

April 06, 2020

Amoli Organics Pvt Ltd: [ICRA]BBB+(Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	34.87	[ICRA]BBB+(Stable); assigned
Fund Based – Working Capital Facilities	104.00	[ICRA]BBB+(Stable); assigned
Fund Based – Unallocated Limits	40.00	[ICRA]BBB+(Stable); assigned
Non-fund Based – Working Capital Facilities	27.50	[ICRA]A2; assigned
Non-fund Based – Unallocated Limits	5.00	[ICRA]A2; assigned
Fund Based/ Non-fund Based – Unallocated Limits	13.63	[ICRA]BBB+(Stable)/[ICRA]A2; assigned
Total	225.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into account the extensive experience of the promoters of Amoli Organics Pvt. Ltd. (AOPL) in manufacturing active pharmaceutical ingredients (APIs) across therapeutic segments. The ratings also draws comfort form the strong manufacturing capabilities of AOPL’s USFDA approved manufacturing facilities, which has led to established relationships with reputed domestic as well as global pharmaceutical companies. ICRA also notes that the company has diversified geographically and caters to the regulated, semi-regulated and emerging markets. The ratings also derive strength from AOPL’s comfortable financial profile as reflected by steady growth in cash accruals over the period under study and steadily improving capital structure along with strong interest as well as debt service cover.

The ratings, however, are constrained by AOPL’s moderate scale of operations and presence in mature therapies, which expose its profitability to intense competition from its peers. Furthermore, AOPL’s operations have remained working capital intensive on account of elongated receivables and high inventory levels, coupled with regular capital expenditure (capex) incurred during the last four years constraining the free cash flows position as well as liquidity to an extent. AOPL’s profitability has been fluctuating, primarily due to movement in raw material prices, which remained further vulnerable to forex fluctuations, given the high dependence on imports for raw materials (imports constitute 46% of purchases in FY2019). ICRA also notes that besides the exposure to regulatory risks, which is inherent to AOPL’s operations, the impact of COVID-19 on procurements (primarily those from China) will impact the performance of AOPL in Q4 FY2020 and more so in FY2021, and will be a key monitorable.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA’s opinion that AOPL will continue to benefit from its extensive track record of operations, established position and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Experienced promoters with more than four decades of experience in the pharmaceutical business - AOPL was established in 1991 by Mr. Manish Doshi and Mr. Umed Doshi. It is currently managed by Mr. Manish Doshi, Mr. Rupesh Suryakant Kamdar and Mr. Sunil Bawane. The promoters' technical expertise in manufacturing APIs has enabled AOPL to diversify its product portfolio and gain a strong foothold in the domestic and international markets. The company's established track record and long-term relationships with leading formulation companies, aid recurring order inflow. The group also comprises Umedica Laboratories Private Limited, which manufactures tablet formulations, along with other investment companies.

Strong manufacturing capabilities with both facilities being USFDA approved - The company operates two facilities for manufacturing APIs, one each in Vapi and Vadodara, Gujarat. AOPL holds World Health Organization (WHO) Good Manufacturing Practice (GMP), European Union (EU) GMP, European Directorate for the Quality of Medicines & HealthCare (EDQM), US Food and Drug Administration Authority (FDA), Korean FDA, Russian FDA and other certifications for manufacturing various bulk drugs. The availability of such certifications and approvals aids the company to increase its penetration in regulated markets for its key products, supporting its revenues and margins.

Diversified geographic base across therapeutic segments; however, product concentration risk remains constraining factor - The sales of the company are diversified geographically and cater to the regulated, semi-regulated and emerging markets of ASEAN, Latin America, West Asia and Africa. The export base has remained stable at 47-49% in the last three years with direct sales to regulated and semi-regulated markets. Sales to the top three export destinations were fairly diversified, driving ~17% of total sales in FY2019. However, AOPL derives a major portion of its revenues from the anti-inflammatory class of antibiotic molecules, with two key products— Diclofenac and Aceclofenac—accounting for more than 45% of its revenues. Among the top three molecules, Diclofenac is the largest revenue earner for AOPL, accounting for 30-35% of its sales, followed by Aceclofenac and Clotrimazole. Though AOPL has launched other products in recent years, the contribution from these products continues to remain low. Further, all the key products of the company are mature molecules, limiting the pricing flexibility and profitability margins due to intense price-based competition.

Capital structure supported by healthy net worth base, steadily increasing cash accruals resulted in healthy interest and debt coverage indicators – AOPL has demonstrated a steady increase in the YoY generation of cash accruals over the FY2015–9M FY2020 period. Further, the company's financial risk profile was comfortable with a net worth of Rs. 153.9 crore as on March 31, 2019, leading to a gearing of 0.8 time, interest coverage of 7.1 times and Total Debt/ OPBDIT at 1.4 times as on March 31, 2019. In 9M FY2020, the company reported an operating margin of 16.4% (17.9% in FY2019). Nonetheless, the sustainability of the same for the full year remains to be seen.

Credit challenges

Moderate scale of operations in an intensely competitive segment of pharmaceutical APIs; nevertheless steady revenue growth witnessed - AOPL's scale of operations has remained moderate, reflected by a turnover of Rs. 465.4 crore in FY2019. However, ICRA notes that it reported a steady revenue growth with a CAGR of 17.3% over

the last five years (FY2015 to FY2019) on the back of sustained increase in orders. Its ability to sustain its revenue growth will remain critical from a credit perspective. The current capacity utilisation at the company's manufacturing units are moderate. Its ability to profitably ramp up its enhanced capacity (which commenced operations from H2 FY2020) is critical, especially amid increased overheads for manufacturing approved products and conducting stability studies for new products.

Working capital intensive nature of operations owing to slow receivables and high utilisation of working capital limits - High inventory levels as well as elongated receivables led to a working capital intensive nature of operations as reflected by NWC/OI of 31.5% in FY2019. This has led to high reliance on external working capital borrowings. Inventory days in the past three years have remained in the range of 70-85 days, while AOPL provides a maximum credit period of 90 days to its customers. ICRA notes that the average debtor days remained over 100 days for the past three years with some receivables overdue for more than six months. The ability of the company to streamline its receivables position will remain critical from a working capital perspective.

Strain on free cash flows from regular past and future capex - The company's retained cash flows has remained positive historically, supported by comfortable profitability and accruals from the business. However, the free cash flows remained negative in most of the years due to significant capital expenditures incurred. AOPL has incurred regular capex during the last four years, funded by a mix of debt and internal accruals, constraining its free cash flow position.

Vulnerability of profitability to raw material price fluctuations and forex rates - AOPL's operating margins has been fluctuating in the range of 15-18% during the FY2016 to FY2019 period, primarily due to the fluctuations in raw material prices. The company is exposed to intense competition and limited pricing flexibility as its product portfolio mostly comprises mature molecules. Additionally, the margins remain vulnerable to forex fluctuations, given the dependence on imports for raw materials (imports constituted 46% of purchases in FY2019). Additionally, the company hedges its foreign currency exposure through forward contracts. Further, any supply disruptions amid the COVID-19 outbreak will likely impact the business operations of AOPL.

Exposed to regulatory changes in domestic as well as export markets; profitability susceptible to export incentives structure – Since AOPL caters to regulated markets like Europe and North America, and semi-regulated markets such as West Asia and Africa, its manufacturing facilities and processes are subject to reviewal and audits on a periodic basis by the respective regulatory agencies. Any suspension of these certifications can impact the company's exports to these regulated and semi-regulated markets. Further, the profits remain susceptible to export incentives in the form of duty drawbacks and schemes like the Merchandise Exports from India Scheme (MEIS). Any change in the incentive structure can adversely impact the company's profitability.

Liquidity position: Adequate

AOPL's liquidity position is adequate with positive cash flow from operations (CFO) reported in the past few years on account of consistent improvement in scale of operations coupled with robust profitability. As on December 31, 2019, AOPL had a comfortable cushion of over Rs. 15.0 crore available in the form of undrawn sanctioned working capital limits (cash credit and working capital demand loans). Moreover, ICRA does not foresee any major concerns on liquidity, given the steady cash accruals generation.

AOPL had external term loans of Rs. 22.4 crore on its books as on March 31, 2019, of which an amount of Rs. 10.4 crore is scheduled to be repaid in FY2020, Rs. 8.5 crore in FY2021, Rs. 10.7 crore in FY2022, and further as per the

repayment schedule of its existing term loans. This repayment burden is going to increase in the future with a new term loan of Rs. 20.0 crore expected for meeting the capex requirement for its Plant No. 9 at Vadodara.

The company's liquidity position is expected to remain adequate due to its robust profitability, resulting in healthy cash accruals from business. The cash and cash equivalent of Rs. 1.6 crore as on March 31, 2019, coupled with unutilised cash credit facility provide buffer to its liquidity profile. With AOPL's business expected to chart a moderate growth trajectory in the medium term, its CFO is estimated to remain positive.

Rating sensitivities

Positive triggers – ICRA is likely to upgrade AOPL's rating if the company demonstrates growth in its scale of operations as well as profit margins on a sustained basis, along with improvement in liquidity profile with better management of its working capital cycle.

Negative triggers – Negative pressure on AOPL's rating could arise for reasons including decline in revenues, moderation in operating profit margins or worsening of liquidity profile due to further stretch in working capital cycle. Any material support to any group entity, which may adversely impact AOPL's liquidity profile, would also be a negative rating trigger.

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	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 1991, Amoli Organics Private Limited manufactures bulk drugs/active pharmaceutical ingredients. Its manufacturing facilities are at Vapi (five units) and Vadodara (eight units) in Gujarat, with an annual production capacity of 5,240 tonne per annum (TPA). The company has its own R&D unit for developing in-house process technology for APIs. The company had received the World International Business Award 2012 for the small and medium enterprises category. Umedica Laboratories Private Limited, a group company, manufactures tablet formulations.

In FY2019, AOPL reported net profit of Rs. 32.4 crore on an operating income (OI) of Rs. 465.4 crore, compared to a net profit of Rs. 27.2 crore on an OI of Rs. 404.0 crore in FY2018. As per the unaudited 9M FY2020 financials, profit before tax stood at Rs. 30.0 crore on an operating income of Rs. 371.8 crore.

Key financial indicators

	FY2018	FY2019	9M FY2020
	Audited	Audited	Provisional
Operating Income (Rs. crore)	404.0	465.4	371.8
PAT (Rs. crore)	27.2	32.4	30.0*
OPBDIT/OI (%)	15.9%	17.9%	16.4%
RoCE (%)	22.7%	25.2%	19.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	1.6	1.7
Total Debt/OPBDIT (times)	1.6	1.4	1.5
Interest Coverage (times)	6.1	7.1	6.2
DSCR	2.7	2.3	3.6

**Profit before tax*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding 31-Dec-2019	Rating 06-Apr-2020	FY2019	FY2018	FY2017
1	Term Loan	Long Term	34.87	33.43	[ICRA]BBB+(Stable)	-	-	-
2	Cash Credit/ Working Capital Demand Loan	Long Term	99.00	-	[ICRA]BBB+(Stable)	-	-	-
3	Standby Line of Credit	Long Term	5.00	-	[ICRA]BBB+(Stable)	-	-	-
4	Fund Based – Unallocated Limits	Long Term	40.00	-	[ICRA]BBB+(Stable)	-	-	-
5	Letter of Credit	Short Term	25.00	-	[ICRA]A2	-	-	-
6	Bank Guarantee	Short Term	2.50	-	[ICRA]A2	-	-	-
7	Non-fund Based – Unallocated Limits	Short Term	5.00	-	[ICRA]A2	-	-	-
8	Fund Based/ Non- fund Based – Unallocated Limits	Long Term/ Short Term	13.63	-	[ICRA]BBB+(Stable)/[ICRA]A2;	-	-	-

Amount in Rs. 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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Term Loan	FY2017	INR loans- 9-12.5% FCTL-5- 7%	FY2025	34.87	[ICRA]BBB+(Stable)
NA	Fund Based – Working Capital Facilities	NA	NA	NA	104.00	[ICRA]BBB+(Stable)
NA	Fund Based – Unallocated Limits	NA	NA	NA	40.00	[ICRA]BBB+(Stable)
NA	Non-fund Based – Working Capital Facilities	NA	NA	NA	27.50	[ICRA]A2
NA	Non-fund Based – Unallocated Limits	NA	NA	NA	5.00	[ICRA]A2
NA	Fund Based/ Non-fund Based – Unallocated Limits	NA	NA	NA	13.63	[ICRA]BBB+(Stable)/[ICRA]A2

Source: Amoli Organics Pvt Ltd

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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