Press Release

Aarey Drugs And Pharmaceuticals Limited

October 23, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.19.50 Cr. (Enhanced from Rs.15.00 crore)
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.19.50 cr. bank facilities of Aarey Drugs And Pharmaceuticals Limited. The outlook is **'Stable'**.

Mumbai based Aarey Drugs and Pharmaceuticals Limited (ADPL) (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. ADPL has its manufacturing facility at Tarapur where it manufactures Monomethyl Urea (MMU), Dimethyl Urea (DMU), Theobromine (THB), Theophylline (THP) among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management, established track record of operations**

  The promoter Mr. Rajesh P. Ghatalia, possesses more than two decades of experience in the chemical and pharmaceutical industry. He is well supported by Mr. Mihir R. Ghatalia (Chairman and MD). The management, as a result, has been able to forge long term relations with various customers and suppliers.

  Acuité believes that the company will be benefitted by the established presence and experienced management.

- **Healthy financial risk profile**

  ADPL has healthy financial risk profile marked by moderate net worth, healthy gearing and healthy debt protection measures.

  ADPL's net worth stood at Rs.80.14 crore as on March 31, 2018. The net worth has improved from Rs.35.57 crore as on March 31, 2016 on account of healthy accretion to reserves and increase in the equity share capital. The company has followed a conservative financial policy in the past, with its peak gearing stood at 0.41 times as on March 31, 2016. The gearing of the company, however, has improved to around 0.04 times as on March 31, 2018. The aggregate debt of Rs.3.24 crore mainly consists of working capital borrowings of Rs.3.18 crore and long term debt of Rs.0.06 crore as on 31 March 2018.

  The coverage indicators stood healthy with Interest Coverage Ratio (ICR) stood at 5.64 times in FY2018 as against 2.99 times for FY2017. The TOL/TNW ratio stood healthy at 1.12 times as on 31 March 2018 as against 1.90 times as on 31 March, 2017.

  Going forward Acuité expects the company to maintain its financial risk profile in the near to medium term in the absence of major debt funded capex plans.

Weaknesses

- **Uneven revenue and profitability trend**

ADPL reported uneven revenue trend for the period FY2016 to FY2018. The operating income stood at Rs.351.60 crore in FY2018 as against Rs.399.28 crore in FY2017 as against Rs.248.96 crore in FY2016. The revenue decline in FY2018 was mainly on account of reduction of trading activity. Further in FY2019 ADPL has registered revenues of Rs.138.00 crore till 30 September 2018. The company reported operating margin of 3.08 percent in FY2018 as against 3.24 percent in FY2017 as against 1.59 percent in FY2016.

Going forward, Acuité expects the margins to impact in near term on account of volatility in the foreign exchange fluctuation as company's major raw materials are imported.

- **Working capital intensive operations**

ADPL's operations are working capital intensive marked by high Gross Current Asset (GCA) of 160 days in FY2018 compared to 118 days in FY2017. The GCA days are mainly driven by high receivables of 100 days in FY2018 compared to 75 days in FY2017 while the inventory is in the range of 5-15 days. Acuité believes that the efficient working capital management will be crucial for the company in order to maintain a stable credit profile.

- **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 two decades. Further, ADPL's majority of the raw materials are imported, thus making its profitability susceptible to forex fluctuation risk as the company is not adopting any hedging mechanisms.

- **Competitive and fragmented industry**

The company is exposed to intense competition in a highly competitive and fragmented industry, thus restricting its bargaining power and pricing flexibility.

Outlook: Stable

Acuité 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	351.60	399.28	248.96
EBITDA	Rs. Cr.	10.82	12.94	3.96
PAT	Rs. Cr.	6.18	5.47	1.29
EBITDA Margin	(%)	3.08	3.24	1.59
PAT Margin	(%)	1.76	1.37	0.52
ROCE	(%)	13.87	21.90	13.78
Total Debt/Tangible Net Worth	Times	0.04	0.21	0.41
PBDIT/Interest	Times	5.64	2.99	2.42
Total Debt/PBDIT	Times	0.30	0.80	3.50
Gross Current Assets (Days)	Days	160	118	168

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

None

Any other information
None

Applicable Criteria

- Default Recognition -https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Trading entities - http://acuite.in/view-rating-criteria-6.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04-Aug-17	Cash Credit	Long Term	14.50	ACUITE BBB-/Stable (Assigned)
	Proposed	Long Term	0.50	ACUITE BBB-/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.50 (Enhanced from Rs.15.00 crore)	ACUITE BBB-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.