

Mac-Chem Products (India) Private Limited

June 29, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	6.95	-	-
Fund-based – Cash Credit	18.50	15.00	[ICRA]BB (Stable); Reaffirmed
Non-fund based – Bank Guarantee	0.50	-	-
Unallocated Limits	0.00	10.95	[ICRA]BB (Stable)/[ICRA]A4; Reaffirmed
Total	25.95	25.95	

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 15.00¹ crore cash credit (previously Rs. 18.50 crore) facility of Mac-Chem Products (India) Private Limited ('MCPIPL' or the company)². ICRA has also reaffirmed the long-term rating of [ICRA]BB and short-term rating of [ICRA]A4 (pronounced ICRA A four) to Rs. 10.95 crore (previously nil) unallocated limits of MCPIPL. The outlook on the long-term rating is Stable.

Rationale

The ratings re-affirmation takes into account the extensive experience of the promoters in the field of manufacturing pharmaceutical formulations and active pharmaceutical ingredients (API); and the synergies from association with group concerns, which are involved in a similar line of business. The company also has a diversified portfolio of API (bulk sterile API, oncology API and general API) which limits the demand risks associated with a single product. The ratings also draw comfort from the stability in operating margins over the period under study and the reduced inventory holding in H2FY2018 which has led to slightly lower reliance on external working capital borrowings, however the sustainability of the same remains to be seen. ICRA takes note of the company's plans to venture into regulated markets like USA which will diversify its presence which is currently limited to semi-regulated and unregulated markets and lead to better revenue visibility and profitability margins, though this is expected to give rise to higher compliance cost.

The ratings, however, continue to remain constrained by the company's modest scale of operations and thin net profitability owing to high interest and depreciation costs, nonetheless net cash accruals position has remained stable over the years. The company's profitability is further constrained by fluctuations in prices of key raw materials like platinum and volatility in foreign currency exchange rates, in the absence of a firm hedging policy as imports account for a significant portion of the company's total procurement. The company's coverage indicators have remained weak and the capital structure is leveraged, however, some comfort can be drawn from 47% of the total debt comprising inter-corporate deposits provided by related entity which meets the funding requirements.

Going forward, the ability to enter new markets, scale up its operations as well as improve profitability, while managing its working capital intensity would remain the key rating sensitivities.

¹100 lakh = 1 crore = 10 million

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

Outlook: Stable

ICRA expects moderate revenue growth over the next three years with better revenue visibility from entering new markets. The outlook may be revised to 'Positive' if the successful entry into regulated markets leads to substantial growth in revenue and profitability along with improved efficiency in the working capital management, primarily inventory management, trims debt and interest costs and strengthens the financial risk profile. Downward pressure on the rating could emerge if cash accrual is lower than expected, adverse impact of raw material price movement on profitability, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of the promoters in the field of manufacturing pharmaceutical formulations and API – MCPIPL was incorporated in 1991 by Mr. Prakash Warkhar, but it had remained dormant and was later acquired by the present promoters – Mr. Babulal Jain, Mr. Mohan Jain and Mr. Manish Jain in FY2007. The new promoters ventured into manufacture of API for oncological purposes and steroids through MCPIPL and set up a manufacturing unit at Boisar in Maharashtra. The promoters of MCPIPL have over two decades of experience as they have been engaged in the business of manufacturing and marketing of pharmaceutical products through two group concerns: Naprod Life Sciences Private Limited (NLSPL) and Miracalus Pharma Private Limited (MPPL).

Synergies from group concerns, viz. Naprod Life Sciences Private Limited and Miracalus Pharma Private Limited – NLSPL was established in 1994 and includes a formulation unit for manufacturing parenteral drugs, tablets and capsules. MPPL is engaged in the marketing and trading of the formulations manufactured by NLSPL and other domestic API manufacturers, through a network of medical representatives (MR) specialising in oncological products. The three group companies act as an integrated unit wherein MCPIPL is the API manufacturing center, NLSPL is the parenteral drugs, tablets and capsules manufacturing center and the sales arm and MPPL is the marketing arm.

Diversified product portfolio reduces demand risks associated with any single product - The product profile of the company is diversified which includes three categories of API: Oncology API, Bulk Sterile API and General API reducing the demand risk associated with any single product segment. Oncology API is the major revenue driver of the company forming ~60% of the total revenue mix and includes about 45 products. The manufacturing of these products is dependent on the demand indicators of a particular intermediate at any given time.

Stability in operating margins over the period under study –The company's revenues and profitability are exposed to volatility in key raw material prices like platinum. It reduces the production of certain APIs which use platinum as the raw material because the reduction in the price of the platinum and dollar fluctuation renders the manufacture of these API less cost effective as it has to pass on the price decline to their customers. However, it enables the company to maintain stable operating margins.

Venture into regulated markets will lead to better revenue visibility - The company in FY2017 has been approved for 4-5 products by EDQM (European Directorate for the Quality of Medicines) for supply to certain European countries. It is also expected to receive US Food and Drug Administration (US FDA) approval in the near term for the generic facility which will drive its venture in regulated markets. It has also received certification from ANVISA which is the Brazilian Health Surveillance Agency however, product registration is under way and the gestation period is expected to be 2-3 years. Though the compliance costs are expected increase, the scale and margins are expected to be positively impacted from sales to the regulated market with high priced and low volume products.

Credit challenges

Modest scale of operations and thin net profitability owing to high interest and depreciation costs, nonetheless net cash accruals position has remained stable over the years– The company' scale of operations continues to remain modest. The company in FY2016 and FY2017 recorded revenue de-growth of ~11% in both years, however it recorded a y-o-y revenue growth of 26% (sales of Rs. 76.83 crore (provisional) in FY2018). The net profitability remains thin at Rs. 0.03 crore in FY2017 due to high depreciation and interest costs. Inspite, of which the net cash accruals have remained stable in the range of Rs. 2-3 crore over the period under study.

Revenues and profitability exposed to volatility in key raw material prices - The key raw materials of the company, including chemicals and solvents are crop derivatives, the availability of which is seasonal and thus their prices exhibit volatility. The company uses platinum as a raw material in some of the APIs which has exhibited volatility in the past. Further, the inclusion of overseas clients requires the company to maintain raw material inventory of 60-90 days, which exposes the company's operations to adverse fluctuations in the raw material prices. The inventory levels have reduced since October 2017 and if the same is sustained it will mitigate price risks pertaining to the inventory to some extent.

Operations exposed to foreign exchange fluctuations as imports comprise a significant portion of total procurement - The company procures about 65% of the raw material from overseas suppliers, mainly from China and South Korea; thus, in the absence of any firm hedging policy, the company's operations are exposed to the risk of currency fluctuations. Besides its overseas suppliers, the company also procures raw materials from several domestic small-scale suppliers. The supplier concentration is, however, high, with the top five suppliers accounting for ~54% of the total purchases of the company in FY2018 (59% in FY2017).

Modest coverage indicators, leveraged capital structure, however intercorporate deposits from related entity forms a considerable part of debt - The interest coverage indicators and debt coverage metrics are modest with an interest coverage of 1.42 times, TD/OPBDITA of 5.66 times, NCA/TD of 6.2%, TOL/TNW of 5.75 times and debt service coverage of 1.16 times as on March 31, 2017. The gearing levels of the company continue to remain high at 3.71 times as on March 31, 2017 however some comfort can be drawn as intercorporate deposits form about 47% of the total debt and meets considerable funding requirements of business. Further, ICRA notes that the working capital utilization has declined in H2FY2018 which is expected to provide some comfort to the capital structure.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Pharmaceutical Industry](#)

About the company:

Mac-Chem Products (India) Private Limited was incorporated in 1991 and was later acquired by the present promoters – Mr. Babulal Jain, Mr. Mohan Jain and Mr. Manish Jain in FY2007. The new promoters ventured into manufacture of Active Pharmaceutical Intermediates (API) for oncology and steroids through MCPIPL and set up a manufacturing unit at Boisar (Maharashtra). The company is engaged in manufacturing Anticancer Agents (Oncology API), Bulk Sterile API and General API and primarily caters to the unregulated and semi regulated markets at present.

The company also has two group concerns, viz. Naprod Life Sciences Private Limited (NLSPL) and Miracalus Pharma Private Limited (MPPL). NLSPL is engaged in the manufacture of parenteral drugs, capsules and tablets while MPPL is engaged in the marketing of formulations manufactured by NLSPL and other domestic manufacturers.

In FY2017, the company reported a net profit of Rs. 0.03 crore on an OI of Rs. 60.77 crore, as compared to a net profit of Rs. 0.05 crore on an OI of Rs. 68.21 crore in the previous fiscal.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	68.21	60.77
PAT (Rs. crore)	0.05	0.03
OPBDIT/ OI (%)	10.24%	11.09%
RoCE (%)	10.51%	9.70%
Total Debt/ TNW (times)	3.55	3.71
Total Debt/ OPBDIT (times)	5.20	5.66
Interest Coverage (times)	1.41	1.42

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jun 2018	Date & Rating in FY2018	Date & Rating in FY2017 Dec 2016	Date & Rating in FY2016 Feb 2016
1 Cash Credit	Long Term	15.00	-	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2 Unallocated limits	Long and Short Term	10.95	-	[ICRA]BB (Stable)/ [ICRA]A4	-	-	-
3 Term Loan	Long Term	-	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4 Bank Guarantee	Short Term	-	-	-	-	[ICRA]A4	[ICRA]A4

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	-	-	-	15.00	[ICRA]BB (Stable)
NA	Unallocated Limits	-	-	-	10.95	[ICRA]BB (Stable)/[ICRA]A4

Source: MCPIPL

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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