

July 29, 2022

Aishwarya Healthcare: Ratings downgraded to [ICRA]BB+(Stable)

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-----------------------------|--------------------------------------|-------------------------------------|--|
| Long-Term – Fund-based – CC | 25.00 | 25.00 | [ICRA]BB+ (Stable); downgraded from [ICRA]BBB-(Stable) |
| Long-Term – Fund-based – TL | 35.00 | 35.00 | [ICRA]BB+ (Stable); downgraded from [ICRA]BBB-(Stable) |
| Total | 60.00 | 60.00 | |

*Instrument details are provided in Annexure-1

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Aishwarya Lifesciences (ALS), Aishwarya Healthcare (AHC) and Celebrity Biopharma Ltd (CBL), together referred to as the Aishwarya Group (Group), given the strong operational, financial, and management linkages.

The revision in the ratings factors in the low profitability of the Group, impacted by weak performance of the Sikkim plant, losses incurred towards new product launches and rising raw material prices. While the scale of the Group grew significantly, low profitability and higher debt levels exerted pressure on the credit profile. Moreover, the Group has sizeable repayments in the near to medium term. The ratings are further constrained by weak liquidity as reflected by high utilisation of working capital limits and low free cash balances. ICRA also notes the risks associated with ALS' and AHC's constitution as partnership firms as there have been significant capital withdrawal in the past.

However, the ratings are supported by the extensive experience of the promoters of the Group in the pharmaceutical industry. After establishing the first unit in 2005, the promoters have since established and acquired more units, taking the total number of units of the Group to four (one each under ALS and CBL and two under AHC). The ratings further draw comfort from the reputed clientele in the pharmaceutical industry and are strengthened by the continued diversification of its product portfolio and the Group's good market position in the IV Fluids segment.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that the Group will continue to benefit from the growing product portfolio and stable demand outlook of the pharmaceutical industry.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the industry – The Aishwarya Group's promoters have extensive experience in the pharmaceutical industry. The first entity of the Group was established in 2005 and the promoters have since expanded its business by establishing and acquiring further units. The Group manufactures generic formulations and undertakes contract manufacturing for many reputed brands.

Diversified product portfolio – The Group has a diversified product portfolio, which includes water for injections, intravenous fluids, powder injections, nasal spray, respules, and eye and ear drops. Having acquired CBL in 2015 and set up AHC – Sikkim in 2016, the Group expanded its product line in the recent fiscals. This has led to higher diversity in its product portfolio and a higher consolidated turnover. The Group remains one of the key players in the IV Fluids segment and through that the ALS and

the Baddi unit of AHC, continue to derive healthy operating profitability. Over the last two years, the Group has launched products in the Ethical and Critical care segment which augurs well from the long-term growth perspective.

Established relationships with key clients – The Group has a reputed client list which includes names such as Alkem Laboratories, Macleods Pharmaceuticals, Zuventus Healthcare etc. It has been associated with these reputed clients over a period now and enjoys consistent repeat orders as well. Moreover, the Group sells its own branded products through an established distributor network across the country.

Credit challenges

Low profitability levels – The Group, on a consolidated level, has generated weak net profit margins compared to the net loss witnessed in FY2021. The scale of CBL, on a standalone basis, witnessed significant increase but the profit margin remained thin. Further, AHC – Sikkim is yet to scale up its operations and has been incurring cash losses since its inception. Further, the Group had been incurring losses towards its newly-launched own branded products as it was building its brand and network which requires significant marketing and promotion. ICRA notes that these launches are expected to contribute marginally to the bottomline from FY2023 onwards. The increase in raw materials, particularly low density poly ethylene (LDPE) has also contributed to the overall dip in the profitability. The Group manages to pass on the majority of the escalations with a lag.

Weak coverage indicators and moderate capital structure – Growing debt levels, including unsecured loans to fund losses and working capital requirements and decline in net worth has resulted in moderately leveraged capital structure. Further, weak profitability has resulted in stretched coverage indicators characterised by Total Debt (TD)/Operating Profit (OPBITDA) and (Total Outside Liabilities) TOL/ (Tangible Net Worth) TNW of 5.1 times and 4 times respectively as on March 31st, 2022. The Net Cash Accruals (NCA) improved marginally in FY2022 but will remain under pressure owing to high scheduled repayments in FY2023. The Group availed sizeable GECL loans over FY2021 and FY2022, resulting in high repayments going forward after completion of available moratoriums.

Stretched liquidity profile – The liquidity of the Group is stretched with high utilisation levels of working capital limits. The cash credit limits of all the units are utilised over ~95% and, therefore, there is a very limited cushion to fall back on, in the event of any liquidity crunch. The Group also maintains low free cash levels in its books which are further exacerbated by operational losses in some of the units.

Risks associated with constituency as partnership firm – Given ALS and AHC's constitution as partnership firms, these are exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon any unforeseen circumstances.

Liquidity position: Stretched

The Group's liquidity position is stretched and its working capital utilisation levels remain high beyond ~95% leaving limited cushion. There are no major free cash balances. Further, the Group has approximately Rs 23 crore of scheduled repayments in FY2023.

Rating sensitivities

Positive factors – The rating may be upgraded if there is improvement in profit margins, thereby strengthening the overall credit metrics. Improvement in liquidity profile will also be a rating trigger. TOL/TNW below 2 times on a sustained basis may result in an upgrade.

Negative factors – Deterioration in profitability of the group resulting in decline in net cash accruals and weak liquidity, could result in a further rating downgrade. Large debt-funded capital expenditure, resulting in weak credit metric, could also put downward pressure on the ratings. DSCR below 1.1 on a sustained basis may also trigger a downgraded.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable rating methodologies | Corporate Credit Rating Methodology Rating approach- Consolidation |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has consolidated the financials of the various Group entities (as mentioned in Annexure-2), given the close business, financial and managerial linkages among the same; ICRA has consolidated the standalone financials of Aishwarya Healthcare, Aishwarya Lifesciences and Celebrity Biopharma Ltd. by eliminating intra-Group transactions |

About the company

Aishwarya Healthcare (AHC), the Group's first entity, was established in 2005 by Mr. Neeraj Kumar Nir and others. It manufactures intravenous infusion fluids packaged in nipple-head cap infusion bags of up to 100 ml. It also manufactures glass vial injections, eye drops, ear drops, and nasal sprays. Its second unit, in Sikkim, was established by Mr. Nir in 2016. The Sikkim plant is the fourth manufacturing unit of the Aishwarya Group. This facility manufactures glass vials, glass ampoules, lyophilised powder, beta lactam, soft gel, food products and tablet and capsules. All the pharmaceutical manufacturing activities are carried out as per the Indian Drugs & Cosmetics Act, 1940. The quality policy is based on CGMP guidelines, laws and regulations governing the manufacture of pharmaceutical products.

In 2010, the promoters set up a partnership firm, Aishwarya Lifesciences (ALS). The plant is located in Baddi, Himachal Pradesh and is WHO-GMP certified. The facility is augmented to manufacture large volume parenterals in LDPE plastics bottles (FFS) and small volume parenterals in plastic bottles.

Celebrity Biopharma Ltd. (CBL) was established in 2005 and in fiscal 2015, the management of the Aishwarya Group acquired CBL. This acquisition also marked the Group's entry into the manufacturing of solid orals.

Key financial indicators (audited/ provisional)

| Consolidated | FY2020 (A) | FY2021 (A) | FY2022 (Est.) |
|--|------------|------------|---------------|
| Operating income | 262.6 | 249.1 | 377.2 |
| PAT (Rs. crore) | -1.7 | -5.4 | 2.9 |
| OPBDIT/OI (%) | 12.8% | 10.9% | 8.3% |
| PAT/OI (%) | -0.6% | -2.2% | 0.8% |
| Total outside liabilities/Tangible net worth (times) | 3.1 | 3.5 | 4.0 |
| Total Debt/OPBDIT (times) | 4.5 | 5.4 | 5.1 |
| Interest coverage (times) | 2.1 | 1.7 | 2.6 |

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 | | Type | Current rating (FY2023) | | Chronology of rating history for the past 3 years | | | |
|------------|-------------|-----------|-------------------------|---------------------------------------|---|-------------------------|-------------------------|-------------------------|
| | | | Amount rated | Amount outstanding as of Mar 31, 2022 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | (Rs. crore) | (Rs. crore) | 29-Jul-22 | 26-Apr-21 | - | - |
| 1 | Cash Credit | Long Term | 25 | 25 | [ICRA]BB+(Stable) | [ICRA]BBB-(Stable) | - | - |
| 2 | Term Loan | Long Term | 35 | 35 | [ICRA]BB+(Stable) | [ICRA]BBB-(Stable) | - | - |

Amount in Rs. crore

Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|-------------|----------------------|
| Cash Credit | Simple |
| Term Loan | 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: www.icra.in

Annexure I: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Cash Credit | - | NA | - | 25.00 | [ICRA]BB+ (Stable) |
| NA | Term Loan | FY2017 | NA | FY2024 | 35.00 | [ICRA]BB+ (Stable) |

Source: Company

Annexure II: List of entities considered for consolidated analysis

| Company Name | Ownership by promoters | Consolidation Approach |
|------------------------|------------------------|------------------------|
| Aishwarya Healthcare | 100% | Full Consolidation |
| Aishwarya Lifesciences | 100% | Full Consolidation |
| Celebrity Biopharma | 100% | Full Consolidation |

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