

Press Release

Aarey Drugs And Pharmaceuticals Limited

August 04, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) on the Rs. 15.00 crore bank facilities of Aarey Drugs And Pharmaceuticals Limited. The outlook is '**Stable**'.

Aarey Drugs and Pharmaceuticals Limited (the erstwhile Niharika Textiles & Chemicals Private Limited) was incorporated in 1990. The company is engaged in the manufacturing and trading of chemical products, solvents and drug intermediaries. The company commenced manufacturing of bulk drugs in a phased manner. Phase I commenced operations in June 2016 with installed capacity of 200 MT/month while Phase II began operations in January 2017 with installed capacity of 50 MT/month. Phase III is expected to commence manufacturing by October 2017 with installed capacity of 10 MT/month. ADPL manufactures mono-methyl urea, dimethyl urea, bromine, phylline and crude distillates.

Key Rating Drivers

Strengths

- Experienced management, established track record of operations**

The promoters, Mr. Jagdish K Shah, Mr. Rajesh P. Ghatalia, and Mr. Mihir R. Ghatalia possesses more than two decades of experience in the chemical and pharmaceutical industry. The promoters, as a result, have been able to forge long term relations with customers and suppliers.

- Healthy revenue growth**

The company registered healthy operating income growth at a CAGR of 26 percent for the period FY2014 to FY2017. The operating income stood at Rs.395.63 crore in FY2017 compared to Rs.246.10 crore in FY2016. The growth in revenue is on account of increase in trading volumes and commencement of phase I of manufacturing in June 2016. In FY2017, sale from manufacturing and the trading unit stood at Rs.71.00 crore and Rs.325.00 crore respectively. Further, in Q1FY2018 (Provisional), the operating income stood at Rs.88.00 crore which constitutes sale from manufacturing and trading (Rs.38.00 crore and Rs.50.00 crore respectively). The revenues are expected to improve steadily with the ramping up of manufacturing activity.

- Healthy financial risk profile**

The financial risk profile is healthy marked by net worth of Rs.50.40 crore as on 31 March, 2017. The gearing (debt to equity ratio) stood low at 0.21 times as on 31 March, 2017 compared to 0.40 times as on 31 March, 2016. Further, the company's coverage indicators are healthy as Interest coverage ratio (ICR) stood at 3.00 times in FY2017 compared to 2.42 times in FY2016. With no debt funded capital expenditure, ADPL's financial risk profile is expected to remain healthy in the medium term.

- Comfortable working capital operations**

The working capital operations are comfortable with Gross Current Assets (GCAs) of 77 days in FY2017 compared to 111 days in FY2016. The moderate GCA days are on account of receivables of 72

days in FY2017 as against 108 days in FY2016. Further, the average working capital utilisation is ~72 percent in the last six months ended May, 2017. SMERA expects moderation in working capital cycle in the medium term due to commencement of manufacturing activity.

Weaknesses

- **Low profitability**

The company reported improvement in operating margins (EBITDA) to 2.40 percent in FY2017 from 0.45 percent in FY2016 on account of commencement of manufacturing activity. The Profit after tax (PAT) margins stood at 1.50 percent in FY2017 as against 0.52 percent in FY2016. Out of the total PAT of Rs.5.92 crore, ADPL reported PAT of ~ 5.53 per cent from manufacturing activity and ~ 0.60 per cent from trading activity in FY2017. Further, in Q1FY2018 (Provisional), PAT from manufacturing and trading stood at 5.73 percent and 0.60 percent respectively. The profit margins are expected to improve with ramping up of manufacturing activity.

- **Ongoing capital expenditure**

In FY2014-15, ADPL decided to upgrade its Tarapur plant in a phased manner with a total investment of ~Rs.18.00 crore, to be funded through internal accruals. The operational activities for Phase I and II began in June 2016 and January 2017 respectively with total installed capacity of 350 MT per month. ADPL launched new products in bulk drug and chemical intermediate segments such as mono-methyl Urea, dimethyl Urea, Theobromine and Theophylline. Further, ADPL undertook capex to start its Phase III production of Pentoxifylline with installed capacity of 10 MT per month. Phase III is expected to commence operations from October, 2017. Thus, timely execution, commencement and stabilisation of the project, sustainable growth in revenues while improving profitability margins and the financial risk profile will remain key rating sensitivities.

- **Regulatory risks in the domestic and export markets**

ADPL is exposed to regulatory risk in the domestic market as well as in Brazil, African countries and Japan. However, the same is mitigated to an extent since it has been dealing with these countries for the last 25 years. Further, ADPL's profitability is susceptible to forex fluctuation risk for un-hedged exports.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of ADPL to arrive at the rating.

Outlook: Stable

SMERA believes that ADPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case of sustained growth in revenues while achieving improvement in operating margins and maintaining the financial risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of steep decline in revenues, profit margins or deterioration in the financial risk profile and liquidity position owing to significant debt funded capex or working capital requirements.

About the Rated Entity - Key Financials

For FY2016-17, the company registered profit after tax (PAT) of Rs.5.92 crore on operating income of Rs.395.63 crore as against net profit after tax of Rs.1.29 crore on operating income of Rs.246.10 crore in the previous year. The net worth stood at Rs.50.67 crore as on 31 March, 2017 compared to Rs.36.70 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA (if applicable)

CRISIL has suspended its ratings on the bank facilities of Aarey Drugs & Pharmaceuticals Ltd (ADPL) dated 10th September 2014. The suspension of ratings is on account of non-cooperation by ADPL with CRISIL's efforts to undertake a review of the ratings outstanding. ADPL has not cooperated with ICRA Limited (ICRA), which suspended its rating on the company on 19th June 2017, on account of payment

of surveillance fee that became overdue.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Trading Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.50	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BBB- / Stable

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ABOUT SMERA

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