

Arion Healthcare

December 13, 2018

Summary of rated instruments

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based / Cash Credit	18.00	18.00	[ICRA]BB-(Negative); Downgraded from [ICRA]BB (Stable)
Total	18.00	18.00	

Rationale

The rating action and outlook revision factor in the delay in servicing the interest obligations of the company's cash credit facilities due to cash flow pressures. Arion Healthcare (Arion) has high working capital intensity owing to high credit period offered to broaden the client base. In the absence of timely receivables, the company faced cash flow pressures which resulted in delays in interest servicing obligations of its cash credit facilities by up to seven days. Going forward, the track record of timely debt servicing will be the key rating sensitivity.

Key rating drivers

Credit strength

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. Its 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.

Credit challenges

Delays in debt servicing – There were delays in interest servicing for cash credit facility by up to seven days, owing to delayed receivable realisation.

Risks associated with partnership constitution – Given Arion's constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners.

Liquidity position

With limited bargaining power and exposure to competition, Arion's credit policy for customers remains between 90 days and 120 days to gain market share. This leads to high working capital cycle and results in cashflow pressures in the absence of any additional funding support from partners.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	Standalone financial statements

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 – Navkar Lifesciences – is also involved in the same line of business. Another company – Arihant Packwell (rated [ICRA] B+ as on December 2016) – is involved in manufacturing 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.

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: Not applicable

Any other information: Not applicable

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
					December 2018	February 2018		
1	Cash Credit	Long Term	18.00	18.00	[ICRA]BB-(Negative)	[ICRA]BB(Stable)	NA	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	-	-	-	18.00	[ICRA]BB-(Negative)
Source: Arion Healthcare						

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