

August 19, 2021

Alembic Limited: Ratings upgraded to [ICRA]AA- (Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based limits	14.0	14.0	[ICRA]AA-(Stable); upgraded from [ICRA]A-(Stable)
Long-term, Fund-based/ Non-fund based limits	33.0	25.5	[ICRA]AA-(Stable); upgraded from [ICRA]A-(Stable)
Short-term, Non-fund based limits	3.0	3.0	[ICRA]A1+; upgraded from [ICRA]A2+
Short-term, Fund-based limits [^]	(20.0)	(20.0)	[ICRA]A1+; upgraded from [ICRA]A2+
Total	50.0	42.5	

[^]Sub-limit of long-term / short-term, fund-based / non-fund based facilities such that the total utilisation should not exceed Rs. 42.5 crore

*Instrument details are provided in Annexure-1

Rationale

The rating action takes into account the change in analytical approach as ICRA has considered holding company methodology for Alembic Limited (AL), given that the scale and profitability of its standalone businesses remain insignificant compared to the dividend income and overall value of holding of AL in Alembic Pharmaceutical Limited (APL) in the overall scheme of things.

AL enjoys high financial flexibility from its sizeable market value of investments, from its 28.41% stake in APL, the flagship entity of the reputed Alembic Group, as well as 19.01% stake in another group entity, Paushak Limited. The ratings also factor in the strong promoter group, given the presence of Alembic Group across several businesses. ICRA also notes the promoter's significant experience of running and managing the same. AL's liquidity profile is adequate, characterised by cash and liquid investments of ~Rs. 22.0 crore as of March 2021, against negligible debt levels. The significant land bank (~102 acres) of the company, which can be monetised in case of exigencies.

On the real estate vertical, ICRA notes the progress of the commercial units of Veda Phase 1, wherein only five units of the 36 units remain unsold as of March 31, 2021 (18 units were unsold as of March 31, 2020). ICRA also notes the revenues booked in the residential projects of Veda Phase 2 during FY2021, compared to nil in FY2020. Also, during FY2021, the company has started a new project, 'Townhouse 24', which will be launched in the near term. Though construction of the ongoing 'Veda Phase 2' and 'Townhouse 24' projects exposes the company to some degree of project execution risk, the self-funded nature of the projects and its track record of successfully managing past projects 'Samsara' and 'Veda Phase 1 (residential and commercial)' remain a source of comfort. Apart from this, a stable rental income from its commercial real estate projects lends support to AL's revenue profile.

The Covid-19 pandemic has not materially impacted the company's active pharmaceutical ingredients (API) business as it is classified as essential services. With the change in business model from Q3 FY2020 onwards, the company's top line in FY2021 reported a decline to Rs. 28.5 crore (~Rs. 51 crore in FY2020). The segment reported a PBIT loss in FY2021 on the back of writing off ~Rs. 1.9 crore of past receivables. In the real estate sector, contagion fears and economic uncertainties are expected to impact the operations and cash flows of developers in general, which might result in a weakening of the credit risk profile of players like AL. Demand is expected to remain subdued due to the ongoing pandemic and some buyers may delay payments on account of economic uncertainties. The company had given waivers to a few of its tenants in the initial months of the lockdown, after which the rental income has remained consistent across all its tenants.

The Stable outlook reflects ICRA's opinion that AL's financial profile will remain supported by the stable dividend income from its investment in group companies, as well as by the market value of its investments and its debt free status.

Key rating drivers and their description

Credit strengths

Healthy financial flexibility - Alembic currently holds 28.41% stake in APL, the flagship company of the Group, which provides it with a healthy financial flexibility. The market value of AL's stake in APL was valued at ~Rs 4,254.7 crore as on August 11, 2021. Furthermore, dividend income from APL has been supporting AL's net profit over the past few years; except FY2021 when APL declared special and interim dividend in March 2020, and was covered in dividend income under FY2020. In July 2021, APL declared a dividend of Rs. 14 per share (~Rs. 78 crore), which will be received in the current fiscal year (FY2022), providing support to the company's profitability.

Strong promoter Group and management team – The promoters of the company have been in this business sector for the past many years and have a well-established track record in the pharma and real estate sectors.

Significant land bank, which can be monetised in case of exigencies – The company has sizeable unused land (~102 acres), providing opportunities to monetise the same and improve cash flows.

Strong capital structure driven by debt free nature of the company – The company has been debt free since 2015. In addition, all its real estate projects are self-funded along with stable rental income, aiding the strong financial risk profile of the company. ICRA expects the operations to remain debt free in the near to medium term, in the absence of any debt-funded capex plans.

Credit challenges

Limited diversification of investments – APL drove nearly 98% of AL's dividend income during FY2020 and contributed 94% to the standalone OPBITDA during the year. Consequently, AL's cash flows are predominantly dependent on APL's financial performance and dividend policy. However, the strong credit profile of APL and its track record of declaring dividends, as well as the increase in dividend pay-out in recent years (barring FY2021) provide comfort.

Slowdown in the real estate business due to the ongoing Covid-19 related lockdowns to pressurise revenues and profitability - Contagion fears and economic uncertainties are expected to impact the operations and cash flows of real estate developers in general, which might ultimately result in a weakening of the credit risk profile of players like AL. Demand is expected to remain subdued due to the ongoing pandemic and some buyers may delay payments on account of economic uncertainties. Nonetheless, AL's adequate liquidity and stable rental income from its commercial real estate projects remain a source of comfort.

Small scale of operations and weak profitability profile of the API business - The company is a marginal player in the bulk drugs business. Despite taking various cost control measures for its API business, however, AL has not been able to turnaround its API business materially. In FY2021, the overall revenues of the company was ~Rs. 72.7 crore, with Rs. 28.5 crore coming in from the API segment and the rest from the real estate segment. The API segment reported a PBIT loss in FY2021 after writing off ~Rs. 1.9 crore of its past receivables.

Liquidity position: Adequate

The company has remained debt-free since FY2015, on the back of cash flows from the real estate segment. It had cash and bank balance, including liquid investment, of ~Rs. 21 crore as on March 31, 2021, and buffer of ~Rs 10.9 crore in bank lines (to the extent of drawing power) as on March 31, 2021. The working capital utilisation for the company has remained negligible with average working capital utilisation at 7.9% for the 12 months ending in April 2021. Additionally, AL currently holds 28.41% stake in APL, the flagship company of the Group, which provides it with financial flexibility.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings in case of an improvement in AL’s financial flexibility aided by increase in underlying value of its investments on a sustained basis and continued debt free operations, would support a positive rating action.

Negative factors – The ratings can be downgraded in case of any substantial deterioration in the liquidity profile of the company due to absence of dividend income or reduction in its financial flexibility owing to substantial decline in the market capitalisation of APL. In addition, any large debt raised, which materially deteriorates its overall credit profile on a sustained basis, will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Holding Companies
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Alembic Limited, the flagship company of the Alembic Group, was incorporated on July 30, 1907. The company was promoted by the industrialist, Shri Bhailalbai Amin, and scientists, Prof. T.K. Gajjar and Shri Kotibhaskar. The company has been a pioneer in manufacturing Penicillin-G (Pen-G) through the fermentation process. To unlock shareholder value and help insulate the core pharmaceutical operations from the severe volatility and uncertainty of the Pen-G business, the company’s board of directors approved the demerger of its core pharmaceutical business (formulations) into a wholly-owned subsidiary, APL, with effect from April 01, 2010. Following the demerger, both the companies were listed on the Bombay Stock Exchange and the National Stock Exchange.

Consequent to the demerger, APL became the flagship company of the Alembic Group. It is a pure pharmaceutical player focused on domestic formulations, an international business largely driven by regulated markets, and research and development (R&D) activities. AL primarily operates in—i) bulk drugs manufacturing, ii) real estate development (including leased premises), and iii) wind power generation (four windmills with a total capacity of 5 MW) and co-generation power plants (two plants with a total capacity of 6 MW) used for the captive consumption of its bulk drugs business. In addition, AL has equity investments in APL (28.41% stake as on June 30, 2021) and Paushak Limited (19.01% as on June 30, 2021)

For the three months ended June 30, 2021 (unaudited), AL reported a profit after tax (PAT) of Rs. 3.8 crore on an operating income (OI) of Rs. 20.4 crore.

Key financial indicators (audited)

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	161.6	72.7
PAT (Rs. crore)	93.6	13.4
OPBDIT/OI (%)	56.7%	15.3%
PAT/OI (%)	57.9%	18.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	329.3	41.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in	
					Aug 19, 2021	May 29, 2020	Mar 31, 2020	Feb 28, 2019	Sep 18, 2018
1	Fund Based Facilities	Long-term	14.0	-	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-&
2	Fund Based / Non-Fund Based Facilities	Long-term	25.5	-	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-&
3	Non-Fund Based Facilities	Short-term	3.0	-	[ICRA]A1+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+&
4	Fund Based Facilities	Short-term	(20.0)^	-	[ICRA]A1+	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+&

^ Sub-limit of long-term / short-term, fund-based / non-fund based facilities such that the total utilisation should not exceed Rs. 42.5 crore

&= Under watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based/ CC	Simple
Long Term - Fund Based/Non Fund Based	Simple/V.Simple
Short Term – Interchangeable	Simple/V.Simple
Short Term - Non Fund Based	V.Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Fund-based Facility 1	NA	NA	NA	14.0	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility 1	NA	NA	NA	12.0	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility 2	NA	NA	NA	6.0	[ICRA]AA-(Stable)
-	Fund-based / Non-fund Based Facility 3	NA	NA	NA	7.5	[ICRA]AA-(Stable)
-	Non-fund Based Facility 1	NA	NA	NA	3.0	[ICRA]A1+
-	Fund-based Facility 1^	NA	NA	NA	(20.0)	[ICRA]A1+

*^ Sub-limit of long-term / short-term, fund-based / non-fund based facilities such that the total utilisation should not exceed Rs. 42.5 crore
Source: Company*

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

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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

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