

October 20, 2022

Anuh Pharma Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund based limits (CC/WCDL), interchangeable	(5.00)^	(5.00)^	[ICRA]A-(stable); reaffirmed
Short-term Fund based limits, interchangeable	(60.00)^	(60.00)^	[ICRA]A2+; reaffirmed
Short-term, Non-fund Based Limits	90.00	90.00	[ICRA]A2+; reaffirmed
Long-term/ short term Non-fund Based Limits, interchangeable	(90.00)^	(90.00)^	[ICRA]A-(stable)/ [ICRA]A2+; reaffirmed
Total	90.00	90.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to factor in the established track record of Anuh Pharma Limited (APL) in manufacturing active pharmaceutical ingredients (APIs), along with a diversified customer base across domestic as well as export markets. The ratings derive strength from APL's continued strong financial profile, as evinced by its limited dependence on debt and robust debt protection metrics. The ratings also take into consideration the company's endeavour towards gradual diversification of product portfolio through its R&D efforts, which has led to reduction in product concentration over the years. The company's liquidity position is also strong, underpinned by healthy unencumbered cash and liquid investments of Rs. 54.1 crore and non-current investments of Rs. 26.8 crore as on July 31, 2022, against a total debt of Rs. 11.6 crore. ICRA notes that the company is planning to expand its current manufacturing capacity from 1,500 MTPA to 2,100 MTPA, which is expected to be commercialised in FY2024 and further aid in revenue growth and diversification. The planned capex is expected to be funded by internal accrual and existing cash and liquid investments.

The rating, however, remains constrained by APL's moderate scale of operations with a product profile of mature and commoditised molecules, which exposes its profit margins to price-based competition. Furthermore, APL remains exposed to regulatory and foreign exchange (forex) risks due to the nature of its operations.

The Stable outlook reflects ICRA's opinion that APL will continue to benefit from its established market position in key product segments while maintaining its credit profile, aided by its strong liquidity position.

Key rating drivers and their description

Credit strengths

Established track record in API manufacturing – APL has been manufacturing APIs since 1960 with a product portfolio of erythromycin and salts, and higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol. As per the company, it occupies a healthy share in the global market for its key products and is among the leaders in erythromycin and its salts.

Healthy financial risk profile – Aided by adequate retained cash flows and unencumbered cash and liquid investments, APL's dependence on external debt has remained limited. As on March 31, 2022, APL did not have any long-term debt outstanding (excluding lease liabilities) and its total debt decreased to Rs. 4.22 crore from Rs. 13.7 crore as of March 31, 2021, primarily on account of lower utilisation of working capital facilities. Further, the company maintained its cash surplus status, with unencumbered cash and liquid investments of Rs. 54.1 crore and non-current investments of Rs. 26.8 crore as on July 31, 2022.

Its debt coverage indicators also remained robust, as evinced by an interest coverage of 31.1x, total debt/operating profit before depreciation, interest and tax or TD/OPBDITA of 0.1x and net cash accruals/total debt or NCA/TD of 805% as on March 31, 2022

Gradual diversification of products along with introduction of new products every year – The company has been gradually reducing its product concentration risk, through new product offering. Earlier, the company was exposed to product concentration risk with erythromycin accounting for 46% of its FY2018 sales; however, the same was reduced to 26% in FY2022 as APL has been diversifying its product profile over the years. New products like Ambroxol HCL and Gliclazide witnessed healthy sales growth in FY2022. Further, APL has filed certification of suitability (CEP) for Gliclazide, Azithromycin and World Health Organization Pre-qualification (WHO PQ) for Isoniazide. With this approval, the opportunity for sales in European market and institutional business is expected to open up. Also, new products such as Acebrophylline, Citicoline, Theophylline and Caffeine are under the development stage, which is expected to further diversify APL's product profile.

Credit challenges

Moderate scale of operations – The company reported moderate revenue growth of 13% in FY2022 to Rs. 486.6 crore over Rs. 432.0 crore in FY2021 owing to subdued growth for its mature and commoditized molecule it deals into. Despite the sustained growth in scale of operations over FY2022, the company remains a moderate-size player in the bulk drug industry. Also, timely receipt of regulatory approvals for the new products will remain an important driver for revenues and profit margins, going forward.

Product profile of mature and commoditised products expose APL to intense price-based competition – APL's product profile comprises mature and commoditised molecules, including erythromycin, pyrazinamide and corticosteroids, which expose it to intense price-based competition. Given the commoditised nature, the margin remains susceptible to raw material movements, which is also reflected by fluctuation of margins witnessed on a quarterly basis during FY2021 and FY2022.

Exposure to regulatory and forex risks owing to nature of operations – APL caters to regulated markets like Western Europe and semi-regulated markets like West Asia, Latin America and Southern Europe. The company holds CEP, World Health Organization Good Manufacturing Practices (WHO GMP1), COFEPRIS2 (Mexico) and the European Directorate for the Quality of Medicines & Healthcare (EDQM) certifications for manufacturing various bulk drugs, which are reviewed on a periodic basis by the respective regulatory agencies. Any suspension of these certifications can impact its exports to these regulated and semi-regulated markets, as witnessed in FY2017. The profit margins of the company also remain vulnerable to forex fluctuations on account of its foreign operations.

Environmental and Social Risks

Environmental considerations – APL does not face any major physical climate risk. The company has successfully commissioned its new expansion project in December 2019 after receiving environmental clearance from the State Government of Maharashtra. The company has adopted an environment, health and safety policy. Further, as per its FY2022 annual report, the company adopts relevant techniques and methods, such as safety audits and periodic assessments for environmental, health and safety risks and takes all the required remedial measures as and when needed.

Social considerations – The industry faces social risks related to product safety and associated litigation risk, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/ control also remains a social risk faced by entities in the pharmaceutical industry. However, the company takes all the required regulatory approvals/ certificates before introducing any new products in the market. The company holds CEP, WHO GMP1, COFEPRIS2 (Mexico) and EDQM certifications for manufacturing various bulk drugs, which are reviewed on a periodic basis by the respective regulatory agencies.

Liquidity position: Strong

The company's liquidity profile is strong, underpinned by healthy free cash and liquid investments of Rs. 54.1 crore, and noncurrent investments of Rs. 26.8 crore as on July 31, 2022. Coupled with largely unutilised working capital limits, these provide a strong liquidity cushion. Against this, the company does not have any long-term debt obligations, nor any plans to incur debt-funded capital expenditure (capex) in the near term.

Rating sensitivities

Positive factors – APL's ratings may be upgraded if it significantly improves its scale of operations and profitability along with diversification of its product portfolios

Negative factors – Pressure on the ratings could arise in case the company's operating margins fall below 7% on a sustained basis. Any regulatory non-compliance issued to APL for its products and/or manufacturing facilities that could impact its revenues and profitability, would also be a negative rating trigger. Further, any large debt-funded capex exerting pressure on the company's credit metrics or any significant weakening of the liquidity position would be negative triggers as well.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate rating methodology Rating Methodology for Pharmaceutical Companies
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Anuh Pharma Limited, a part of the SK Group of companies, is a medium-sized player in the API/bulk drugs industry, manufacturing products such as erythromycin and its salts, and higher macrolides like azithromycin, roxithromycin, pyrazinamide and chloramphenicol. As per the company, it is the largest producer of erythromycin salts in India and among the top five in the world. It is also the largest producer of pyrazinamide in the world. APL's manufacturing facility, located at Boisar, Thane (Maharashtra), has an annual production capacity of 1,500 MT (enhanced from 900 MT in December 2019). The company also has an R&D centre at Mahape, Navi Mumbai.

In Q1 FY2023, APL reported a profit after tax (PAT) of Rs. 7.3 crore on an operating income (OI) of Rs. 116.4 crore, against a PAT of Rs. 5.6 crore on an OI of Rs. 117.3 crore in Q1 FY2022.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	432.0	486.6
PAT	28.4	30.6
OPBDIT/OI	10.5%	10.1%
PAT/OI	6.6%	6.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.3	0.1
Interest coverage (times)	22.2	31.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				October 20, 2022	August 19, 2021	October 29, 2020	September 19, 2019
1 Cash Credit	Long-term	0.0	-	-	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2 Cash Credit, interchangeable	Long-term	(5.0)*	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
3 Bank Guarantee, interchangeable	Short-term	0.0	-	-	-	[ICRA]A2+	[ICRA]A2+
4 Bank Guarantee, interchangeable	Long-term/ Short Term	(90.0)*	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	-	-
5 Export credit, interchangeable	Short-term	(60.0)*	-	[ICRA]A2+	[ICRA]A2+	-	-
6 Letter of credit/ SBLC/ Buyers Credit	Short-term	90.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

*Sublimit of Rs. 90 crore non fund based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based limits, interchangeable	Simple
Short-term Fund based limits, interchangeable	Simple
Short-term, Non-fund Based Limits	Very Simple
Long-term/ short term Non-fund Based Limits, interchangeable	Very 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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit, interchangeable	NA	NA	NA	(5.0)*	[ICRA]A-(stable)
NA	Export Credit, interchangeable	NA	NA	NA	(60.0)*	[ICRA]A2+
NA	Letter of credit/ SBLC/ Buyers Credit	NA	NA	NA	90.0	[ICRA]A2+
NA	Bank Guarantee, interchangeable	NA	NA	NA	(90.0)*	[ICRA]A-(stable)/ [ICRA]A2+

Source: Company, *Sublimit of Rs. 90 crore non fund based limits

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

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