

February 20, 2017

## Akums Drugs & Pharmaceuticals Limited

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit Facilities	65.0 (reduced from 80.0)	<b><i>[ICRA]A+ (stable) reaffirmed</i></b>
Term Loans	15.0 (reduced from 27.0)	[ICRA]A+ (stable) reaffirmed
Unallocated	10.0	<b><i>[ICRA]A1+ reaffirmed</i></b>
<b>Total</b>	<b>90.0</b> <b>(reduced from 117.0)</b>	

\*Instrument Details are provided in Annexure-1

### Rating Action

ICRA has reaffirmed a long term rating of [ICRA]A+ (pronounced ICRA A plus) and a short term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the bank facilities of Akums Drugs & Pharmaceuticals Limited (ADPL). The long-term rating has a “Stable” outlook<sup>1</sup>. The total rated amount has been reduced from Rs. 117.0 Crore to Rs. 90.0 Crore<sup>2</sup>.

### Detailed Rationale

The rating reaffirmation takes into account the continued healthy operating performance of the company and its established track record as a leading contract manufacturer for major pharmaceutical companies. The company continues to have a diversified customer profile which includes leading pharmaceutical companies in India and has been able to generate healthy repeat business from its various customers. Although the company remains largely a supplier to the domestic pharmaceutical companies, it has focussed on adding multinational pharmaceutical companies operating in India over the past few years. Notwithstanding its strong position as contract manufacturer for leading pharmaceutical companies, the company’s foray into marketing of formulations through its subsidiaries brings some diversification in revenues.

Although, at a standalone level, the company’s revenues declined in FY2016 on account of strategic shift of business to subsidiaries to benefit from excise exemptions, the revenue growth at a consolidated level has remained healthy. The revenue growth of ADPL (on consolidated basis) benefitted from increased outsourcing undertaken by major pharmaceutical companies, supported by cost competitive operations as well as manufacturing presence in tax free zones. While ADPL’s standalone profitability over the past two years 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 has helped maintain healthy profitability metrics at a consolidated level.

The ratings assigned continue to factor in the healthy financial risk profile of the company, characterized by a conservative capital structure 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 resulted in significant investment requirements (as loans and advances) for working capital requirements

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA’s website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications.

<sup>2</sup> 100 Lakh = 1 Crore = 10 million



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 expectation of healthy cash accruals for the group from its manufacturing business would support its healthy financial risk profile.

The long term growth prospects for the pharmaceutical industry continue to remain healthy driven by increased penetration and new product launches; however recent regulatory interventions had moderated the growth trajectory. Expansion of National List of Essential Medicines, bringing more formulations under Drug Price Control Order brought in some change in the focus therapy areas for formulation marketing companies. Moreover, the recent ban on Fixed Dose Combinations (which was later revoked) that disturbed the sales mix of formulation companies for few months, and the resultant order flow to contract manufacturers, also created uncertainty for growth prospects of such entities. Additionally, the impact of a change in drug approval process that has increased the process requirements thereby slowing new drug launch activity may reflect on company's performance going forward. In ICRA's view, the company's ability to continue further scale up of operations (both domestic as well as export) while managing its working capital requirements efficiently besides extent of incremental support provided to marketing subsidiaries will remain the key rating sensitivities.

### **Key rating drivers**

#### **Credit Strengths**

- Established track record as a leading contract manufacturer for major pharmaceutical companies
- Diversified revenue profile with presence in contract manufacturing (~80% of revenues) and marketing of formulations (~20% of revenues)
- Healthy financial risk profile characterized by stable cash accruals and strong credit profile
- Diversified client profile with limited client concentration risk
- Akums group, being a large contract manufacturer, benefits from competitive procurement of raw materials

#### **Credit Weakness**

Largely a supplier to the generic business of domestic pharmaceutical companies; business gained from multinational companies (MNCs) has diversify business profile

- Loss of excise exemption for the ADPL's largest manufacturing unit resulted in decline in revenues and moderation in profitability indicators on a standalone basis in FY2016; ability to efficiently utilize capacity and scale up revenues remains critical to improve return metrics
- Significant investments and loans extended to various marketing subsidiaries, returns from which are only likely over the medium term; Stake sale in one of the marketing entities (Akumentis Healthcare) led to repayment of loans and advances from the same
- Exposure to regulatory changes which may curtail growth of the domestic pharmaceutical market; changes in drug approval process may impact new product development time cycle and hinder growth

**Detailed description of key rating drivers highlighted above:**

ADPL, along with its subsidiary manufacturing companies Pure & Cure Healthcare Private Limited (PCHPL) and Malik Lifesciences Private Limited (MLPL) (collectively referred to as Akums Group), is one of the largest contract manufacturers in the country with its client base comprising large pharmaceutical players.

Akums Group has witnessed significant growth in revenues from the domestic market over the past 6-7 years, driven by supplies to both Indian as well as multinational pharmaceutical companies, who have outsourced a fairly sizeable share of their production to third-party manufacturers. This coupled with the ability to develop a large number of formulations as well as fiscal incentives (Excise/Income Tax exemptions) offered by Uttarakhand among other States, allowed the company offer a large product portfolio and competitive pricing, helping it emerge as one of the large contract manufacturers in the country. While maintaining strong relationship with its clientele, the group's revenues are also well diversified with top 10 customers contributing around 40% to the company's revenues. The excise exemption benefits for Unit I of the company ended in December 2014, which could have led to loss of business for the company. Thus, in order to enjoy extended excise exemption benefits, the management pursued the strategy of buying units with extended exemptions and shifting business to those units.

ADPL's capital structure (both at standalone and consolidated levels) continues to be comfortable with limited reliance on external debt and healthy cash accruals. Over 2013-15, new debt undertaken to partly fund the capex incurred for setting up two new manufacturing units had led to a marginal increase in gearing levels; however healthy cash accruals post the ramp up in operations of the new units has helped bring down the gearing levels. A decline in profitability on account of suboptimal scale of operations and expenses incurred during shifting of business has weakened debt coverage indicators to an extent for ADPL (standalone); the company's consolidated debt coverage indicators however continue to remain robust.

ADPL's management has created several separate marketing companies over the years. ADPL has been extending loans and advances to these subsidiaries to meet their working capital as well as loss funding requirements. A number of the other marketing companies of the group are yet to scale up operations and company is likely to continue to fund the losses for the other two companies over the medium term. ICRA expects Akums to continue to advance funds for operational requirements of these marketing entities till the time they become profitable or private equity investor is brought onboard.

**Analytical approach:****Links to applicable Criteria**

- Corporate Credit Rating –A Note on Methodology
- Rating Methodology for Pharmaceuticals Companies

**About the Company:**

Incorporated in 2004, Akums Drugs and Pharmaceuticals limited (ADPL) 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, the company has successfully added large domestic (both Indian and multinational) pharmaceutical companies in its customer base. The promoters have significant experience in the pharmaceutical industry; over the years, the promoters have opened various several manufacturing and marketing pharmaceutical companies, in which ADPL holds a majority stake.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating (2016)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				February 2017	March 2016	March 2015	February 2014
1	Cash Credit Facilities	Long Term	65.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loans	Long Term	15.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Non Fund Based Facilities	Short Term	10.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**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](http://www.icra.in)

## Annexure-1

### Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit Facilities	-	-	-	65.00	[ICRA]A+ (Stable)
Term Loan	2015	-	27 March, 2018	15.00	[ICRA]A+ (Stable)
Non Fund Based Facilities	-	-	-	10.00	[ICRA]A1+

#### Name and Contact Details of the Rating Analyst(s):

**Subrata Ray**  
+91 22 2433 1086  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Anupama Arora**  
+91 124 4545 303  
[anupama@icraindia.com](mailto:anupama@icraindia.com)

**Rohan Kanwar Gupta**  
+91 124 4545 808  
[rohan.kanwar@icraindia.com](mailto:rohan.kanwar@icraindia.com)

#### Name and Contact Details of Relationship Contacts:

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

#### 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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500