

February 23, 2023

Alembic Limited: Update on Material Event

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Outstanding
Long-term – Fund-based – Cash Credit	3.0	3.0	[ICRA]AA- (Stable); outstanding
Long-term – Fund-based/Non-fund based	25.5	25.5	[ICRA]AA- (Stable); outstanding
Long-term/Short-term – Fund-based/Non-fund based	10.0	10.0	[ICRA]AA- (Stable)/ [ICRA]A1+; outstanding
Total	38.5	38.5	

*Instrument details are provided in Annexure-1

Rationale

Material Event

On February 14, 2023, Alembic Limited (AL) had intimated to the stock exchanges regarding an update on an old litigation it filed (in 2004) against the State of Gujarat, Collector of Electricity Duty, Chief Auditor, Industries Commission. The litigation pertains towards payment of electricity duty against the notice issued by the Chief Auditor (dated 12.1.2004). At present, the High Court of Gujarat has ruled the verdict against the company. Consequently, there is an estimated liability of Rs. 20.5 crore towards the duty and Rs. 29.02 crore towards interest on the same, which totals to Rs. 49.52 crore (as per the FY2022 annual report). AL has indicated that it is examining the order and shall evaluate further course of action, post discussion with legal experts.

Impact of Material Event

ICRA takes note of the event and understands that the company is evaluating further course of actions. The ratings remain unchanged at [ICRA]AA- (pronounced ICRA Double A minus) with a Stable outlook and [ICRA]A1+ (pronounced ICRA A one plus) outstanding on the Rs. 38.5-crore bank facilities of AL.

AL has no long-term borrowings on its books and had adequate liquidity with cash and liquid investments of Rs. 54.15 crore as on December 31, 2022, apart from a buffer of Rs. 33.5 crore against sanctioned limits and Rs. 11.0 crore against the drawing power as of end-December 2022. AL holds a 28.4% stake in Alembic Pharmaceutical Limited, the flagship entity of the Group, providing it with healthy financial flexibility on the back of sizeable dividend income. ICRA, however, will continue to monitor the development regarding the future course of action on the said liability and its impact on the credit risk profile of the company, as and when further clarity emerges.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position, Rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology 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 Bhailalbhai 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 the regulated markets, and 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 (28.4% stake as on September 30, 2022) and Paushak Limited (19.07% as on September 30, 2022)

Key financial indicators

AL Standalone	FY2021	FY2022	9M FY2023*
Operating income	72.7	154.9	149.2
PAT	13.4	85.7	75.0
OPBDIT/OI	15.3%	59.3%	58.6%
PAT/OI	18.4%	55.3%	50.3%
Total outside liabilities/Tangible net worth (times)	0.0	0.0	-
Total debt/OPBDIT (times)	0.0	0.0	-
Interest coverage (times)	41.7	399.1	794.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Feb 23, 2023	Nov 29, 2022	Aug 19, 2021	May 29, 2020	-
1	Fund-based	Long-term	3.0	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	-
2	Fund-based/Non-fund based	Long-term	25.5	--	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	-
3	Fund-based/Non-fund based	Long-term/Short-term	10.0	--	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-
4	Non-Fund Based Facilities	Short-term	--	--	--	--	[ICRA]A1+	[ICRA]A2+	-

5	Fund Based Facilities	Short-term	--	--	--	--	[ICRA]A1+	[ICRA]A2+	-
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Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term – Fund-based/Non-fund based	Simple
Long-term/Short-term – Fund-based/Non-fund based	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: [Click Here](#)

Annexure-I: 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	NA	NA	NA	3.0	[ICRA]AA- (Stable)
NA	Fund-based/Non-fund based	NA	NA	NA	25.5	[ICRA]AA- (Stable)
NA	Long-term/Short-term – Fund-based/Non-fund based	NA	NA	NA	10.0	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company data

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

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