

August 31, 2017

Acme Formulation Private Limited

Summary of rated instruments

| Instrument* | Rated Amount (in Rs. crore) | Rating Action |
|---------------------------|--------------------------------|-------------------------------|
| Term Loan | 28.1 (enhanced from 24.9) | [ICRA]BBB (stable) reaffirmed |
| Cash Credit Facilities | 10.0 | [ICRA]BBB (stable) reaffirmed |
| Non-fund Based Facilities | 5.0 | [ICRA]A3+ reaffirmed |
| Unallocated | 2.9 (reduced from 6.1) | [ICRA]BBB (stable) reaffirmed |

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]BBB (pronounced as ICRA triple B) for the bank facilities of Acme Formulation Private Limited (Acme Formulation)¹. The outlook on the long-term rating is Stable. ICRA has also reaffirmed a short-term rating of [ICRA]A3+ (pronounced as ICRA A three plus) for the bank facilities of the company. The total rated amount is Rs. 46.0 crore².

Rationale

In arriving at the ratings for Acme Formulation, ICRA has factored in its strong business linkages with Acme Generics LLP (hereafter referred to as Acme Generics) besides common management for both the entities. Acme Generics was set up to maintain continuity of business for the Acme Group as the excise and income tax exemption available for Acme Formulation's manufacturing facility ended on March 31, 2015. Thus, a majority of business of Acme Formulation was gradually shifted to Acme Generics on commencement of commercial operations of the latter's plant in December 2015. The two entities have been collectively referred to as Acme Group.

The rating reaffirmation factors in the stable operational profile of the Acme Group, with the group being an established contract manufacturer for leading pharmaceutical companies in India. The group continues to have a strong customer profile comprising customers such as Abbott India Limited and Cadilla Healthcare Limited among others. However, despite efforts to penetrate the multi-national pharmaceutical companies operating in India, the company remains largely a supplier to the generic business of domestic pharmaceutical companies. A delay in commercialisation of the facility of Acme Generics, in conjunction with the expiry of excise exemption benefits for Acme Formulation's facility, had led to loss of business for the Acme Group in FY2016; consequently, the scale of operations of the group had declined by ~25%. In FY2017, however, buoyed by a ramp up in scale of operations of the manufacturing facility of Acme Generics, the group's revenues reported a healthy growth in revenues and expansion in operating profits. The group's established relationship with various customers, coupled with the availability of abundant idle capacity augurs well for revenue growth over the medium term.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

The ratings also take into account the comfortable financial risk profile of the company, characterised by healthy cash accruals and a strong liquidity profile. At a standalone level, while a reduced scale of operations has led to lower operating profits, the debt coverage indicators continue to remain healthy. At a group level, while the return indicators have moderated from the earlier healthy levels as a result of significant investments undertaken to setup to Acme Generics facility, they continue to remain at moderate to healthy levels. Apart from its investment in Acme Generics and Acme Formulation, it continues to have significant investments in other group companies as well. The firm has also extended corporate guarantees for facilities availed by other companies in the group; any incremental support to these entities, going forward, could result in deterioration of the financial risk profile and would remain a key rating sensitivity.

ICRA notes the fact that the implementation of Goods and Services Tax (GST) has led to a change in the overall tax and duty structure in the pharmaceutical industry, with benefits available in excise/tax free zones for contract manufacturers being substantially diluted. While the established relationships of the Acme Group in the domestic market, coupled with the management's increased focus on gaining incremental business in the exports market, remain a positive rating factor, the impact of the dilution in excise exemption benefits on the business prospects of the Group would continue to be monitored.

Key rating drivers

Credit strengths

- **Established track record as a leading contract manufacturer for major pharmaceutical companies** – The Acme Group is engaged in providing contract manufacturing services to the pharmaceutical industry. The group's client base comprises leading pharmaceutical players and its client base is fairly diversified, with its top five customers contributing ~53% to the company's revenues in FY2017.
- **Part of a well-diversified JCBL Group, which has a presence across multiple industries** – The JCBL Group is a conglomerate of companies with varied interests in automobiles, pharmaceuticals, design, information technology and international trading. While Acme Formulation is the leading company of the Group in the pharmaceutical sector, JCBL Limited, a manufacturer of bodies for buses and special vehicles, is the flagship company of the Group in the automobile sector.
- **Abundant capacity available post commercialisation of Acme Generics facility provides opportunities for growth** – The excise and income tax benefits for Acme Formulation's facility ended on March 31, 2015. For continuing to benefit excise exemption benefits, the promoters set up another manufacturing facility (under the partnership firm, Acme Generics), which commenced operations from December 2015. A majority of products manufactured at Acme Formulation were gradually shifted to the new facility, which continues to enjoy excise exemption benefits. The presence of abundant capacity, post the setting up of the Acme Generics facility, provides healthy growth opportunities for the Group, going forward.

Credit weaknesses

- **Excise exemption benefits available to unit of Acme Generics have been muted post implementation of GST** – The implementation of GST has led to a change in the overall tax and duty structure in the pharmaceutical industry, and has diluted the benefits available in excise/tax free zones substantially. While the contract manufacturing industry association is in discussions with the Government for compensation related to the dilution of excise exemption benefits available earlier, the impact of the same on the business prospects of the Acme Group remains to be seen.

- **Primarily a supplier for the generic business of domestic pharmaceutical companies; exports remain modest** – The group remains primarily a supplier of generics drugs to domestic pharmaceuticals companies, with its development and manufacturing capabilities covering solid and semi-solid dosage forms across antibiotics, analgesics, anti-fungal, cough and cold preparations, cardiovascular, hormonal products, etc. The management's focus on exports had remained modest so far, with marginal exports being undertaken in semi-regulated markets. However, following the setting up of a new unit for the domestic market, the management is focused on increasing the contribution of the exports segment to overall revenues, going forward.
- **Significant investments and loans extended to group companies, which have yet to scale up operations** – Apart from its investment in Acme Generics, Acme Formulation also has substantial investments in another group company, Immacule Lifesciences Private Limited, an entity engaged in contract manufacturing of liquid orals with a focus on export markets. While the facility commenced commercial operations from December 2014, it is yet to scale up its operations, with the facility and drugs approval processes entailing a long gestation period. Till the facility's scale of operations improves, Acme Formulation could be required to fund the operational losses recorded.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Pharmaceutical Industry](#)

About the company:

Acme Formulation is engaged in providing contract dosage for development and manufacturing services to the pharmaceutical industry. The company is a part of the JCBL Group, which has a diversified presence across automobiles, pharmaceuticals, information technology and international trading industries.

Acme has a manufacturing facility in Nalagarh (Himachal Pradesh). Its development and manufacturing capabilities cover prescription products in solid and semi-solid dosage forms. Its manufacturing facility, setup in 2003, is engaged in manufacturing tablets and capsules. The facility was eligible for 100% outright excise duty exemption for a period of 10 years from the date of commencement of commercial production, 100% income tax exemption for an initial period of five years and thereafter 30% for a further period of five years. The excise and income tax benefits exemption for the facility ended on March 31, 2015.

Key Financial Indicators

| Indicator | FY2016 | FY2017* |
|------------------------------|--------|---------|
| Operating Income (Rs. crore) | 180.9 | 81.3 |
| PAT (Rs. crore) | 11.6 | 8.2 |
| OBDITA/OI (%) | 14.8% | 18.5% |
| ROCE (%) | 14.2% | 7.1% |
| | | |
| Total Debt/ TNW (times) | 0.3 | 0.3 |
| Total Debt/ OPBDIT (times) | 1.3 | 2.2 |
| Interest coverage (times) | 7.7 | 4.8 |
| NWC/ OI (%) | 6.0% | 24.3% |

*OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital; *Provisional Financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

| S. No. | Instrument | Current Rating (FY2018) | | | Chronology of Rating History for the past 3 years | | | |
|--------|---------------------------|-------------------------|--------------------------|--------------------|---|-------------------------|-------------------------|--|
| | | Type | Amount Rated (Rs. crore) | Date & Rating | Date & Rating in FY2017 | Date & Rating in FY2016 | Date & Rating in FY2015 | |
| | | | | August 2017 | August 2016 | September 2015 | May 2014 | |
| 1 | Term Loan | Long Term | 28.1 | [ICRA]BBB (stable) | [ICRA]BBB (stable) | [ICRA]BBB+ (stable) | [ICRA]BBB+ (stable) | |
| 2 | Cash Credit Facilities | Long Term | 10.0 | [ICRA]BBB (stable) | [ICRA]BBB (stable) | [ICRA]BBB+ (stable) | [ICRA]BBB+ (stable) | |
| 3 | Non-fund based Facilities | Short Term | 5.0 | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A2+ | [ICRA]A2+ | |
| 4 | Unallocated | Long Term | 2.9 | [ICRA]BBB (stable) | [ICRA]BBB (stable) | [ICRA]BBB+ (stable) | - | |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

| Instrument | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------------------------|------------------------------------|--------------------|----------------------|---------------------------------|-----------------------------------|
| Term Loan - 1 | March 2014 | - | March 2019 | 3.2 | [ICRA]BBB (stable) |
| Term Loan – 2 | August 2017 | - | August 2026 | 24.9 | [ICRA]BBB (stable) |
| Cash Credit Facilities | - | - | - | 10.0 | [ICRA]BBB (stable) |
| Non-fund based Facilities | - | - | - | 5.0 | [ICRA]A3+ |
| Unallocated | - | - | - | 2.9 | [ICRA]BBB (stable) |

Source: Acme Formulation Private Limited

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About ICRA Limited:

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