July 09, 2024

Allchem Lifescience Pvt. Ltd.: Ratings reaffirmed and assigned for enhanced amount; Outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term Fund-based – Term Loan	75.47	74.60	[ICRA]BBB- (Positive); reaffirmed; outlook revised to positive from stable
Short term – Fund-based- Working Capital	20.50	0.00	-
Long term /Short term – Fund-based/ Non Fund based- Working Capital	0.00	40.50	[ICRA]BBB- (Positive)/[ICRA]A3; reaffirmed/assigned for enhanced amount; outlook revised to positive from stable
Long term/ Short term- unallocated	1.03	1.90	[ICRA]BBB- (Positive)/[ICRA]A3; reaffirmed/assigned for enhanced amount; outlook revised to positive from stable
Total	**97.00**	**117.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive from Stable takes into account the material improvement in Allchem Lifescience Limited's (Allchem/ the company) credit profile supported by healthy revenue growth and margins and ICRA's expectations that the same would sustain going forward with a likely improvement in its scale of operations supported by commencement of operations for the expanded capacity. The ratings continue to factor in the extensive experience of Allchem Lifescience Private Limited's (Allchem) promoter in the pharmaceutical industry, along with the company's established track record in the intermediates space. The company has over 150 customers, which include reputed pharmaceutical companies like Lupin Limited, Laurus Labs, Sun Pharma, Dr Reddy's Labs, Alembic Pharma, etc. Allchem has developed strong relationships with them, ensuring repeat orders. The company's customer diversification remains healthy with the top-10 customers accounting for 65% of the revenues in FY2024. The company has developed and commercialised a product portfolio encompassing over 400 molecules, which include drug intermediates and specialty chemicals with the top-10 molecules contributing ~72% to the revenues in FY2024.

In FY2024, the company completed its capacity expansion project and commenced commercial operations for the same, resulting in the manufacturing capacity increasing from 55 Metric Ton Per Month (MTPM)to 180 MTPM. There was a slight delay in completion of the capex and commencement of commercial operations with slight cost overruns (started in December 2023 against the earlier plan of Q1 FY2024) due to few plant modifications. However, this incremental cost was completely funded through internal accruals. Going forward, the company's ability to ramp up operations for the enhanced capacity will be a key monitorable. The company's revenue rose 20.9% year on year to Rs.133.5 crore in FY2024 mainly on the back of volume growth with repeat orders from the existing customers and some contribution from incremental revenue from the expanded capacity. Although realisation for the company's top products declined in FY2024 (mainly for intermediates for the generic products) due to pricing pressure arising from higher competition, impact of the same on the revenue growth was offset by healthy volume growth. The company's operating margin improved by 690 bps year on year to 36.7% in FY2024, supported by favourable product mix with increased revenue contribution from high-margin intermediates for innovator molecules and speciality chemicals and operating leverage. Going forward, the company is expected to maintain its strong revenue growth, supported by repeat orders from the existing customers and availability of incremental capacity, while maintaining its healthy margins.

The ratings are, however, constrained by the moderate scale of the company's operations, restricting its operational flexibility to a certain extent. However, with the start of commercial operations for the expanded capacity, the scale is expected to improve, going forward. Allchem operates in a very competitive industry, exposing it to pricing pressure, which can affect its margins. API manufacturers, which are the end customers for the company, are subject to regulatory oversight, and thus, the company is also expected to maintain a high level of quality standard in its operations. Allchem's profitability also remains exposed to adverse volatility in raw material prices and forex rates. The company is a net exporter and does not have any hedging policy in place.

ICRA also notes that the company's manufacturing facility was audited by USFDA in Q1FY2025, and the company received the approval thereafter. This is expected to support the business prospects of the company.

Key rating drivers and their description

Credit strengths

Strong promoter background and established track record of the company in manufacturing drug intermediates – Mr. Bipin Patel is the founder and promoter of the company and has over two decades of experience in the pharmaceutical industry. He has been actively involved with the company's core operations and was instrumental in diversifying its product portfolio. Allchem has an established track record of manufacturing drug intermediates, which are well received by its customers.

Strong relationships with customers ensure repeat orders; diversified product portfolio – The company's proven capabilities have enabled it to secure orders from reputable clients such as Lupin Limited, Laurus Labs, Dr. Reddy's Laboratories, Sun Pharmaceutical Industries Limited among others. The company's customer diversification remains healthy with revenue from the top-10 customers at ~65% (~59% in FY2023) during FY2024. At present, the company has a diverse product portfolio consisting of over 400 molecules, including chemicals, drug intermediates and specialty chemicals, with top-10 molecules contributing ~72% to the revenues (~65% in FY2023) in FY2024. Owing to capacity constraints prior to the recently completed capacity expansion, the company always focused on allocating the manufacturing capacity to high-margin products, which led to relatively higher product and customer concentration in FY2024. However, with availability of incremental capacity following the commencement of commercial operations for the expanded capacity, customer concentration and product concentration are expected to decline, going forward.

Technical competence to develop new chemical intermediates and update product offerings – Since its incorporation as a proprietorship firm in 2003, the company spent almost a decade on research and development, enabling it to develop more than 250 intermediates, before commencing commercial production in 2013. At present, the company has a product portfolio of over 400 molecules and has a wide spectrum of reaction capabilities that can be combined to create new intermediates and update its product offerings on a regular basis, thereby supporting its business prospects.

Healthy revenue growth and margins over the last few years – The company commenced commercial production in 2013 with a capacity of 15 MTPM, producing small batches of intermediates. It expanded its capacity to 55 MTPM in August 2018, and the revenue increased at 19.4% (CAGR) during FY2018 to FY2024. The enhanced capacity also supported the company in expanding its operating margin to 20.7% in FY2019 from 10.9% in FY2018. Since then, the company has consistently maintained a healthy operating margin, which stood at 36.7% in FY2024, largely driven by increasing scale and improvement in product mix. Further, the company is involved in manufacturing of some niche products, allowing it to pass on the raw material price increase to its customers, which has helped the company expand its margins even during inflationary environment in the recent years.

Credit challenges

Moderate scale of operations, restricting operational flexibility to a certain extent – The company's scale of operations remains moderate, restricting its operational flexibility and the benefits from the economies of scale to a certain extent. However, with the commencement of commercial operations for the expanded capacity, the scale is expected to improve, going forward.

Operates in a highly competitive and regulated industry – The company operates amid intense competition, exposing it to pricing pressure, which can impact its margins. However, the company's established relationships with customers and longer time required to get suppliers approved in Drug Master File (DMF) filing by the API manufacturers, help mitigate the competition to an extent. API manufacturers, which are the end customers for the company, are subject to regulatory oversight, and thus, the company is also expected to maintain high level of quality standards in its operations.

Moderation in debt coverage indicators due to significant debt-funded capital expenditure – In January 2021, the company commenced its capacity expansion to increase its capacity to 180 MTPM from 55 MTPM. The total project cost of Rs. 128.8 crore for the same was funded through internal accrual and term loan from banks. As a result, the company's external debt increased to Rs. 92.4 crore as on March 31, 2024 (Rs.89.6 crore as on March 31, 2023) from Rs. 42.7 crore as on March 31, 2022. Despite increased debt, TD/OPBDITA and gearing improved to 2.0 times and 1.1 times respectively on March 31, 2024 compared to 2.1 times and 1.3 times receptively on March 31, 2023 on the back of healthy accruals from improved margins. However, the interest coverage and DSCR declined to 8.1 times and 4.7 times, respectively, in FY2024, from 18.4 times and 8.9 times, respectively, in FY2023, mainly on account of increased interest cost (capitalized during the project phase) and commencement of scheduled repayments for the term loans. Going forward, the coverage indicators are expected to improve gradually on the back of steady accretions and scheduled repayment of term loans. While the capex was completed in December 2023, the company's ability to ramp up operations of the enhanced capacity will be a key monitorable.

Susceptible to fluctuations in raw material prices, foreign exchange rates – The company's profitability remains exposed to adverse volatility in raw material prices. Its export sales mix remained in the range of 40-50% in the last three years and being a net exporter, the margins are susceptible to forex volatility in the absence of any active hedging mechanism.

Liquidity position: Adequate

Allchem's liquidity position remains adequate, with cash and cash equivalents of Rs. 0.2 crore and an available working capital buffer of Rs. 5.2 crore against sanctioned limits of Rs. 20.5 crore as on March 31, 2024. Additionally, the company has enhanced its working capital limit to Rs.40.5 crore from Rs.20.5 crore in May 2024, leading to higher available buffer in its working capital limit. ICRA notes that the drawing power remained at an average of Rs. 20.8 crore in FY2024. Allchem's average working capital utilisation stood at ~49% against its average sanctioned limit of Rs. 20.5 crore between April 2023 and March 2024. In FY2024, the company incurred a capex of Rs. 30-35 crore mainly for residual capex for capacity expansion, new office building, civil work for next phase of expansion and R&D centre. It is expected to incur further capex of Rs. 25-30 crore between FY2025 and FY2026. The capex is expected to be funded completely through internal accruals. The company has repayment obligations of Rs. 5.8 crore in FY2025, Rs. 6.3 crore in FY2026 and Rs. 7.4 crore in FY2027 for its existing debt. Overall, ICRA expects the company to be able to meet its near-term commitments through healthy accruals from its business operations.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings, in case of any significant increase in the scale of operations and net worth with improvement in liquidity position, while maintaining healthy profit margins and debt metrics.

Negative factors – Pressure on the ratings could arise, if there is any material deterioration in debt metrics and liquidity position, resulting in total debt/OPBDITA greater than 3.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Allchem Lifescience Private Limited (Allchem) manufactures intermediates for generic and soon-to-be off-patent innovator molecules, specialty chemicals and custom synthesis for customers in the pharmaceutical industry.

The company was established in 2003 (under the name of Allchem Laboratories) as a proprietorship concern by Mr. Bipin Patel with a small pilot plant. In 2017, it was converted into Allchem Lifescience Pvt. Ltd. Till 2013, the company mainly focused on R&D and product development and garnered ability to manufacture more than 250 intermediates. In 2013, the company commenced commercial production for already developed intermediates. With continuous focus on research and development, the company now has the ability to supply intermediates for more than 400 products/ molecules. The company manufactures intermediates, which are mainly used in antihypertensive, antidepressant and antipsychotic therapies. Allchem's plant is in Vadodara, Gujarat, and at present, it has 197 employees and caters to 150+ customers.

Key financial indicators (audited)

ALPL Standalone	FY2022	FY2023	FY2024*
Operating income	111.9	110.4	133.5
PAT	15.1	20.3	21.1
OPBDIT/OI	24.3%	29.8%	36.7%
PAT/OI	13.5%	18.4%	15.8%
Total outside liabilities/Tangible net worth (times)	2.1	2.2	1.7
Total debt/OPBDIT (times)	1.8	3.0	2.1
Interest coverage (times)	7.7	18.4	8.1

*Source: Company, ICRA Research; * Provisional numbers; 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:

CRA	Rating	Release Date
CARE	CARE BB-/CARE A4; ISSUER NOT COOPERATING	July 20, 2023
BWR	BWR BB-/Stable/BWR A4; ISSUER NOT COOPERATING	March 20, 2024

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)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				July 09, 2024	May 18, 2023	Mar 28, 2023	Oct 27, 2022	Sep-09, 2021
1	Term loans	Long term	74.60	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING; Withdrawn	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable); ISSUER NOT COOPERATING
2	Fund-based- Working Capital	Short term	0.00	-	[ICRA]A3	[ICRA]A4 ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4 ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4 ISSUER NOT COOPERATING. Withdrawn
3	Fund-based/ Non Fund based- Working Capital	Long term and short term	40.50	[ICRA]BBB- (Positive)/[ICRA]A3	-	-	-	-
4	Unallocated	Long term and short term	1.90	[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 /Short term – Fund-based/ Non Fund based- Working Capital	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	Term Loan	FY2022	9.0-9.5%	FY2032	74.60	[ICRA]BBB-(Positive)
NA	Fund-based/ Non Fund based- Working Capital	NA	NA	NA	40.50	[ICRA]BBB-(Positive)/[ICRA]A3
NA	Unallocated	NA	NA	NA	1.90	[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

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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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