

Anuh Pharma Limited

August 09, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	5.00	5.00	[ICRA]BBB+ (Stable); re-affirmed
Short-term, Non-fund Based Limits	70.00	70.00	[ICRA]A2+; re-affirmed
Short-term, Interchangeable Limits^	(2.50)	(2.50)	[ICRA]A2+; re-affirmed
Total	75.00	75.00	

*Instrument details are provided in Annexure-1

^Sub-limit of the short-term, non-fund based limits of Rs. 70.00 crore

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus)¹ assigned to the Rs. 5.00-crore² fund-based limits of Anuh Pharma Limited (APL). ICRA has also re-affirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 70.00-crore non-fund based limits and the Rs. 2.50-crore sub-limit of the non-fund based limits of APL. The outlook on the long-term rating is Stable.

Rationale

The ratings reaffirmation continues to factor in the established track record of the company in active pharmaceutical ingredients (API) manufacturing, with a healthy market share in its key products and a diversified base of domestic and export customers. The ratings also derive strength from the continued strong financial profile of APL as evinced by its negligible dependence on debt and robust debt protection metrics. The revenues of the company witnessed 15% YoY growth in FY2018 post the restoration of the certificate of suitability (CoS) by the World Health Organization (WHO) and the European Directorate for the Quality of Medicines (EQDM) in December 2016. While the sales have resumed to majority of its customers, ICRA notes that the sales quantities have not ramped up to the pre-FY2017 levels. APL's operating profit margin (OPM) declined to 8.6% in FY2018 from 11.0% in FY2017 owing to a decline in realisations of APL's major product—erythromycin—due to softening of its raw material prices. Furthermore, the company offered discounts to restore its customer base. Bad debts write-off amounting to Rs. 1.25 crore and wage increase in FY2018 additionally impacted the OPM. The company's product profile largely consists of mature and commoditised molecules (with Erythromycin accounting for 40% of the total revenues of the company), thus exposing its profitability to price-based competition. The profit margins are expected to remain under pressure in FY2019 given the rise in price of APL's key (imported) raw material (erythromycin thiocyanate) owing to supply constraints in China. While the company has stocked inventory at favourable terms for supplies till October/November 2018, passing on the raw material price hikes to the customers thereafter will remain critical to maintain profitability. This is a key rating sensitivity.

The liquidity position of APL has remained healthy, as evident from its significant liquid investments (~Rs. 66.0-crore as on March 31, 2018) and unutilised bank lines. The liquidity buffer is, however, expected to reduce going forward as APL is undertaking a sizeable capacity expansion, which is being entirely funded through internal accruals and liquid

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

investments. The enhanced capacity is expected to become operational from March 2019 onwards. Ability of the company to complete the expansion as envisaged within the budgeted costs and time as well as profitably ramp up thereafter, would be the key rating sensitivities. The company also remains exposed to regulatory risks due to the nature of operations.

Outlook: Stable

The Stable outlook reflects ICRA's opinion that APL will continue to maintain its credit profile aided by its significant liquid investments and year-on-year accrual generation. The outlook may be revised to Positive, if the revenues and profitability metrics of the company improve through better than expected ramp up of the enhanced capacity. The outlook may be revised to Negative if the credit profile of the company weakens due to time and cost overruns in the project or lower than estimated accruals.

Key rating drivers

Credit strengths

Established track record of the company in API manufacturing— APL has been engaged in API manufacturing since 1960, with product portfolio comprising erythromycin and its salts, higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol. As per the company, APL occupies a healthy share in the global market for its key products and is among the leaders in erythromycin and its salts.

Healthy financial risk profile as evident from its negligible dependence on debt and robust debt servicing metrics— The company has been able to consistently generate positive free cash flows, which has resulted in its negligible dependence on external funding for capital expenditure and incremental working capital requirements. The debt servicing indicators have also remained robust.

Pick up in revenue growth in FY2018, post restoration of certifications by the WHO and the EDQM in December 2016— The revenues of the company witnessed 15% YoY growth in FY2018 post the restoration of the CoS by the WHO and the EDQM in December 2016. While the sales have resumed to majority of its customers, ICRA notes that the sales quantities have not ramped up to the pre-FY2017 levels.

Comfortable liquidity position – The liquidity position of APL has remained healthy as evident by its significant liquid investments (~Rs. 66.0-crore as on March 31, 2018) and unutilised bank lines. The liquidity buffer is, however, expected to reduce going forward as APL is undertaking a sizeable capacity expansion, which is being entirely funded through internal accruals and liquid investments.

Credit challenges

Moderation in OPM in FY2018; expected to remain under pressure in the near term— The OPM of APL moderated to 8.6% in FY2018 from 11.0% in FY2017 owing to a decline in realisations of APL's major product—erythromycin—due to softening of its raw material prices. Furthermore, the company also offered discounts to restore its customer base. Bad debts write-off amounting to Rs. 1.25 crore and wage increase in FY2018 additionally impacted the OPM. The profit margins are expected to remain under pressure in FY2019 given the rise in price of APL's key (imported) raw material (erythromycin thiocynate) owing to supply constraints in China. While the company has stocked inventory at favourable terms for supplies till October / November 2018, passing on the raw material price hikes to the customers thereafter will remain critical to maintain profitability.

Product profile consists of mature and commoditised products with intense price-based competition— The product profile of APL comprises mature and commoditised molecules including erythromycin, pyrazinamide and cortico steroids,

which exposes it to intense price-based competition. Within these, APL is majorly dependent on anti-biotic segment, with erythromycin-based products accounting for more than ~40% of its total API sales.

Significant on-going capacity expansion– APL is undertaking a sizeable capacity expansion, to 2,000 MTPA from the existing operational capacity of 900 MTPA. The capital expenditure for the same is estimated at Rs. 60.0-crore (of which Rs. 22.0-crore has been incurred till July 2018), which is being entirely funded through internal accruals and liquid investments. The company proposes to utilise the enhanced capacity to manufacture existing as well as new products. The enhanced capacity is expected to become operational from March 2019 onwards. Ability of the company to complete the project as envisaged within the budgeted costs and time as well as profitably ramp up thereafter would be the key rating sensitivities.

Exposure to regulatory changes owing to nature of operations– APL caters to regulated markets like Europe and semi-regulated markets like the Middle East, Mexico, Brazil, Spain and Italy. The company holds WHO GMP, COFEPRIS³ (Mexico) and EDQM certifications for manufacturing various bulk drugs, which is reviewed on a periodic basis by the respective regulatory agencies. Any suspension of these certifications can impact the exports of the company to these regulated and semi-regulated markets, as witnessed in FY2017.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Methodology for Pharmaceutical Industry](#)

About the company:

Anuh Pharma Limited, a part of the SK Group of companies, is a small-sized player in the API/bulk drugs industry and is engaged in manufacturing of bulk drugs such as, erythromycin and its salts, higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol. The company also has a presence in anti-bacterial, anti-malarial, anti-hypertension therapies. APL's operations can be broadly classified into manufacturing of bulk drugs, intermediaries, contract manufacturing and trading; with sales of bulk drugs accounting for a major portion of its turnover. As per the company, it is the largest producer of erythromycin salts in India and among the top five producers in the world for both erythromycin and anti-tuberculosis APIs. During FY2018, the company derived 78% of its revenues through exports to regulated markets like Europe and semi-regulated markets like the Middle East, Mexico, Brazil, Spain and Italy. APL's manufacturing facility is located at Boisar, Thane (Maharashtra), and has an annual capacity of 900 MT.

For the 12 months that ended on March 31, 2018, APL reported a net profit of Rs. 16.5 crore on an operating income (OI) of Rs. 238.1 crore, as against a net profit of Rs. 20.4 crore on an OI of Rs. 206.1 crore for the 12 months that ended on March 31, 2017.

³ COFEPRIS stands for *Comisión Federal para la Protección contra Riesgos Sanitarios: Federal Commission for Protection against Sanitary Risks* and is the authority with competence to control and regulate drug products in Mexico

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	206.1	238.1
PAT (Rs. crore)	20.4	16.5
OPBDIT/ OI (%)	11.0%	8.6%
RoCE (%)	21.6%	16.7%
Total Debt/ TNW (times)	-	-
Total Debt/ OPBDIT (times)	0.0	0.1
Interest Coverage (times)	31.6	43.7

Source: Anuh Pharma Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)		Chronology of Rating History for the Past 3 Years						
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018			Date & Rating in FY2017		Date & Rating in FY2016
					August 2018	July 2017	April 2017	August 2016	March 2016	December 2015
1	Fund-based Facilities	Long-term	5.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable); withdrawn	[ICRA]BBB (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Non-fund Based Facilities	Short-term	70.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+; withdrawn	[ICRA]A3+	[ICRA]A1	[ICRA]A1
3	Non-fund Based Facilities [^]	Short-term	(2.5)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+; withdrawn	[ICRA]A3+	[ICRA]A1	[ICRA]A1

[^]Sub-limit of the short-term non-fund based limits of Rs. 70.00 crore

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
-	Fund-based Facilities	-	-	-	5.0	[ICRA]BBB+ (Stable)
-	Non-fund Based Facilities	-	-	-	70.0	[ICRA]A2+
-	Non-fund Based Facilities [^]	-	-	-	(2.5)	[ICRA]A2+

[^]Sub-limit of the short-term, non-fund based limits of Rs. 70.00 crore

Source: Anuh Pharma Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Kinjal Shah

+91 22 61143442

kinjal.shah@icraindia.com

Sakshi Suneja

+91 22 6114 3400

sakshi.suneja@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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.

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents