October 29, 2020

Anuh Pharma Limited: Rating reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based Limits	5.00	5.00	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Short-term, Non-fund Based Limits	70.00	70.00	[ICRA]A2+; reaffirmed
Short-term, Interchangeable Limits^	(2.50)	(2.50)	[ICRA]A2+; reaffirmed
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-1*
^Sublimit of short-term, non-fund based limits of Rs. 70.00 crore

Rationale

The revision in outlook to positive factors in the improved business outlook for Anuh Pharma Limited (APL) over the near and medium term, driven by increased demand for its existing products, especially erythromycin and azithromycin (antibiotics), new product launches and the enhancement in its production capacity to 1,500 MTPA (from 900 MTPA) with effect from December 2019. The rating continues to derive comfort from the established track record of APL in manufacturing active pharmaceutical ingredients (APIs), along with a healthy market share in its key products and a diversified base of domestic and export customers. The ratings also derive strength from APL's continued strong financial profile, as evinced by its limited dependence on debt and robust debt protection metrics. The company's liquidity position is strong, underpinned by healthy unencumbered cash and liquid investments of Rs. 77.3 crore and non-current investments of Rs. 26.7 crore as on September 30, 2020, against a total debt of Rs. 53.7 crore.

The company's revenues witnessed a marginal YoY decline of 4% in FY2020 to Rs. 307.0 crore, primarily due to softened realisations of its APIs (following the correction in raw material prices during the year) and restrictions placed on exports of erythromycin (antibiotic) and chloramphenicol (anti-bacterial) by the Directorate General of Foreign Trade (DGFT) in March 2020, following the outbreak of the Covid-19 pandemic. APL's operating profit margin (OPM) also moderated to 8.9% in FY2020 over 9.5% in FY2019, amid reduced sales. The company's performance, however, improved significantly in Q1 FY2021, as evinced by 46% YoY growth in revenues to Rs. 124.2 crore, aided by robust demand for all its products, specifically erythromycin and azithromycin (as these products are being also used for the treatment of Covid-19) and the shipment of the lost sales in March 2020. The company was also able to command better realisations for its products, which led to improved gross margin and, thus, improved OPM of 18.8% in Q1 FY2021 over 9.1% in Q1 FY2020. The revenue uptick was also aided by utilisation of the enhanced capacity of 600 MTPA. While this enhanced capacity is yet to be approved by the European Directorate for the Quality of Medicines and HealthCare (EDQM), the company is utilising the same for supplies to domestic and unregulated markets, while dedicating the existing EDQM approved facility (of 900 MTPA) for catering mainly to regulated markets. The company has also received approval for Ambroxol HCL (respiratory) from EDQM in February 2020 and for Pyrimethamine (anti-malarial) from WHO PQ[1] in September 2020 and is looking to ramp up sales of these products in FY2021, in addition to the launch of three to four new products. While the existing realisations are expected to taper in the coming months, increased supplies from new capacity as well as launch of new products are expected to partially mitigate the impact of the same.

The rating, however, remains constrained by the current modest scale of operations of the company, with product profile comprising mature and commoditised molecules, which exposes its profit margins to price-based competition. The company also remains exposed to concentration risk, including product concentration (with erythromycin accounting for 40% of its FY2020 sales) and concentrated manufacturing base with the company operating primarily out of one manufacturing facility at Boisar (Thane, Maharashtra). Furthermore, the company remains exposed to regulatory and foreign exchange risks due to the nature of its operations.

The Positive outlook reflects ICRA's opinion that APL will be able to sustain the improvement in its revenues and OPM while maintaining a robust credit profile and 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 its product portfolio comprising erythromycin and its 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, 2020, although APL did not have any long-term debt outstanding (excluding lease liabilities), the company's total debt increased to Rs. 44.6 crore from Rs. 4.4 crore as on March 31, 2019, primarily on account of higher utilisation of the export packing credit facility (given its competitive rates). Nonetheless, the company maintained its cash surplus status, with unencumbered cash and liquid investments of Rs. 67.7 crore and non-current investments of Rs. 13.7 crore as on March 31, 2020. APL's debt coverage indicators also remained robust, as evinced by an interest coverage of 21.6x, total debt/ operating profit before depreciation, interest and tax or TD/OPBDITA of 1.7x and net cash accruals/ total debt or NCA/TD of 22% as on March 31, 2020. APL's liquidity position remains strong, as evident from its unencumbered cash and liquid investments of Rs. 77.3 crore and non-current investments of Rs. 26.7 crore as on September 30, 2020 (over total debt of Rs. 53.7 crore).

Improved business outlook – The business outlook for APL over the near and medium term remains healthy, led by increased demand for its existing products, especially erythromycin and azithromycin (antibiotics), new product launches and the enhancement in its production capacity to 1,500 MTPA (from 900 MTPA) with effect from December 2019. APL posted a strong performance in Q1 FY2021, with a YoY growth of 46% in revenues to Rs. 124.2 crore, driven by robust demand for all its products, specifically erythromycin and azithromycin (as they are also being used for the treatment of Covid-19) and the shipment of the lost sales in March 2020. Coupled with better realisations across all products, this led to an improvement in APL's OPM to 18.8% in Q1 FY2021 over 9.1%

[1] *WHO Prequalification of Medicines Programme*

in Q1 FY2020. The company has also received approval for Ambroxol HCL (respiratory) from EDQM in February 2020 and for Pyrimethamine (anti-malarial) from WHO PQ in September 2020 and is looking to ramp up sales of these products in FY2021, in addition to the launch of a few new products. Improved demand prospects and an enhanced production capacity is expected to lead to improved revenues and profit margins in FY2021.

Credit challenges

Modest scale of operations – APL's scale of operations is modest, with revenues of Rs. 307.0 crore and an OPM of 8.9% in FY2020. The company's ability to profitably ramp up its enhanced capacity remains critical. 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, exposing 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.

Concentration risks – The company remains exposed to concentration risks, including product concentration (with erythromycin accounting for 40% of its FY2020 sales) and a concentrated manufacturing base with the company operating primarily out of a manufacturing facility at Boisar.

Exposure to regulatory and foreign exchange risks owing to nature of operations – APL caters to regulated markets like Europe and semi-regulated markets like the Middle East, Mexico, Brazil, Spain and Italy. The company holds WHO GMP[2], COFEPRIS[3] (Mexico) and 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 the company's exports to these regulated and semi-regulated markets, as witnessed in FY2017. The profit margins of the company also remain vulnerable to foreign exchange fluctuations on account of its foreign operations.

Liquidity position: Strong

The company's liquidity profile is **strong**, underpinned by healthy free cash and liquid investments of Rs. 77.3 crore and non-current investments of Rs. 26.7 crore as on September 30, 2020. The cash flow generation for the company is expected to remain strong in FY2021 aided by healthy demand prospects for its products, launch of new products and enhancement in its production capacity. Against this, the company does not have any long-term debt obligations and plans to incur capital expenditure (capex) of only ~Rs. 5 crore in FY2021.

Rating sensitivities

Positive triggers - APL's ratings may be upgraded if the company is able to successfully utilise its enhanced capacity, such that its business profile becomes more diversified, supporting earnings stability. Sustained improvement in its OPM, while maintaining a healthy capital structure and liquidity profile will be positive factors.

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[2] *WHO Good Manufacturing Practice*

[3] *Comisión Federal para la Protección contra Riesgos Sanitarios (COFEPRIS), or the Federal Commission for Protection against Sanitary Risks, is the authority with competence to control and regulate drug products in Mexico.*

Negative triggers - The outlook may be revised to Stable if the ramp-up of enhanced capacity is slower than expected, exerting pressure on profitability. The company's return on capital employed (RoCE) falling below 16% on a sustained basis would also exert a negative rating pressure. Any regulatory non-compliance issued to APL for its products and/or manufacturing facilities, thereby impacting its revenues and profitability, would also be a negative trigger. Furthermore, any large debt-funded capex exerting pressure on the company's credit metrics or any significant weakening of the liquidity position would also be negative triggers.

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 small-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 producers of erythromycin 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 a research and development (R&D) centre at Mahape, Navi Mumbai.

In Q1 FY2021, APL reported a profit after tax (PAT) of Rs. 16.7 crore on an operating income (OI) of Rs. 124.2 crore, against a PAT of Rs. 5.9 crore on an OI of Rs. 84.9 crore in Q1 FY2020.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	320.7	307.0
PAT (Rs. crore)	23.4	14.3
OPBDIT/OI (%)	9.5%	8.9%
PAT/OI (%)	7.3%	4.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.0
Total Debt/OPBDIT (times)	0.1	1.7
Interest Coverage (times)	50.8	21.6

OI: Operating Income; 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 last three years

	Instrument	Current Rating (FY2021) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating 29-Oct-20	Chronology of Rating History for the Past 3 Years FY2020 19-Sep-19	FY2019 9-Aug-18	FY2018 21-Jul-17	28-Apr-17
1	Cash Credit	Long-term	5.0	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable); withdrawn
2	Letter of Credit	Short-term	70.0	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+; withdrawn
3	Bank Guarantee^	Short-term	(2.5)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+; withdrawn

^Sublimit of short-term, non-fund based limits of Rs. 70.00 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Cash Credit	-	-	-	5.0	[ICRA]BBB+ (Positive)
-	Letter of Credit	-	-	-	70.0	[ICRA]A2+
-	**Bank Guarantee^**	**-**	**-**	**-**	**(2.5)**	**[ICRA]A2+**

^Sublimit of short-term, non-fund based limits of Rs. 70.00 crore

Source: Anuh Pharma Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Amit Naik
+91 22 6114 3435
amit.naik@icraindia.com

Sakshi Suneja
+91 22 6114 3438
sakshi.suneja@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999