

## Avenues Pharmaceuticals Associates

January 31, 2019

### Summary of rating action

| Instrument*                      | Previous Rated Amount<br>(Rs. Crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                  |
|----------------------------------|--------------------------------------|-------------------------------------|--------------------------------|
| Long-Term Fund-based Cash Credit | 17.00                                | 17.00                               | [ICRA]BB+ (Stable); reaffirmed |
| <b>Total</b>                     | <b>17.00</b>                         | <b>17.00</b>                        |                                |

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation continues to factor in the long-standing experience of the promoters in the pharmaceutical distribution space through their two entities, Kandala Distributors and Avenues Pharmaceutical Associates (APA). The rating continues to draw comfort from the firm's established customer base and the strong distribution network ensuring timely supply of the products to the customers in Bangalore. The rating also draws comfort from the established relationship with reputed suppliers and the wide product portfolio. ICRA notes that the firm has added new branches in FY2018 and FY2019 and this is expected to support its future growth prospects.

The rating is, however, constrained by the firm's moderate scale of operations, thin margins owing to trading nature of operations, limited price flexibility in the regulated pharmaceutical industry and moderate bargaining power with the suppliers. Further, the rating continues to be constrained by moderate coverage indicators and leveraged capital structure with a gearing of 1.95 times as on March 31, 2018. The rating takes into account the competition in the pharmaceutical distribution space and the firm's exposure to geographical concentration risk with operations concentrated in Bangalore. Furthermore, the rating also factors in the risks associated with APA being constituted as a partnership firm which increases the risk of capital withdrawal. With no major expansion plans into new geographies or into the new business lines in the pharmaceutical distribution chain, the firm's growth prospects remain limited and closely linked to the growth of the pharmaceutical industry.

### Outlook: Stable

The Stable outlook reflects ICRA's expectation that APA will continue to benefit from the long-standing experience of the promoters and established relationship with reputed pharmaceutical companies. The outlook may be revised to Positive if the company is able to improve its capital structure and achieve strong growth in revenues and margins. The outlook may be revised to Negative if there is any deterioration in the coverage indicators or the capital structure of the firm.

### Key rating drivers

#### Credit strengths

**Long standing experience of the promoters in the pharmaceutical distribution space** - The promoters are involved in pharmaceutical distribution since 1978 and have four decades of experience of handling the operations as a stockist for the pharmaceutical companies. The business operations have been benefited from long track record of operations in the segment and established relationship with suppliers.

**Wide product portfolio encompassing over 12,000 branded drugs supports business prospects** - The firm trades in branded drugs and has a wide product range which includes medical goods, anti-cancer drugs, generics, diabetic products,

insulin injections, oral capsules, anesthesia products, quality pharmaceutical tablets and capsules, antibiotics, multi-vitamin products and other health care products. The firm trades in more than 12,000 branded drugs of many major pharmaceutical companies such as Abbott India Limited, GlaxoSmithKline Pharmaceuticals Limited, Dr. Reddy's Laboratories Limited, Pfizer Limited and Sanofi Aventis Pharma Limited among others.

**Long-standing relationship with wide customer base provide stability to revenues** - APA caters to more than 3,000 customers in the Bangalore market which is a mix of medical retail stores, super-specialty hospitals, medium and large nursing homes, government hospitals and institutions in the public and private sectors. The firm's revenues remain well diversified across a large customer base with its top-ten customers accounting only for ~18% of the total revenues in FY2018.

## Credit challenges

**Thin margins owing to trading nature of operations** - The drug distribution system in India is highly tiered with multiple levels between the manufacturer and end customer, and retailers continue to enjoy majority of the margins across the extended distribution chain. Also, owing to regulated nature of drug prices in India, the margins at each level in the distribution chain is largely fixed. Further, considering limited value addition by distributors and large number of players in the segment, the margins are relatively thin.

**Leverage capital structure with low net worth** - The net worth of the firm remains low at Rs. 9.98 crore as on March 31, 2018. Further, with increase in utilisation of the working capital facilities, the firm's gearing increased to 1.95 times as on March 31, 2018 from 1.77 times as on March 31, 2017.

**High geographic concentration, with almost the entire revenue being derived from the Bangalore market** - APA has high geographic concentration as operations are restricted to the Bangalore market. However, this is primarily due to the market dynamics, given that the pharmaceutical companies appoint distributors across the state to ensure quick and timely delivery of stocks to the retailers which renders distribution to further geographies by the firm unviable.

**Intense competition in the pharmaceutical-distribution space given the large number of players** - The pharmaceutical distribution is a highly fragmented with competition from both organized and unorganized players. However, the management of APA has experience in the pharmaceutical-distribution space for 40 years and has established itself as a strong player.

## Liquidity position

APA's liquidity remains comfortable with sufficient cash accruals to meet its debt repayment obligations towards vehicle loans, and the absence of any major capex in the near to medium term. Further, the company has buffer from unutilised working capital limits.

## Analytical approach

| Analytical Approach             | Comments  |
|---------------------------------|---|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a> |
| Parent/Group Support            | Not applicable.                                     |
| Consolidation / Standalone      | Standalone financial statements of the issuer.      |

## About the company

Established by Mr. K.G. Subbaraj, Avenues Pharmaceuticals Associates is a partnership firm involved in distribution of pharmaceutical products, catering to more than 3,000 customers in the Bangalore market. The firm operates from its three branches in Bangalore which also houses its warehouse and storage facilities. The warehouse is equipped with

walk-in cooler and refrigerators ensuring temperature-controlled stocking of medicines. The firm trades in over 12,000 branded drugs with supplies from major pharmaceutical companies like GSK, Pfizer, Sanofi and Cipla among others. The firm has two sister concerns, Kandalaa Distributors (super stockiest of pharmaceutical products) and Kandalaa (jewellery retailer).

In FY2018, the firm reported a net profit of Rs. 1.77 crore on an OI of Rs. 129.85 crore, as compared to a net profit of Rs. 1.55 crore on an OI of Rs. 122.21 crore in the previous year.

### Key financial indicators (audited)

|                              | FY2017 | FY2018 |
|------------------------------|--------|--------|
| Operating Income (Rs. crore) | 122.21 | 129.85 |
| PAT (Rs. crore)              | 1.55   | 1.77   |
| OPBDITA/OI (%)               | 3.15%  | 3.07%  |
| RoCE (%)                     | 14.83% | 13.68% |
| Total Debt/TNW (times)       | 1.77   | 1.95   |
| Total Debt/OPBDITA (times)   | 4.26   | 4.88   |
| Interest Coverage (times)    | 2.15   | 2.35   |

**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<br>Jan 2019 | Date & Rating in FY2018<br>July 2017              | Date & Rating in FY2017<br>Sep 2016 | Date & Rating in FY2016<br>Aug 2015 |  |
| 1 Cash credit | Long Term               | 17.00                    | -                              | [ICRA]BB+<br>(Stable)     | [ICRA]BB+<br>(Stable)                             | [ICRA]BB+<br>(Stable)               | [ICRA]BB+<br>(Stable)               |  |

### 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      | Cash Credit     | -                           | -           | -             | 17.00                    | [ICRA]BB+ (Stable)         |

Source: Avenues Pharmaceuticals Associates

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