

## Alivira Animal Health Limited

July 06, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loan	125.00	125.00	[ICRA]BBB+ (Stable); Reaffirmed
Long-term, Fund-based Limits	35.00	0.00	-
Short-term, Non-fund Based Limits	85.00	85.00	[ICRA]A2+; Reaffirmed
Short-term, Fund-based Limits	25.00	60.00	[ICRA]A2+; Reaffirmed
Long-term – Interchangeable	(25.00)	(35.00)	[ICRA]BBB+ (Stable); Reaffirmed
Short-term – Interchangeable	(35.00)	(35.00)	[ICRA]A2+; Reaffirmed
<b>Total</b>	<b>270.00</b>	<b>270.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)<sup>1</sup> assigned to the Rs. 125.00-crore<sup>2</sup> term loans and the Rs. 35.00-crore (increased from Rs. 25.00 crore) long-term interchangeable limits of Alivira Animal Health Limited (AAHL or the company). ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 85.00-crore non-fund based limits, the Rs. 60.00-crore (increased from Rs. 25.00 crore) fund-based limits and the Rs. 35.00-crore interchangeable limits. The outlook on the long-term rating is Stable. The long-term interchangeable limits of Rs. 35.00-crore and the short-term interchangeable limits of Rs. 35.00-crore are a sub-limit of short-term fund-based and non-fund based limits such that the total utilisation should not exceed Rs. 270.00 crore.

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of AAHL along with its parent, Sequent Scientific Limited (SSL), given the strong operational, financial and management linkage between the entities.

The ratings take into account the healthy revenue growth and improvement in profitability of SSL's (consolidated) continuing business i.e. animal active pharmaceutical ingredients (APIs) and formulations business, in FY2017 and FY2018, following the integration of the operations of various entities acquired over the past two years under AAHL. While the demerger of the human API business has impacted the top-line for SSL (standalone), revenue growth in the animal API and formulations segments in AAHL has supported SSL's (consolidated) top line growth in FY2018. The divestment has helped sharpen SSL's focus on the relatively high margin animal health business under AAHL. SSL (consolidated) reported an operating income of Rs. 843.57 crore in FY2018 compared to Rs. 685.03 crore in FY2017 from the continuing business.

The ratings factor in AAHL's sustained business growth momentum driven by its entry into new geographies through inorganic growth, its robust product pipeline across segments and SSL's management's extensive experience in the pharmaceutical industry, which ensures established relations with global pharmaceutical majors. SSL's consolidated

<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

financial profile is characterised by sustained revenue growth, a comfortable capital structure as reflected by gearing of 0.44 time as on March 31, 2018, and a healthy liquidity profile as reflected by comfortable cash and liquid investment balances (Rs. 59.79 crore as of March 31, 2018). Furthermore, the company's strong position in the animal healthcare segment in therapies like anthelmintic, anti-protozoal, nonsteroidal anti-inflammatory drugs, ecto-parasiticides and feed-additives and a diversified customer base across 55 geographies lends revenue visibility. ICRA also notes that the recent US Food and Drug Administration (USFDA) approval for the Vizag (Andhra Pradesh) facility will enable the company to expand its reach to the US, which is the largest market for animal healthcare.

ICRA, however, notes that post the divestment of the human API business, SSL (consolidated) will be solely dependent on the animal healthcare business. ICRA also notes the significant loan repayments due in the near term, which will exert pressure on the company's liquidity profile. The ratings also consider the high capital intensive nature of the animal API business and the vulnerability of SSL's (consolidated) revenues and profit margins to foreign exchange fluctuations. ICRA, however, notes that the company has completed its capital expenditure plan, barring US\$ 3–4 million towards the veterinary formulations facility establishment in Spain, which will limit external borrowings. The ratings also factor in the high regulatory risk following increasing scrutiny and stricter controls by the regulatory authorities of developed countries. Moreover, given the history of inorganic growth, any large debt-funded acquisition could impact the credit profile. While ICRA expects the company to maintain its credit profile, sizeable inorganic investments remain an event risk and would be evaluated on a case-by-case basis for its impact on the ratings.

## Outlook: Stable

ICRA believes that SSL (consolidated) will continue to benefit from the acquisitions made by AAHL in the past two years by its increased presence in the global animal healthcare market. The outlook may be revised to Positive if sustained growth in revenues and profitability strengthens the company's financial risk profile and cash flows. The outlook may be revised to Negative if cash accruals are lower than expected, or if any unplanned capital expenditure, or acquisition results in an increase in total debt and exerts pressure on the liquidity profile of the company.

## Key rating drivers

### Credit strengths

**Healthy revenue growth and improvement in profitability** - SSL (consolidated) reported healthy revenue growth and an improvement in profitability in its continuing business i.e. animal API and formulations, in FY2017 and FY2018, following the integration of the operations of various entities acquired over the past two years under AAHL. Despite the divestment of the human API business with effect from October 1, 2017, consolidated revenues stood at Rs. 1,012 crore in FY2018 over Rs. 898.64 crore in FY2017, reflecting revenue growth in the animal API and formulations segments.

**Financial profile characterised by comfortable gearing and healthy liquidity** - SSL's consolidated financial profile is characterised by a comfortable capital structure, as reflected by the gearing of 0.44 time as on March 31, 2018, and comfortable liquidity profile as reflected by cash and liquid investments of Rs. 59.79 crore as on March 31, 2018. While total debt at the consolidated level has remained high (Rs. 304.58 crore as on March 31, 2018), the company's strong tangible net worth has maintained the gearing at a comfortable level.

**USFDA approval for Vizag facility will help AAHL's entry into the largest animal healthcare market** - SSL received USFDA approval for its animal health API facility at Vizag, Andhra Pradesh, in May 2017, making it the only USFDA-approved dedicated plant for animal API in India. The approval has enabled AAHL to expand its reach to the US, which is the largest market for animal healthcare.

**Diversified customer base across geographies lends revenue visibility** - While SSL addresses 50% of the global veterinary market, it derived 56% of its revenues from Europe in FY2018, followed by Latin America (12%), Turkey (13%), emerging markets (8%) and North America (2%). The Group derived 9% of its total revenues from the domestic market in FY2018. The company has entered new geographies such as Turkey, Belgium, Sweden, the Netherlands, Brazil, Mexico and Spain

through the inorganic route over the past three years. Its increasing presence across major veterinary markets such as Europe, Turkey and Brazil, along with India lends revenue visibility for the medium term.

**Promoters' and management's extensive experience in the pharmaceutical industry** - SSL management has over two decades of experience in the pharmaceutical business across global markets, which has ensured established relations with global pharmaceutical majors.

## Credit challenges

**Solely dependent on animal healthcare business post divestment of human API business** - With the demerger of its human API business, which contributed 27% to SSL's FY2017 consolidated revenues, the veterinary business is the core focus for the Group. Thus, SSL's (consolidated) future growth would be solely driven by the veterinary segment. Nevertheless, ICRA notes that SSL's (consolidated) top line has increased 13% YoY in FY2018 on the back of healthy growth in animal healthcare segment.

**Significant loan repayments due in the near term, likely to exert pressure on company's liquidity** - The total debt for SSL (consolidated) was Rs. 304.58 crore as on March 31, 2018, comprising Rs. 152.17 crore long-term loans availed for capital expenditure and inorganic growth. While increasing scale of operations and cash accruals are likely to improve its liquidity profile further, the company has significant loan repayments due in the near term—Rs. 44.38 crore in FY2019 and Rs. 38.16 crore in FY2020—which will exert pressure on SSL's (consolidated) cash flows.

**Credit profile remains vulnerable to any large debt-funded acquisition or sizeable inorganic investment** - While AAHL has completed its capital expenditure plan, barring US\$ 3–4 million towards a facility establishment in Spain, which will limit external borrowings, given the history of inorganic growth, any large debt-funded acquisition could impact SSL's (consolidated) credit profile.

**Revenues and profit margins vulnerable to foreign exchange fluctuations** - SSL's revenues and margins are exposed to currency fluctuations since 64% of AAHL's (standalone) revenues and ~15–20% of revenues of its overseas subsidiaries are derived from export sales.

**High regulatory risk, given increasing scrutiny and stricter controls by regulatory authorities of developed countries** - The pharmaceutical industry is regulated as per the guidelines of the Food and Drug Administrators and pharmaceutical regulatory authorities of target markets. Plants, processes and products must be approved before the commencement of sales to these countries. This exposes AAHL's operations to regulatory risks in the form of stricter regulations and scrutiny along with changes in the regulatory landscape, which could affect its operations.

**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 Entities in Pharmaceutical Industry](#)

## About the company:

Incorporated in 2013, Alivira Animal Health Limited, a wholly-owned subsidiary of SSL, is engaged in manufacturing veterinary APIs and formulations.

Incorporated in 1985, SSL (standalone) was engaged in manufacturing human APIs, which has been demerged with effect from October 01, 2017. SSL is now involved in manufacturing 'Praziquantel', a human and animal API, as well as intermediates. SSL's wholly-owned subsidiary, Sequent Research Limited, offers analytical services to pharmaceutical industry. SSL's (consolidated) portfolio consists of about 23 commercial products in animal health API and 450 products across 12 dosage forms. Post demerger of the human API business, it has seven manufacturing facilities across India, Spain, Turkey, Brazil and Germany.

## Key financial indicators (Audited)

	AAHL Consolidated		SSL Consolidated (Continuing business)	
	FY2016	FY2017	FY2017	FY2018
Operating Income (Rs. crore)	297.89	657.94	683.57	846.43
PAT (Rs. crore)	-32.41	-3.78	-13.86	10.19
OPBDIT/ OI (%)	8.71%	13.00%	6.28%	9.64%
RoCE (%)	-0.84%	5.03%	-	4.76%
Total Debt/ TNW (times)	0.96	1.66	0.42	0.44
Total Debt/ OPBDIT (times)	11.13	4.39	9.68	3.73
Interest coverage (times)	1.03	2.47	1.52	2.47

**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	Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016
					March 2018	Nov 2017	October 2017	March 2017	September 2015	
1 Term Loan	Long-term	125.00	90.10	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	Withdrawn	Provisional [ICRA]BBB+ (SO) &	Provisional [ICRA]BBB+ (SO) &	Provisional [ICRA]BBB+ (SO) &	
2 Fund-based Limits	Long-term	-	-	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+(SO) &	[ICRA]BBB+(SO) &	[ICRA]BBB+(SO) &	[ICRA]BBB+(SO) &	
3 Non-fund Based Limits	Short-term	85.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+(SO) &	[ICRA]BBB+(SO) &	[ICRA]BBB+(SO) &	[ICRA]BBB+(SO) &	
4 Fund-based Limits	Short-term	60.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+(SO)&	[ICRA]A2+(SO)&	[ICRA]A2+(SO)&	[ICRA]A2+(SO) &	
5 Interchangeable Limits	Long-term	(35.00)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	-	-	
6 Interchangeable Limits	Short-term	(35.00)	-	[ICRA]A2+	[ICRA]A2+	-	-	-	-	

*&-on rating watch with developing implications*

## 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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	February 2014	11.70%	November 2022	125.00	[ICRA]BBB+ (Stable)
NA	Standby Letter of Credit	-	-	-	55.00	[ICRA]A2+
NA	Letter of Credit	-	-	-	30.00	[ICRA]A2+
NA	Pre-shipment Export Credit	-	-	-	25.00	[ICRA]A2+
NA	Packing Credit	-	-	-	35.00	[ICRA]A2+
NA	Pre-shipment Export Credit	-	-	-	35.00***	[ICRA]A2+
NA	Working Capital Demand Loan	-	-	-	35.00***	[ICRA]A2+
NA	Export Post-shipment Finance	-	-	-	25.00*	[ICRA]A2+
NA	Purchase Bill Discounting	-	-	-	25.00*	[ICRA]A2+
NA	Invoice Financing	-	-	-	25.00*	[ICRA]A2+
NA	Working Capital Demand Loan	-	-	-	25.00*	[ICRA]A2+
NA	Cash Credit (Sub-	-	-	-	25.00^	[ICRA]BBB+ (Stable)
NA	Cash Credit (Sub-	-	-	-	35.00***	[ICRA]BBB+ (Stable)
NA	Bank Guarantee	-	-	-	30.00**	[ICRA]A2+

\*Sublimit of 25.00 crore of pre-shipment export credit facility

\*\*Sublimit of Rs. 30.00 crore of letter of credit facility

\*\*\*Sublimit of Rs. 35.00 crore of packing credit

^Sublimit of Rs. 25.00 crore of pre-shipment export credit facility

^^Sublimit of Rs. 25.00 crore of letter of credit facility

Source: Alivira Animal Health Limited

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