



ACME FORMULATION PRIVATE LIMITED

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Rating

ICRA has reaffirmed a long-term rating of **[ICRA]BBB+** (pronounced as ICRA triple B plus) and a short term rating of **[ICRA]A2+** (pronounced as ICRA A two plus) for the Rs. 46.0 Crore¹ bank facilities of Acme Formulation Private Limited (Acme). The long-term rating has a “Stable” outlook[†].

(Refer Annexure for Rating History)

Key Financial Indicators

(Standalone)	2012-13	2013-14	2014-15 (P)
Operating Income	149.7	201.7	285.8
OPBDITA	29.7	40.7	48.9
Profit after Tax	21.1	25.5	40.4*
Equity Capital	4.1	4.1	4.1
Tangible Net Worth	64.0	89.4	129.8
OPBDITA/Operating Income (%)	19.8%	20.2%	17.1%
PAT/Operating Income (%)	14.1%	12.6%	14.1%*
PBIT/avg. (Total Debt + Net Worth + DTL – Capital work-in progress) (%)	56.9%	42.5%	32.2%
OPBDIT/Interest & Finance Charges (Times)	151.5	14.9	14.0
Net Cash Accruals/Total Debt (%)	-	121.3%	135.8%
Total Debt/Net Worth (Times)	0.0	0.3	0.3
Total Debt/OPBDITA (Times)	0.0	0.6	0.7

Note: Amounts in Rs. Crore; CWIP: Capital Work-in-Progress; DTL: Deferred Tax Liability; OI: Operating Income; OPBDITA: Operating Profit before Depreciation, Interest, Tax and Amortisation; PAT: Profit after Tax; PBIT: Profit before Interest and Tax; NCA: Net Cash Accruals; TNW: Tangible Net Worth

Source: Annual Reports, ICRA Estimates; *Profit before tax; P-Provisional Financials

Website:

www.icraratings.com

¹ 100 Lakh = 1 Crore = 10 million

[†]“For complete rating definitions, please refer to the ICRA website www.icra.in or any of the ICRA Rating Publications”

Credit Strengths

- Established track record as a leading contract manufacturer for major pharmaceutical companies; diversified customer profile
- Healthy growth in revenues with stable profitability over the past few years
- Comfortable financial risk profile characterized by healthy cash accruals and strong credit metrics
- Part of a well diversified JCBL group, which has a presence across automobiles, pharmaceuticals, information technology and international trading industries

Credit Concerns

- Expiry of excise and income tax exemption benefits post 2014-15 could lead to decline in scale of operations as part of the business likely to shift to associate Acme Generics LLP, which continues to enjoy excise exemption benefits
- Primarily a supplier for the generic business of domestic pharmaceutical companies; exports remain modest
- Significant investments and loans extended to various group companies, which are yet to scale up operations; Returns from these investments only expected over the medium term

Rating Rationale

The rating reaffirmation continues to factor in the stable operational profile of the company, being a contract manufacturer for established pharmaceutical companies in India. The company has a strong customer profile comprising Abbot India, Cadilla Healthcare and Dr. Reddy's Laboratories among others. The ratings also take into account the healthy growth in revenues and stable profitability reported by the company over the past few years and its comfortable financial risk profile characterized by healthy cash accruals and a strong liquidity profile.

ICRA takes note of the expiry of excise and income tax exemption benefits available for the company's manufacturing facility in Baddi till 2014-15. Thus, to be able to compete effectively and avail excise exemption benefits, the promoters have set up another manufacturing facility under a partnership firm named Acme Generics (wherein Acme holds a majority stake through direct and indirect investments), which commenced operations in August 2015. A number of products manufactured at Acme are likely to be gradually shifted to the new facility, which may result in decline in its scale of operations. However, the company's efforts towards gaining incremental business for the exports markets and other supplies would restrict a sharp decline in scale of operations in the near term.

The ratings continue to be constrained by the large investments done by Acme in its group companies, which are expected to further increase going forward. Additionally, despite efforts to penetrate the multinational pharmaceutical companies operating in India, the company remains largely a supplier to the generic business of domestic pharmaceutical companies. In ICRA's view, the company's ability to gain incremental business to help maintain a healthy scale of operations in the backdrop of expiry of tax benefits, while continuing to invest in various group companies, would remain key rating sensitivities going forward.

Scale, Diversification & Competitive Position

Acme Formulations Private Limited (Acme), established in 2003 is engaged in providing contract 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's development and manufacturing capabilities cover prescription products in solid and semi-solid dosage forms across antibiotics, analgesics, anti-ulcerants, anti-diarrheal, anti-fungal, anti-obesity, cough & cold preparations, cardiovascular, hormonal products etc. The company undertakes majority of these supplies on a Principal to Principal (P2P) basis wherein the manufacturers procure the raw material, manufacturers the finished product and delivers the same to the customers.

Acme's client base comprises large pharmaceutical players like Abbot India, Cadilla Healthcare, Alembic Lifesciences and Dr. Reddy's Laboratories among others. The company's client base is fairly diversified across established pharmaceutical entities with top 10 customers contributing around 69% to the company's revenues in 2014-15. While the company has witnessed significant growth in revenues from domestic market, the company's exports have remained modest till now. Acme's revenue growth benefitted in the past from various excise and tax benefits resulting in competitive pricing to its customers, however, with the expiry of these benefits from 2014-15, incrementally a large part of domestic supplies business is expected to be shifted to its group companies in the near to medium term with only exports and drugs under price control continuing to be supplied from existing facility.

Revenue Growth

Acme recorded an operating income of Rs. 285.8 Crore in 2014-15 (provisional financials), continuing the healthy growth recorded over the past few years, on account of strong growth in business with existing customers as well as addition of new customers. Additionally, since the excise exemption benefits for the company's facility were to end on March 31st, 2015, the production schedules for a number of customers in February and March 2015 were significantly higher than normal monthly production schedules, leading to a higher growth in revenues. The same led to an increase in inventory levels for a number of the company's customers and consequently, the production schedules in April-June 2015 have been lower than normal levels and expected to remain lower as incrementally many of the products may be shifted to its Associate.

As the excise and income tax benefits for Acme's current facility ended in 2014-15, the promoters have set up another manufacturing facility (under a partnership firm – Acme Generics LLP, wherein Acme holds a majority stake), which commenced operations in August 2015. As the new manufacturing facility ramps up its scale of operations, a number of the customers being currently catered by Acme could be serviced by the new partnership firm, which may result in decline in its scale of operations. However, the company's efforts towards gaining incremental business for the exports markets and other supplies would restrict a sharp decline in scale of operations in the near term.

Cost Position and Profitability

A healthy scale of operations helped the company maintain healthy operating margins of 17.1% in 2014-15 (provisional financials); however the same were lower than the previous year with the management attributing the same to an increase in raw material expenses on account of certain changes in sales and customer mix. Generally, the company follows a cost plus pricing model for its customers; as such the company is likely to sustain its operating margins at healthy levels going forward. With the interest expenses remaining low, the company was able to report a healthy PBT of Rs. 40.7 Crore in 2014-15.

With improvement in profitability and scale of operations, the company has been able to report a healthy ROCE over the past few years. Although an investment in commercial property in 2013-14 as well as incremental investments in group companies moderated ROCE, it still remains healthy at 32.2% in 2014-15. The company has been making investments and extending loans to its group companies, which are yet to scale up their business. Going forward, apart from incurring maintenance capex, the company is also likely to continue to support its group companies in their growth plans. Thus, its ROCE may be suppressed as a result of an expected reduction in scale of business, while the company continues to invest in its group companies.

Financial Policy and Capital Structure

Over the years, Acme has had a strong financial risk profile with limited reliance on external debt and healthy cash accruals. As of March 31st, 2015 (provisional financials), the company had Rs. 28.0 Crore long term debt on its books, consisting of a term loan of Rs. 24.0 Crore for purchasing a commercial property in Chandigarh and a foreign currency term loan of Rs. 7.0 Crore from SIDBI. Although the total debt on the company's books increased in 2014-15, the healthy tangible net worth helped keep the gearing at low levels of 0.3 time. The healthy profitability has helped maintain strong debt coverage indicators with Interest coverage of 14.0 times, NCA/Total Debt of 135.8% and Total Debt/OPBDITA of 0.7 time in 2014-15.

The company has done investments in group companies, primarily Acme Generics (new partnership firm to cater to generics business), Immacule Lifesciences Private Limited (contract manufacturing – liquid orals) and Globe CV Private Limited (Dealership of Bharat Benz trucks). In 2014-15, the company invested about Rs. 43.8 Crore in Acme Generics apart from marginal increase in investments in Immacule Lifesciences Pvt Ltd. If adjusted for the investments in group companies, the gearing of the company still remains at low levels of 0.8 times as of March 31st, 2015. Going forward, with the company not having any major capex plans apart from maintenance capex to be incurred on a yearly basis, the financial risk profile is expected to remain healthy.

Cash Flow Variability

The company's cash flow position continues to be strong on account of healthy profitability as well as low working capital intensity. With the company investing significantly in its group companies, the company's dependence on external financing increased in 2014-15. Although the company does not have any major capex plans, the extent of support provided to group companies would remain critical in determining the extent of dependence on external borrowings.

Recent Results

In 2014-15 (provisional financials), Acme reported an operating income of Rs. 285.8 Crore. The company's operating profit before depreciation, interest and tax stood at Rs. 48.9 Crore.

Company Profile

Acme Formulation Private Limited (Acme) is engaged in providing contract dosage form 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. The company has a manufacturing facility located in Nalagarh, Solan (Himachal Pradesh). Acme's development and manufacturing capabilities cover prescription products in solid and semi-solid dosage forms. The company's manufacturing facility, setup in 2003 is engaged in manufacturing tablets and capsules.

September 2015

Annexure

Rating

	Amount Outstanding	Rating Outstanding
	Rs Crores	September 2015
Term Loans	28.0 (reduced from 31.0)	[ICRA]BBB+ (stable) reaffirmed
Cash Credit Facilities	10.0	[ICRA]BBB+ (stable) reaffirmed
Non Fund Based Facilities	5.0	[ICRA]A2+ reaffirmed
Unallocated	3.0 (enhanced from 0.0)	[ICRA]BBB+ (stable) assigned



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