

Malik Lifesciences Private Limited

	Amount Outstanding	Rating Action
	Rs Crore	February 2016
Term loan-1	8.5 (reduced from 10.0)	[ICRA]A+ (SO) reaffirmed; stable outlook
Cash credit	17.0 (enhanced from 2.0)	[ICRA]A+ (SO) reaffirmed; stable outlook
Total	25.5 (enhanced from 12.0)	

ICRA has reaffirmed a long term rating of [ICRA]A+ (SO) (pronounced ICRA A plus Structured Obligation) for the Rs. 25.5 Crore (enhanced from Rs. 12.0 Crore) bank facilities of Malik Lifesciences Private Limited (MLPL). The rating has a “Stable” outlook. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA’s opinion on the general credit quality of the issuers concerned.

ICRA’s rating is based on the corporate guarantee extended by Akums Drugs & Pharmaceuticals Limited (Akums) for the entire bank facilities of MLPL. The rating reaffirmation for MLPL’s bank facilities factors in the reaffirmation of [ICRA]A+ (stable)/[ICRA]A1+ ratings for the bank facilities of Akums. In arriving at the ratings for Akums, ICRA has taken a consolidated view of Akums along with its four subsidiaries— Pure & Cure Healthcare Private Limited (Pure and Cure) and Malik Lifesciences Private Limited (Malik Lifesciences) i.e.manufacturing units as well as Akumentis Healthcare Limited and Delcure Lifesciences Limited (subsidiaries which operate as marketing companies).

The rating reaffirmation for Akums factors in the established track record of Akums as a leading contract manufacturer for major pharmaceutical companies; its diversified customer profile including leading pharmaceutical companies in India, supported by its new product launches (combination products) and filings with the Indian regulator. Although the company remains largely a supplier to the domestic pharmaceutical companies, it has increasingly focussed on adding multinational pharmaceutical companies operating in India. The company’s revenue growth has benefitted from increased outsourcing undertaken by major pharmaceutical companies, supported by cost competitive operations as well as manufacturing presence in tax free zones.

On a standalone basis, Akums operates five units, of which Unit 1 (Solids) constituted around 70% of revenues till 2014. Subsequent to the expiry of excise duty exemption benefits for Unit 1 from December 14, a significant proportion of the company’s customers opted to shift their business to the company’s subsidiaries (Pure and Cure as well as Malik Lifesciences, which continue to enjoy excise exemption benefits till 2020). Although this has led to a decline in the revenues of Akums on a standalone basis from FY16, its revenue growth on a consolidated basis is expected to remain healthy as the new manufacturing units of its subsidiaries scale up. The company’s profitability during 2014-16 has been adversely impacted on account of one-time expenses related to shifting of operations and sub-optimal capacity utilization in the transition phase. A ramp up in operations of its new units would, however, result in an improvement in profitability metrics. Notwithstanding the interim challenges, the company continues to maintain a strong financial risk profile, characterized by a conservative capital structure, healthy cash accruals and strong debt coverage indicators.

The company’s foray into the marketing of drugs both in the domestic generic as well as prescription segment through its subsidiaries has resulted in significant investment requirements (as loans and advances) for working capital requirements and funding of operational expenses over the past few years. While the investments in marketing subsidiaries are expected to continue for expansion in therapy as well as geographic reach, the recent induction of an investor in Akumentis may limit cash outflow from Akums. In ICRA’s view, the company’s ability to continue further scale up of operations



while managing its working capital requirements efficiently besides incremental support to marketing subsidiaries will remain key rating sensitivities.

Recent Results

In 9m, 2015-16 (provisional financials). MLPL reported an operating income of Rs. 163.0 Crore. The company's operating profit before depreciation, interest and tax stood at Rs. 16.4 Crore.

In 9m 2015-16 (provisional financials), Akums (standalone) reported an operating income of Rs. 427.8 Crore. The company's operating profit before depreciation, interest and tax stood at Rs. 36.7 Crore.

Company Profile

Incorporated in 2004, Malik Lifesciences Private Limited (MLPL) was established to manufacture fragrance products out of a manufacturing facility located in Haridwar that has excise duty exemption till March 2020. In September 2013, the company was acquired by Akums Drugs & Pharmaceuticals Limited (ADPL), thus becoming a 100% subsidiary of the latter. Post the acquisition, the management of ADPL shifted the manufacturing facility of MLPL to a separate plot of land and set up manufacturing facilities compliant with various international accreditations. The plant commenced commercial production in November 2014.

About the Guarantor

Akums Drugs and Pharmaceuticals limited (Akums) was incorporated in 2004 and undertakes contract manufacturing of formulations for domestic as well as multi-national pharmaceutical companies in India. The company has capacities to manufacture tablets, capsules, soft gelatin, dry syrup, liquid orals, injections dry and liquid, pre filled syringes and eye and ear drops, hormones, ointments, cosmetic, ayurvedic, herbal, nutraceuticals and other similar products. Since its incorporation in 2004, the company has successfully added large domestic (both Indian and multinational) pharmaceutical companies in its customer base. While promoters have significant experience in the pharmaceutical industry as well as interests in other small pharmaceutical companies, Akums is the largest and strongest among the promoter companies.

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