

May 29, 2020 *Revised*

Alembic Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Facilities	14.0	14.0	[ICRA]A- (Stable); reaffirmed
Long-term, Fund-based / Non-fund based Facilities	33.0	33.0	[ICRA]A- (Stable); reaffirmed
Short-term, Non-Fund Based Facilities	3.0	3.0	[ICRA]A2+; reaffirmed
Short-term, Fund based Facilities [^]	(20.0)	(20.0)	[ICRA]A2+; reaffirmed
Total	50.0	50.0	

[^]Sub-limit of long-term / short-term, fund-based / non-fund based facilities such that the total utilisation should not exceed Rs. 50.0 crore

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in the strong promoter Group and the financial flexibility enjoyed by Alembic Limited (Alembic) from its 29.46% stake in Alembic Pharmaceuticals Limited (APL), the flagship company of the Alembic Group. The company has a strong liquidity position, as characterised by cash and liquid investments of Rs. 108 crore as on March 31, 2020 and negligible utilisation of bank facilities. The significant land bank (~102 acres) of the company, which can be monetised in case of exigencies, also lends comfort.

ICRA notes the initial stage of construction of the ongoing project, 'Veda Phase 2', which exposes the company to some degree of project execution risk. However, the self-funded nature of the earlier completed projects and the successful execution and completion of the 'Samsara' and 'Veda Phase 1' projects, provide comfort. While the residential units of both Samsara and Veda Phase 1 have achieved full sales, 18 of the 36 commercial units of the Veda Phase 1 project remain unsold as on date.

The ratings are, however, constrained by the continued weak performance of its bulk drugs / active pharmaceutical ingredients (APIs) business, which is a drain on the profitability of the company. The turnaround of the same is a key rating sensitivity. From Q3 FY2020 onwards, Alembic has changed its business model for its API sales to APL, to job work. This will help the company shield itself from foreign exchange losses. While this change in model will impact its top line, its profits are unlikely to be impacted. Going forward, Alembic's cash flows would depend on the profitability of its bulk drugs business and the cash flows from the real estate business.

The Covid-19 pandemic has not materially impacted the company's API business as it is classified as essential services. However, contagion fears and economic uncertainties are expected to impact the operations and cashflows of real estate developers in general, which might ultimately result in a weakening of the credit risk profile of real estate developers. Demand is expected to witness moderation and committed receivables from already booked sales are also expected to be impacted, given that milestone-based payments may get deferred and some buyers may delay payments on account of economic uncertainties. Bookings for Veda Phase 2 have almost stopped from April 01, 2020 due to the ongoing pandemic. Nonetheless, Alembic's strong liquidity and stable rental income from its commercial real estate projects lend comfort. Most of the company's corporate commercial real estate tenants have not invoked any force majeure clauses, but have requested for a 15-30 days extension of credit period. In the commercial retail segment (which accounts for less than 2% of the total real estate segment revenues), some of the tenants have invoked force majeure and the company is yet to decide on the same. The Stable outlook reflects ICRA's opinion that Alembic's liquidity position will remain strong,

supported by cash flows from the real estate business along with the dividend income from its investments in Group companies.

Key rating drivers and their description

Credit strengths

Strong promoter Group and the financial flexibility enjoyed by Alembic from its 29.46% stake in APL – Alembic currently holds 29.46% stake in APL, the flagship company of the Group, which provides it with financial flexibility. The market value of Alembic's stake in APL is valued at ~Rs 4,687 crore¹. Furthermore, dividend income from APL has been supporting Alembic's net profit.

Healthy liquidity position of the company – The company has turned debt-free since FY2015 on the back of cash flows from its real estate business. The company had a sizeable cash and bank balance as well as liquid investments of Rs. 108 crore and unused working capital limits of Rs. 47.0 crore as on March 31, 2020, supporting its liquidity position.

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.

Credit challenges

Current 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 cashflows of real estate developers, which might ultimately result in a weakening of their credit risk profile. Demand is expected to witness moderation and committed receivables from already booked sales are also expected to be impacted, given that milestone-based payments may get deferred and some buyers may delay payments on account of economic uncertainties. The bookings for Veda Phase 2 have almost stopped from April 01, 2020 due to the ongoing pandemic. Nonetheless, Alembic's strong liquidity and stable rental income from its commercial real estate projects lend comfort.

Small scale of operations and weak profitability – The company is a marginal player in the bulk drugs business. Furthermore, it has completed just two real estate projects, with the third one—i.e., Veda Phase 2—still under construction. With Samsara sales having concluded and a major share of Veda Phase I sales being booked, revenue growth would depend on the progress of Alembic's ongoing Veda Phase 2 project and any new real estate project launches.

Continued weak performance of the API business dragging down overall profitability – The company has already taken various cost control measures for its API business. However, despite its efforts, the company has not been able to turnaround its API business materially. In 9M FY2020, the business segment reported revenues of Rs. 45.3 crore and a modest profit before interest and tax (PBIT) margin of 5.7%, over revenues of Rs. 52.7 crore and PBIT margin of 2.5% in 9M FY2019. Although there is an improvement in margins, the same remained low, dragging down Alembic's overall profitability.

¹ As on May 15, 2020

Liquidity position: Strong

The company has remained debt-free since FY2015, on the back of cash flows from the real estate segment. The company had high cash and bank balance as well as liquid investments of Rs. 111.6 crore as on March 31, 2020. Furthermore, the company had largely unutilised sanctioned working capital facilities of Rs. 47.0 crore as on March 31, 2020. Alembic currently holds 29.46% stake in APL, the flagship company of the Group, which provides it with financial flexibility.

Rating sensitivities

Positive triggers – ICRA could upgrade the ratings in case of a substantial and sustained increase in scale of operations of the company along with a significant improvement in its operating profitability.

Negative triggers – The ratings can be downgraded in case of any substantial deterioration in the liquidity profile of the company or reduction in its financial flexibility owing to substantial decline in the market capitalisation of APL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodologies for Entities in Pharmaceutical Industry Rating Methodologies for Real Estate Entities
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, in its meeting held on June 29, 2010, 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 has been 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. Alembic 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) that are presently used for the captive consumption of its bulk drugs business. In addition, Alembic has equity investment in APL (29.46% stake) and other Group companies.

For the nine months ended December 31, 2019 (unaudited), Alembic reported a profit after tax (PAT) of Rs. 38.1 crore on an operating income (OI) of Rs. 62.3 crore.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	125.5	123.8
PAT (Rs. crore)	41.8	41.1
OPBDIT/OI (%)	8.8%	14.6%
RoCE (%)	10.6%	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.2	0.1
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	65.6	83.7
DSCR	271.7	199.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years					
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019		FY2018	
					29-May-2020	-	28-Feb-2019	18-Sep-2018	30-Nov-2017	18-Oct-2017
1	Fund-based Facilities	Long-term	14.0	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-&	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Fund-based / Non-fund Based Facilities	Long-term	33.0	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)	[ICRA]A-&	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Non-fund Based Facilities	Short-term	3.0	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+&	[ICRA]A2+	[ICRA]A2+
4	Fund-based Facilities [^]	Short-term	(20.0) [^]	-	[ICRA]A2+	-	[ICRA]A2+	[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. 50.0 crore

&: On rating watch with developing implications

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based Facility 1	-	-	-	14.0	[ICRA]A- (Stable)
-	Fund-based / Non-fund Based Facility 1	-	-	-	12.0	[ICRA]A- (Stable)
-	Fund-based / Non-fund Based Facility 2	-	-	-	6.0	[ICRA]A- (Stable)
-	Fund-based / Non-fund Based Facility 3	-	-	-	15.0	[ICRA]A- (Stable)
-	Non-fund Based Facility 1	-	-	-	3.0	[ICRA]A2+
-	Fund-based Facility 1 [^]	-	-	-	20.0	[ICRA]A2+

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Source: Alembic Limited

Corrigendum:

Rationale dated May 29, 2020 has been revised with changes as below:

Revision on Page 3: In the Liquidity section, the cash and bank balance as well as liquid investments has been updated to Rs 111.6 crore from Rs 108.0 crore as on March 31, 2020

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