

November 30, 2017

Alembic Limited

Summary of rated instruments

Instrument*	Amount Rated (in Rs. crore)	Rating Action
Long-term, Fund-based Facilities	14.0	[ICRA]A- (Stable) / Re-affirmed
Long-term, Fund-based / Non-fund Based Facilities	33.0	[ICRA]A- (Stable) / Re-affirmed
Short-term, Non-fund Based Facilities	3.0	[ICRA]A2+ / Re-affirmed
Short-term, Fund-based Facilities^	(20.0)	[ICRA]A2+ / Re-affirmed

^ Total utilisation of long-term / short-term, fund-based / non-fund based facilities should not exceed Rs. 50.0 crore

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus)¹ assigned to the Rs. 14.0 crore² long-term, fund-based bank facilities and the Rs. 33.0 crore long-term, fund-based / non-fund based bank facilities of Alembic Limited (Alembic). ICRA has also re-affirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 3.0 crore short-term, non-fund based bank facilities and the Rs. 20.0 crore short-term, fund-based bank facilities of Alembic. The overall long-term / short-term, fund-based / non-fund based limits utilisation should not exceed Rs. 50.0 crore. The outlook on the long-term rating is Stable.

Rationale

The ratings re-affirmation takes into account the healthy liquidity position of the company on the back of cash flows from the real estate business and improving performance of the bulk drugs business. ICRA notes the strong promoter Group and the financial flexibility enjoyed by Alembic by virtue of its 29.18% stake in Alembic Pharmaceuticals Limited (APL), the flagship company of the Group. The significant land bank (~102 acres) of the company, which can be monetised in case of exigencies, also lend rating comfort. The ratings further factor in the achievement of ~86% sales for its real estate project—‘Veda’—till September 30, 2017, the self-funded nature of the project and the comfort from the successful execution and completion of the ‘Samsara’ project, which has achieved almost full sales.

ICRA also notes the initiatives undertaken by the company to turn around the bulk drugs business, which has demonstrated success in the current year, with a segment profit (profit before interest and tax) of Rs. 1.4 crore for H1 FY2018, as against a segment loss of Rs. 3.7 crore for H1 FY2017. The sustenance of the same is a key rating sensitivity. Going forward, the cash flows of the company would depend on the profitability of the bulk drugs business and the cash flows from the real estate business. However, post completion of the sale of the existing real estate projects, the credit profile would depend on the new initiatives by the company. Furthermore, sizeable unused land provides opportunities to monetise the same and improve cash flows.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- **Strong promoter Group and the financial flexibility enjoyed by Alembic by virtue of its 29.18% stake in APL** – Alembic currently holds 29.18% 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. 2,856 crore³. 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 the real estate business. The company also had sizeable cash and bank balance as well as liquid investments of Rs. 128.7 crore as on September 30, 2017, 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.
- **Bulk drugs business has achieved turnaround in the current year on the back of the initiatives by the company** – During FY2016 and FY2017, the company has undertaken several initiatives, including among others, discontinuation of fermentation-based products and thus closure of three of its eight plants, voluntary retirement service (VRS) offered to the employees and thus savings in employee cost, commercialisation of gas engine, facilitating reduction in power cost and new product developments. These have enabled the bulk drugs business to turnaround in the current year. Sustenance of this improved performance is a key rating sensitivity.

Credit weaknesses

- **Small scale of operations and weak profitability** – The company is a marginal player in the bulk drugs business. Furthermore, it has merely completed one real estate project, with the second one under construction. With 'Samsara' sales having almost concluded and as a major proportion of 'Veda' sales get booked, the revenue growth would depend on the new real estate projects launched by the company.
- **Market risks for 'Veda' real estate project; however, comfort is drawn from the successful execution and completion of the 'Samsara' project, which has achieved almost full sales** – The company started construction of Phase I of the 'Veda' project in April–May 2015 and is expected to be completed by March 2018. The total cost of the project is ~Rs. 82.5 crore, and the company incurred a construction cost of ~Rs. 62.6 crore as on September 30, 2017, indicating ~75% of the total construction cost. As on September 30, 2017, the company sold ~86% (233) of the total 272 residential units and eight of the 36 commercial units. The project is being funded through a combination of customer advances, cash flows from the Samsara project and internal accruals. The company remains exposed to the market risks associated with the sale of the balance units. However, comfort is drawn from the successful execution and completion of its 'Samsara' project, which has achieved almost full sales.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating – A Note on Methodology](#)

³ As on November 14, 2017

About the company

Alembic Limited, the flagship company of the Alembic Group, was incorporated on July 30, 1907. The company was promoted by an 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. With a view to unlock shareholder value as well as help insulate core pharmaceutical operations from severe volatility and uncertainty of the Pen-G business, the Board of Directors of the company, in its meeting held on June 29, 2010, approved the scheme of arrangement containing demerger of its core pharmaceutical business (formulations) into a wholly-owned subsidiary, APL, with effect from the appointed date of April 01, 2010. Post the demerger, both the companies are listed on the Bombay Stock Exchange and the National Stock Exchange.

Consequent upon the demerger, APL is the flagship company of the Alembic Group and is a pure pharmaceutical player with focus on domestic formulations, an international business largely driven by the regulated markets, and research and development (R&D) activities. Alembic operates primarily in three business segments—i.) manufacturing bulk drugs, ii.) real estate—as part of which, it has also rented out premises, and iii) power generation through windmills (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 captive consumption for the operation of its bulk drugs business. In addition, Alembic also has equity investment in APL (29.18% stake) and other Group companies.

For the 12 months that ended March 31, 2017, Alembic reported a profit after tax (PAT) of Rs. 27.5 crore on an operating income (OI) of Rs. 126.2 crore, as against a PAT of Rs. 24.7 crore on an OI of Rs. 118.7 crore for the 12 months that ended March 31, 2016.

For the six months that ended September 30, 2017 (unaudited), Alembic reported a PAT of Rs. 31.7 crore on an OI of Rs. 62.2 crore.

Key financial indicators (Audited)

Standalone	FY2016	FY2017
Operating Income (Rs. crore)	118.7	126.2
PAT (Rs. crore)	24.7	27.5
OPBDIT/ OI (%)	-1.8%	-3.6%
RoCE (%)	9.5%	7.3%
Total Debt/ TNW (times)	0.0	0.0
Total Debt/ OPBDIT (times)	0.0	0.0
Interest Coverage (times)	-18.9	-28.5
NWC/ OI (%)	52%	12%

OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work-in-Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating		Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				November 2017	October 2017	July 2016	June 2015	April 2014
1	Fund-based Facilities	Long-term	14.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
2	Fund-based / Non-fund Based Facilities	Long-term	33.0	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(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+

^Total utilisation of long-term / short-term, fund-based / non-fund based facilities should not exceed Rs. 50.0 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	Date of Issuance	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+

^Total utilisation of long-term / short-term, fund-based / non-fund based facilities should not exceed Rs. 50.0 crore

Source: Alembic Limited

Contact Details

Analyst Contacts

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

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

Relationship Contact

Jayanta Chatterjee
+91 80 43326401
jayantac@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

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20- 6606 9999; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500