

Acme Generics LLP

December 27, 2018

Summary of rating action

Instrument*	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based -Term Loan	75.0	75.0	Rating reassigned to [ICRA]BBB (stable) from [ICRA]BBB (SO) (stable)
Fund-based - Working Capital Facilities	10.0	10.0	Rating reassigned to [ICRA]BBB (stable) from [ICRA]BBB (SO) (stable)
Total Bank Facilities	85.0	85.0	

*Instrument details are provided in Annexure-1

Rationale

The re-assignment of rating takes into account a change in analytical approach for Acme Generics LLP (Acme Generics) rating, whereby the rating is now based on a consolidated view of Acme Group (Acme Formulation Private Limited (Acme Formulation) along with Acme Generics). In addition to being a 81% subsidiary of Acme Formulation, Acme Generics also has strong business linkages with Acme Formulation, with everyday operations of both the entities handled by the same management¹.

The rating action factors in the continued stable operational performance of the Acme Group, with the Group being an established contract manufacturer for leading pharmaceutical companies in India. Even as the Group largely remains a supplier to the generic business of domestic pharmaceutical companies, it continues to have a strong customer profile in the domestic market, comprising customers such as Abbott India Limited and Cadilla Healthcare Limited among others. After a decline in scale of operations as a result of delay in commercialisation of Acme Generics's facility in FY2016, the Group's revenues have reported a healthy growth in revenues and expansion in operating profits over the past two fiscals; its established relationship with various customers continues to augurs well for revenue growth over the medium term, even as the implementation of Goods and Services Tax (GST) has led to a change in the overall tax and duty structure in the pharmaceutical industry, with benefits available in excise/tax free zones for contract manufacturers being substantially diluted. Even as the contribution of exports to the overall revenues remain low till date, the management's increased focus on gaining incremental business in the exports market is likely to aid the company's revenues growth prospects.

The ratings continue to take into account the comfortable financial risk profile of the Group, characterised by healthy cash accruals and a strong liquidity profile. At both a standalone and Group level, the return and debt coverage indicators continue to remain healthy in spite of significant investments undertaken to setup to Acme Generics facility. Apart from its investment in Acme Generics, Acme Formulation continues to have significant investments in other group companies as well, some of which are in start-up phase of operations and may require funding support over the medium term. The firm has also extended corporate guarantees for facilities availed by other companies in the group; any incremental support to these entities, going forward, could result in deterioration of the financial risk profile and would remain a key rating sensitivity.

¹ Acme Generics was set up to maintain continuity of business for the Acme Group as the excise and income tax exemption available for Acme Formulation's manufacturing facility ended on March 31, 2015. Thus, a majority of business of Acme Formulation was gradually shifted to Acme Generics on commencement of commercial operations of the latter's plant in December 2015.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that Acme Group would record a moderate revenue growth over the medium term, benefitting from its established relationships with various customers; the same is likely to help the Group maintain a healthy financial risk profile. The outlook may be revised to Positive if substantial growth in revenue and profitability leads to a significant improvement in the Group's return indicators. The outlook may be revised to Negative if incremental support provided to various group entities going forward, results in a deterioration of the Group's debt coverage indicators.

Key rating drivers

Credit strengths

Established track record as a leading contract manufacturer for major pharmaceutical companies; diversified customer profile – The Acme Group is engaged in providing contract manufacturing services to the pharmaceutical industry. The group's client base comprises leading pharmaceutical players and its client base is fairly diversified, with its top five customers contributing ~50% to the company's revenues.

Comfortable financial risk profile – The Group has a conservative capital structure reflected in a gearing of 0.7 time as of March 31, 2018. The improved cash accruals (boosted by a ramp up in scale of operations of Acme Generics) helped improve the debt coverage indicators, with the Group having Interest coverage of 5.3 times, NCA/Total Debt of 41.3% and Total Debt/OPBDITA of 2.0 times in FY2018.

Credit challenges

GST implementation negates excise exemption benefits for Acme Generics, thereby increasing competitive intensity - The implementation of the GST has led to a change in the overall tax and duty structure in the pharmaceutical industry, and has eliminated the benefits available in excise/tax-free zones, thereby negating the competitive advantage for players operating from such zones. The elimination of benefits is attributable to the fact that, under GST, duties are now calculated on net transactional value, as opposed to the pre-GST scenario, wherein duty on formulations was calculated on the Maximum Retail Price (MRP) of the formulation. Acme Group over the years had benefitted from the presence of its units in tax-free zones, thereby enabling the group to offer competitive pricing to customers. The elimination of these benefits could moderate the group's revenue growth prospects, going forward.

Primarily a supplier for the generic business of domestic pharmaceutical companies; exports remain modest – The group remains primarily a supplier of generics drugs to domestic pharmaceuticals companies, with its development and manufacturing capabilities covering solid and semi-solid dosage forms across antibiotics, analgesics, anti-fungal, cough and cold preparations, cardiovascular, hormonal products, among others. The management's focus on exports had remained modest so far, with marginal exports being undertaken in semi-regulated markets. However, following the setting up of a new unit for the domestic market, the management is focused on increasing the contribution of the exports segment to overall revenues, going forward.

Significant investments and loans extended to group companies, which have yet to scale up operations – Apart from its investment in Acme Generics, Acme Formulation also has substantial investments in another group company, Immacule Lifesciences Private Limited, an entity engaged in contract manufacturing of liquid orals with a focus on export markets. While the facility commenced commercial operations from December 2014, it is yet to scale up its operations, with the facility and drugs approval processes entailing a long gestation period. Till the facility's scale of operations improves, Acme Formulation could be required to fund the operational losses recorded.

Liquidity position

Acme Formulation's cash flow from operations was lower in FY2018 on account of a decline in scale of operations as well as higher working capital intensity. Acme Generics on the other hand recorded a healthy cash flow from operations, on the back of a significant ramp up in scale of operations and improved profitability. At a consolidated level, an improved operating performance over the past two years has however helped limit the increase in dependence on external borrowings. The utilisation levels of the working capital limits sanctioned to both the entities remains at low to moderate levels; as such, the liquidity position of the Group continues to remain comfortable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not applicable.
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of two group entities (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

Acme Generics LLP (Acme Generics), a partnership firm established in 2014, is engaged in providing contract dosage for development and manufacturing services to the pharmaceutical industry. Acme Formulation, an established pharmaceutical contract manufacturer, holds a majority stake in the firm (81% through direct and indirect holdings).

The company's manufacturing facility is in Baddi (Himachal Pradesh). The firm's development and manufacturing capabilities cover prescription products in solid and semi-solid dosage forms. Being located in Baddi, the facility is eligible for 100% outright excise duty exemption for a period of 10 years from the date of commencement of commercial production, 100% income tax exemption for an initial period of five years and thereafter 30% for a further period of five years. The income tax benefits end on March 31, 2020.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	204.8	257.1
PAT (Rs. crore)	12.7	28.7
OPBDIT/OI	13.9%	17.7%
RoCE	17.1%	27.2%
Total Debt/TNW (times)	1.6	1.1
Total Debt/OPBDIT (times)	2.9	1.8
Interest Coverage (times)	3.1	6.0

Status of non-cooperation with previous CRA:

In its rationale published on Acme Generics, dated Oct 25, 2018, Crisil Ratings has stated the following:

"CRISIL has been consistently following up with ACME Generics LLP (ACME) for obtaining information through letters and emails dated March 31,2018 and September 28,2018 among others, apart from telephonic communication. However, the issuer has remained non-cooperative.

'The investors, lenders and all other market participants should exercise due caution while using the rating assigned/reviewed with the suffix 'ISSUER NOT COOPERATING'. These ratings lack a forward-looking component as it is arrived at without any management interaction and is based on best available or limited or dated information on the company.

Despite repeated attempts to engage with the management, CRISIL failed to receive any information on either the financial performance or strategic intent of ACME, which restricts CRISIL's ability to take a forward-looking view on the entity's credit quality. CRISIL believes information available on ACME is consistent with 'Scenario 1' outlined in the 'Framework for Assessing Consistency of Information with CRISIL BB' rating category or lower'.

Based on the last available information, the rating on bank facilities of ACME continues to be 'CRISIL B+/Stable Issuer not cooperating'."

Any other information: None

Rating history for last three years

		Current Rating (FY2019*)			Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016
1	Fund-based - Term Loan	Long Term	75.0	66.4	[ICRA]BBB (Stable)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	-
2	Fund-based - Working Capital Facilities	Long Term	10.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	-

*An update on reason for delay in periodic surveillance was published in November 2018

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	Term Loan - 1	February 2015	-	March 2025	75.0	[ICRA]BBB (Stable)
NA	Fund-based - Working Capital Facilities	-	-	-	10.0	[ICRA]BBB (Stable)

Source: Acme Generics LLP

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Acme Formulation Private Limited	100.00%	Full Consolidation
Acme Generics	81.00%	Full Consolidation

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