May 24, 2024 (Revised)

Avesta Pharma Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based - Term loan	35.43	35.43	[ICRA]BBB- reaffirmed; outlook revised to Positive from Stable
Long-term fund-based - Cash credit	14.00	14.00	[ICRA]BBB- reaffirmed; outlook revised to Positive from Stable
Short-term non-fun based- LC	3.00	3.00	[ICRA]A3 reaffirmed
Short-term non-fun based- BG	1.50	1.50	[ICRA]A3 reaffirmed
Long term/Short term unallocated	0.07	0.07	[ICRA]BBB-/[ICRA]A3 reaffirmed; outlook revised to Positive from Stable,
Total	**54.00**	**54.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook to Positive from Stable for the ratings assigned to the bank lines of Avesta Pharma Private Limited (APPL/the company) factors in the expected improvement in its scale of operations and cash generation as the company nears the commercialisation of the ongoing capex. Additionally, the credit profile of the company has improved on the back of healthy operating and net profit during FY2023 and FY2024 amid a robust volume ramp-up and improvement in the gross margins. The reaffirmation of the ratings considers the extensive experience of the promoters of Avesta Pharma in the chemical industry and the ramp-up in capacity utilisation levels in the last few years, leading to a healthy financial performance in recent years.

The company has registrations/certifications to cater to regulated markets in the European Union, the United States, South Korea and several other locations, giving it access to the export markets which account for ~20-30% of its sales. The domestic sales have grown at a faster pace, driven by increased offtake from a major domestic customer. Going forward, with the new capacity expected to be commercialised by the end of Q4 FY2025, the share of export revenues is expected to grow. The company's financial performance remains susceptible to the volatility in raw material prices and changes in forex rates, though it can pass on the cost escalations to some extent.

The ratings are constrained by the company's moderate scale of operations, though the scale is expected to improve with the commercialisation of the new capacity towards the end of FY2025. The company is nearing the completion of the ongoing project, which will increase its capacity to 24,000 MTPA from 7,800 MTPA. The capex has a total outlay of Rs. 82-85 crore, of which ~Rs. 78 crore has been incurred. Till date, the capex has been funded using term debt of Rs. 31.6 crore and the remaining through internal accruals. The project is expected to start producing test batches of the product in Q1 FY2025. Timely commercialisation and the pace of ramp-up of the new capacity will remain the key monitorables.

The ratings are also constrained by the high product concentration risk as the company manufactures a single product i.e. poly-ethylene glycol (PEG). Additionally, the customer concentration risk also remains high as the top client contributes to around 32% of the total sales, while the top 5 customers contributed to around 56% of the total sales in FY2024. The company serves only the pharma industry as its end user and thus remains exposed to industry concentration risks as well. The company also remains susceptible to changes in regulations and faces competition from domestic and overseas players.

Key rating drivers and their description

Credit strengths

Experience of promoters and registrations to cater to regulated markets – The company's promoters have extensive experience in the chemical industry. The company also has registrations in place to cater to regulated markets in the European Union (EU), the United States (US), South Korea and several other locations. The export markets account for ~30-40% of the company's sales.

Healthy financial performance in recent years – There has been a healthy ramp-up in the company's capacity utilisation in recent years, leading to growth in the scale of operations and strong profit margins. The revenue witnessed significant growth in the last five years and the OPM and NPM has been in the range of 25-35% and 15-30%, respectively, in the last three years ended FY2024, though the margin was subdued in the initial years due to lower operating leverage. The debt mainly comprises unsecured loans from promoters, which are interest-bearing but with no fixed repayment schedule, term debt from bank for the ongoing capex and moderate working capital debt. With the growth in volumes, the company has also benefited on account of the operating leverage which will drive growth in the operating margins.

The company's credit metrics have improved with total debt/OPBDITA of 1.2x at the end of FY2023 from 2.4x in FY2022. The credit metrics are expected to remain nearly in line with the FY2023 levels for FY2025 and thereby improve with the commissioning of the project. A major part of the debt will comprise promoter loans that are expected to remain on the books of the company. The interest coverage ratio is also expected to remain healthy, going forward. The company's financial performance remains susceptible to the volatility in raw material prices and changes in forex rates, though this is partly mitigated by its ability to pass on the cost escalations to some extent.

Credit challenges

Moderate scale of operation – The company's scale of operation remains moderate. However, it increased by 52.49% to Rs 145.9 crore in FY2023 from Rs 95.68 crore in FY2022. The scale is expected to improve when the new production block commences operations.

High product and end-user industry concentration, exposed to competition – The company manufactures different variants of pharma-grade polyethylene glycol (PEG). Although PEG finds application in various industries, APPL mainly caters to the pharma industry. This exposes the company to product and end-user industry concentration. The company is also exposed to competition from various domestic and global players, which limits its pricing flexibility to some extent. The company has high customer concentration as the top 5 customers contributed to around 71% of the revenues in FY2023 and FY2024.

Residual project implementation risk – The company is undertaking a capacity expansion for manufacturing of PEG expanding capacity from 7800 MTPA to 24,000 MTPA. The capital outlay for the project is Rs. 80-85 crore and the company had incurred Rs. 75-80 crore of capex by the end of March 2024. The capex is being funded using a term debt of Rs. 35 crore and the remaining through internal accruals. The project is expected to start test batch production in Q1 FY2025 and may start commercial production from Q4 FY2025 once the product has been tested by the customer. The timely start of the test batch production, approval of the test batches by the customer and the start of commercial production will remain the key monitorables, going forward.

Liquidity position: Adequate

The liquidity position of APPL is expected to remain adequate, going forward, as the company is expected to generate Rs. 25-35 crore of net cash accruals against a debt repayment of Rs. 6 crore per annum and a capex requirement of Rs. 12.5 crore in FY2025. APPL also has sanctioned working capital limits of Rs. 16 crore which have been sparsely utilised as the company has majorly used internal accruals to fund the working capital requirements. The fund-based utilisation stood at around Rs. 1.8 crore as on March 31, 2024, which provides a cushion of around Rs. 14.2 crores in fund-based limits.

Rating Sensitivities

Positive factors – ICRA could upgrade the ratings if the company is able to significantly increase its scale of operations while maintaining healthy operating margins, capital structure and working capital intensity on a sustained basis.

Negative factors – The outlook could be revised to Stable if there is a delay in the execution of the capex and commercialisation of the production beyond the envisaged timeline. The ratings could be under pressure if there is a significant decline in revenue and profitability on a sustained basis, or if there is a sizeable incremental debt-funded capital expenditure or a stretch in the working capital intensity that would weaken the company's liquidity profile. Any significant cost or time overrun related to the ongoing capex, which may weaken the credit metrics, could also lead to a downgrade.

Analytical approach

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

About the company

Avesta Pharma Private Limited is promoted by experienced personnel from the chemical industry. Mr. Kersi Homi Tangri, who has an experience of more than 28 years in the chemical industry, is the Chairman & Managing Director of the company. APPL is engaged in the production of polyethylene glycol (macrogols), as per pharma grade USP-NF/EP. It is an active pharmaceutical ingredient (API) used in the manufacturing of tablets, capsules, syrups, eye drops, injectables and laxatives. The production facility is designed as per the ICHQ-7 and USFDA guidelines. APPL has a current production capacity of 7,800 MTPA. The company is in the process of setting up a PEG manufacturing capacity of 16,200 MTPA which is expected to be commercialised towards the end of FY2025.

Key financial indicators

APPL	FY2021	FY2022	FY2023
Operating income	80.9	95.7	145.9
PAT	24.9	14.1	33.8
OPBDIT/OI	35.0%	24.4%	36.0%
PAT/OI	30.8%	14.8%	23.2%
Total outside liabilities/Tangible net worth (times)	55.0	4.0	1.4
Total debt/OPBDIT (times)	1.7	2.4	1.2
Interest coverage (times)	18.0	13.8	17.3

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 (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 24, 2024	-	Mar 15, 2023	-
1	Long-term fund-based - Term loan	Long-term	35.43	31.66	[ICRA]BBB- (Positive)	-	[ICRA]BBB- (Stable)	-
2	Long-term fund-based - Cash credit	Long-term	14.00	-	[ICRA]BBB- (Positive)	-	[ICRA]BBB- (Stable)	-
3	Short-term non-fund based - LC	Short-term	3.00	-	[ICRA]A3	-	[ICRA]A3	-
4	Short-term non-fund based - BG	Short-term	1.50	-	[ICRA]A3	-	[ICRA]A3	-
5	Long term/Short term unallocated	Long/Short-term	0.07	-	[ICRA]BBB- (Positive)/[ICRA]A3	-	[ICRA]BBB- (Stable)/[ICRA]A3	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based - Term loan	Simple
Long-term fund-based - Cash credit	Simple
Short-term non-fund based- LC	Very Simple
Short-term non-fund based- BG	Very Simple
Long term/Short term unallocated	Not Applicable

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	Long-term fund-based- Term loan II	FY 2023	10.00%	FY2029	35.43	[ICRA]BBB- (Positive)
NA	Long-term fund-based - Cash credit	NA	NA	NA	14.00	[ICRA]BBB- (Positive)
NA	Short-term non-fund based - LC	NA	NA	NA	3.00	[ICRA]A3
NA	Short-term non-fun based - BG	NA	NA	NA	1.50	[ICRA]A3
NA	Long term/Short term unallocated	NA	NA	NA	0.07	[ICRA]BBB- (Positive)/ [ICRA]A3

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

Corrigendum

The unallocated long term/short term ratings have been corrected in the summary of rating action table on page 1.

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 9871156542
varun.gogia1@icraindia.com

Mohika Kundara
+91 9599133619
mohika.kundara@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches