

Arion Healthcare

February 16, 2018

Summary of rated instruments

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	18.0	[ICRA]BB (Stable) Assigned
Total	18.0	

Rating action:

ICRA has assigned the long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 18.0-crore¹ fund-based facilities of Arion Healthcare (Arion)². The outlook on the long-term rating is Stable.

Rationale:

The assigned rating takes into account extensive experience of Arion's promoters and the track record of operations of the company which has enabled it to establish a wide client base. Further, the rating favourably factors in the firm's wide distribution network and locational advantage by virtue of its factory in Baddi, Himachal Pradesh close to its principals. This apart, Arion's moderate capital structure and coverage indicators also provide comfort.

The rating, however, is constrained by Arion's high working capital intensity, given the high credit period offered to the clients and high stock holding period across products also resulting in high limit utilisation. Further, Arion's scale of operations has declined in the last two years as some business was shifted to group company Navkar Lifesciences (NLS) (rated at [ICRA] BB- (Positive) as on November, 2017) owing to available tax exemptions. The rating also factors the risks associated with the partnership nature of the constitution.

Going forward, the firm's ability to achieve revenue growth while improving its working capital cycle and coverage metrics will be the key rating sensitivities.

Outlook: Stable

The outlook may be revised to a Positive in case of a revival in revenue growth and improvement in the working capital intensity. The outlook may be revised to a Negative if the receivable cycle elongates from the current levels, leading to stress in liquidity position and the scale continues to decline.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers:

Credit strengths

Long track record in pharmaceutical industry with diversified client base – The firm has more than a decade-long track record of operations. Arion's revenues are diversified across revenues from owned brand sales, contract manufacturing and tender based business. Own brands include Warfix, Neo-cold and Ari-cold. The firm deals in more than 200 products spread across seven therapeutic segments. The firm's plant is located in Baddi Himachal Pradesh in proximity to its principals as well as suppliers. The Group also has a packaging company which lends some synergies. Over the years, Arion has built an established client base in the contract manufacturing segment, while it distributes its own products through a network of 200 dealers.

Moderate capitalisation and coverage indicators – With majority of the capex already incurred in the past, Arion's dependence on long-term borrowings is low and it avails mainly of working capital limits. Modest debt levels and moderate margins and minimal long-term repayments have resulted in moderate coverage metrics. However, ICRA notes that the partners have continuously withdrawn capital from the business in the last four years amounting to Rs. 8.5 crore.

Credit challenges

Stagnant scale of operations – For the last two years, Arion's scale has witnessed continuous decline, as the Group started a new Group company in FY2017 to take advantage of the available income tax and excise duty exemptions. This included shifting of a large part of the contract manufacturing sales to maintain the pricing viability. However, post-GST implementation, Arion's ability to achieve growth will be a rating sensitivity.

Stretched working capital cycle - The firm has high working-capital intensity on account of high debtor and inventory days. With limited bargaining power and exposure to competition, Arion's credit policy for customers has remained between 90 days and 120 days. The firm also maintains substantial stock across finished products as well as raw material. Consequently, Arion's working capital limit utilisation has also remained high.

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

Links to applicable criteria:

[Rating Methodology for Pharmaceutical Industry](#)

About the company:

Arion, incorporated in 2005, is involved in developing and manufacturing generic pharmaceutical formulations such as tablets, capsules and ointments. The firm's manufacturing facilities are located in Baddi, Himachal Pradesh, and it offers a broad range of formulations such as analgesic, nutritional, dermatological, anti-allergic, anti-diabetic, anti-fungal, and anti-depressants. The Group company-NLS is also involved in the same line of business while another company Arihant Packwell (rated at [ICRA] B+ as on December, 2016) is involved in manufacturing of packaging material.

In FY2017, the firm reported a net profit of Rs. 0.7 crore on an operating income (OI) of Rs. 66.5 crore compared with a net profit of Rs. 1.5 crore on an OI of Rs. 99.2 crore in the previous year. On a provisional basis, the firm reported an OI of Rs 39 crore as on September 30, 2017.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	99.2	66.5
PAT (Rs. crore)	1.5	0.7
OPBDIT/OI (%)	6.9%	8.5%
RoCE (%)	9.9%	9.6%
Total Debt/TNW (times)	1.1	0.8
Total Debt/OPBDIT (times)	4.2	3.0
Interest Coverage (times)	1.7	1.5
NWC/OI (%)	40%	38%

Status of non-cooperation with previous CRA: None

Any other information: ICRA has outstanding ratings on the group companies of Arion.

Rating history for last three years

	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years	
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	NA
					February 2018	NA
1	Cash Credit	Long Term	18.0	18.0	[ICRA]BB (Stable)	NA

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	18.0	[ICRA]BB (Stable)

Source: Arion

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