risk related to product safety and associated litigation risks, access to qualified personnel for R&D engineering, maintenance of high manufacturing compliance standards, etc. Further, Government interventions related to price caps/control also remain a social risk for pharma entities.

Further, with the real estate business being labour-intensive, the company is exposed to risk of disruption due to inability to properly manage human capital in terms of their safety and overall well-being. Further, any significant wage rate hike adversely impact the cost structure, thereby impacting margins. The company is also exposed to the risk of shortage of skilled labour, which can impact operations. However, as per company disclosures, AL has taken measures towards employee welfare, including putting in place a social accountability policy. The company has not witnessed any protest for wage hikes or notable shortage of skilled labour till date.

Liquidity position: Adequate

The company has remained debt-free from FY2015 to FY2023, on the back of cash flows from dividend income and its real estate business. However, the company took a term loan in the form of Lease Rental Discounting (LRD) to fund its real estate business in the current fiscal. Against the sanctioned limit of Rs. 31 crore, the company has availed Rs. 10 crore as of date. AL also has a sizable buffer in fund-based limits with its average working capital utilisation being negligible at 2% for the 12-month period ending in December 2023. Additionally, AL currently holds 28.54% stake in APL, the flagship company of the Group, which provides it with financial flexibility. ICRA notes that the company is likely to pay out the dividend received from its investee companies in form of dividend to its shareholders (as reflected in FY2023 and FY2024), unless there is a better business case in preserving it in the company in terms of generation of returns. Though the same is likely to curtail the on-book liquidity levels, AL's liquidity profile is expected to remain adequate considering the healthy buffer in working capital limits and growing rental income.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of an improvement in AL's financial flexibility aided by increase in underlying value of its investments on a sustained basis and strong credit profile reflected by minimal debt on its books.

Negative factors – The ratings can be downgraded in case of any substantial deterioration in the liquidity profile of the company due to absence of dividend income or reduction in its financial flexibility owing to considerable decline in the market capitalisation or material weakening of the credit profile of APL. In addition, any large debt raised, which materially deteriorates its overall credit profile on a sustained basis, will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Investment Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Alembic Limited, the flagship company of the Alembic Group, was incorporated on July 30, 1907. The company was promoted by the industrialist, Shri Bhailalbai Amin, and scientists, Prof. TK Gajjar and Shri Kotibhaskar. The company has been a pioneer in manufacturing Penicillin-G (Pen-G) through the fermentation process. To unlock shareholder value and help insulate the core pharmaceutical operations from the severe volatility and uncertainty of the Pen-G business, the company's board of directors approved the demerger of its core pharmaceutical business (formulations) into a wholly-owned subsidiary, APL, with effect from April 01, 2010. Following the demerger, both the companies were listed on the Bombay Stock Exchange and the National Stock Exchange.

Consequent to the demerger, APL became the flagship company of the Alembic Group. It is a pure pharmaceutical player focused on domestic formulations, an international business largely driven by regulated markets, and R&D activities. AL primarily operates in—i) bulk drugs manufacturing, ii) real estate development (including leased premises), and iii) wind power generation (four windmills with a total capacity of 5 MW) and co-generation power plants (two plants with a total capacity of 6 MW) used for the captive consumption of its bulk drugs business. In addition, AL has equity investments in APL (28.54% stake as on December 31, 2023) and Paushak Limited (19.07% as on December 31, 2023).

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	154.9	180.0
PAT	85.7	79.3
OPBDIT/OI	59.3%	52.7%
PAT/OI	55.3%	44.0%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	399.1	592.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Feb 28, 2024	Feb 23, 2023	Nov 29, 2022	Aug 19, 2021	May 29, 2020	
1 Long Term - Fund Based	Long term	34.0	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	
2 Long Term - Fund Based/Non Fund Based	Long term	25.5	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	
3 Long Term/Short term - Fund Based/Non Fund Based	Long term and short term	10.0	--	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	
4 Non-Fund based Facilities	short term	-	--	-	-	-	[ICRA]A1+	[ICRA]A2+	
5 Fund based Facilities	short term	-	--	-	-	-	[ICRA]A1+	[ICRA]A2+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term - Fund Based/Non Fund Based	Very Simple
Long Term/Short term - Fund Based/Non Fund Based	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
-	Fund-based Facility – CC/WCDL	NA	NA	NA	3.00	[ICRA]AA-(Stable)
-	Fund-based Facility – Lease Rental Discounting	NA	NA	NA	31.00	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility - CC, WCDL, LC, BG	NA	NA	NA	12.0	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility - CC, WCDL, LC, BG	NA	NA	NA	6.0	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility - CC, WCDL, LC, BG	NA	NA	NA	7.5	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility - CC, WCDL, LC, BG	NA	NA	NA	10.0	[ICRA]AA-(Stable) / [ICRA]A1+

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:

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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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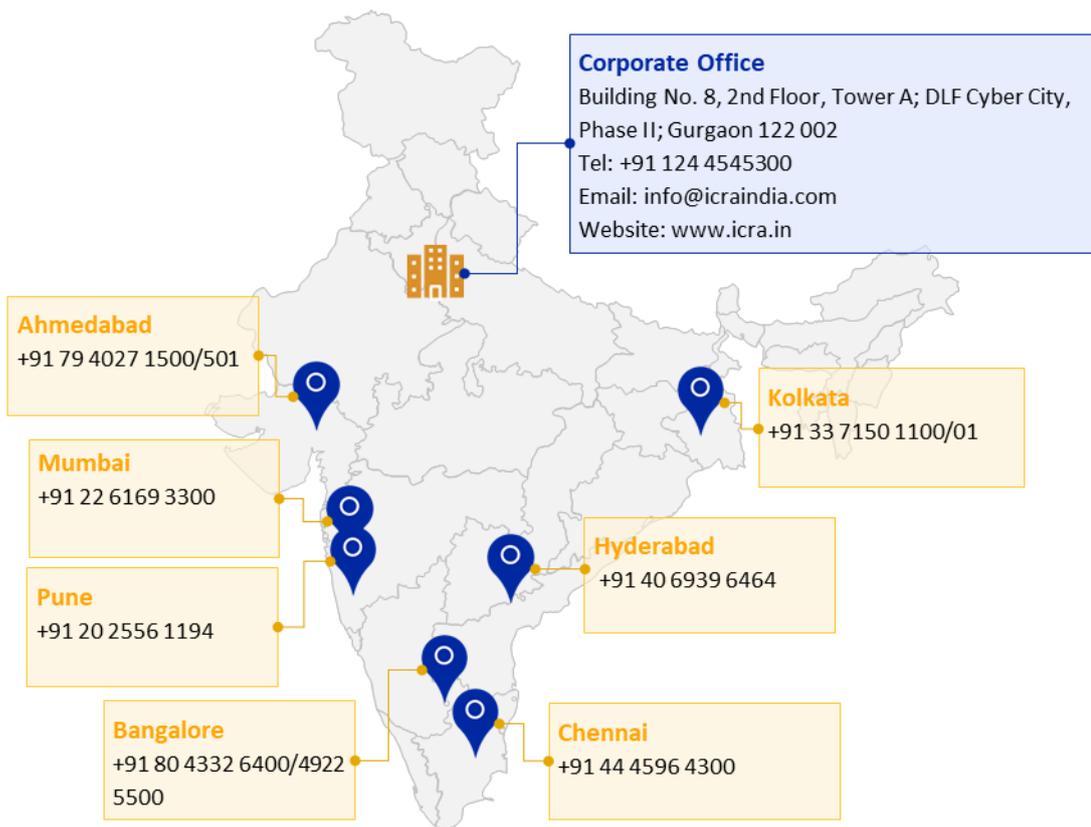
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