

Press Release
Aarey Drugs and Pharmaceuticals Limited

December 02, 2020

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

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

Based in Mumbai (Maharashtra), Aarey Drugs and Pharmaceuticals Limited (ADPL) was incorporated in 1990. The company is engaged in manufacturing of API and trading of industrial chemicals and solvents. ADPL has its manufacturing facility at Tarapur, Mumbai. The company is listed on BSE.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management and 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 experience of the promoter has enabled ADPL to establish a healthy relationship with customers and suppliers.

Acuite believes that ADPL will continue to benefit from its established presence in the industry and improving business risk profile over the medium term.

• **Healthy financial risk profile**

ADPL has healthy financial risk profile marked by healthy net worth, low gearing and comfortable debt protection matrices. The tangible net worth stood at Rs.92.29 crore as on 31 March 2020 as against Rs.86.47 crore as on 31 March 2019 on account of higher accretion to reserves. The gearing stood low at the same level at 0.19 times as on 31 March 2020 and 2019. The debt of Rs.17.89 crore as on 31 March 2020 mainly consists of working capital borrowings of Rs.17.20 crore and term loans of Rs.0.69 crore. The coverage ratios stood healthy with Interest Coverage Ratio (ICR) of 5.56 times for FY2020 against 5.48 times for FY2019. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.46 times as on 31 March 2020 as against 0.68 times as on 31 March 2019. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.37 times in FY2020.

Acuite believes that the company will maintain its financial risk profile in the near to medium term in the absence of any debt-funded capex plans.

Weaknesses

• **Working capital intensive operations**

ADPL's working capital operations are intensive marked by high Gross Current Asset (GCA) of 146 days for FY2020 against 136 days in FY2019 compared. The GCA days are dominated by high receivables of 117 days for FY2020 as compared to 109 days in FY2019. However, the inventory days are in the range of 15-22 days for period FY2018-2020. ADPL enjoys credit period of 40 days from its suppliers, which moderates the working capital requirements. The average working capital limit utilization for the past six months ended stood at ~85 percent.

Acuite believes that efficient working capital management will be crucial for the company in order to maintain a stable credit profile.

• **Moderation in the operating performance in FY2020**

The revenues of the company declined to Rs.304.27 crore for FY2020 from Rs.357.81 crore in FY2019. The drop in revenues was mainly on account of lower than expected sales in Q4FY2020, mainly because of disruption in the import of chemicals because of Covid-19 pandemic. This led to a marginal decline in the operating profitability of the company, which stood at 3.26 percent in FY2020 as against 3.42 percent in FY2019.

The operations continued to remain impacted during the first half of FY2021 due to lockdown restrictions imposed on account of Covid-19. The revenues for H1FY2021 stood at Rs.78.33 crore. However, there was an improvement in the operating and the net profitability levels during the same period mainly due to a higher proportion of manufacturing income to the total income.

Acuite believes that the ability of the company to sustain its scale of operations and the profitability will be a key rating sensitivity.

• **Foreign exchange risk**

The company imports traded products from overseas suppliers. The profitability of the company is exposed to fluctuation in the product prices as the same constitutes a significant portion of the total sales. The prices of the commodity fluctuate and are highly dependent on the demand and supply scenario in the global market. Hence, the margins of the ADPL are exposed to volatility in the foreign exchange rate.

• **Competitive and fragmented industry**

ADPL operates in chemical compounds industry, which is marked by the presence of several mid to big size players in the organised as well as unorganised sector, which limits the pricing power of ADPL. However, this risk is mitigated to an extent as the management has been operating in this industry for the last two decades.

Liquidity position: Adequate

ADPL has adequate liquidity position marked by healthy net cash accruals against no maturing debt obligations. The company generated cash accruals of Rs.6.11 crore to Rs.7.55 crore during the last three years through 2019-20. The cash accruals of the company are estimated to remain around Rs.7– 9 crore during 2021-23. The company reliance on working capital borrowings is moderate; the working capital limit in the company remains utilised at ~85 per cent during the last six months period ended in October 2020. However, the company's operations are working capital intensive as marked by gross current asset (GCA) days of 146 days for FY2020 due to high receivable days. ADPL maintains unencumbered cash and bank balances of Rs.0.49 crore as on March 31, 2020. The current ratio of the ADPL stands at 3.02 times as on March 31, 2020. Acuite believes that the liquidity of the ADPL is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Rating Sensitivities

- Improvement in the scale of operations and the profitability margins
- Deterioration in the working capital cycle

Material Covenants

None

Outlook: Stable

Acuite believes that the outlook of ADPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in revenues or profitability 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	304.27	357.81
PAT	Rs. Cr.	5.79	6.54
PAT Margin	(%)	1.90	1.83
Total Debt/Tangible Net Worth	Times	0.19	0.19
PBDIT/Interest	Times	5.56	5.48

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
05-Sep-19	Cash Credit	Long term	19.50	ACUITE BBB-/Stable (Reaffirmed)
23-Oct-18	Cash Credit	Long term	19.50	ACUITE BBB-/Stable (Reaffirmed)
04-Aug-2017	Cash Credit	Long term	14.50	ACUITE BBB-/Stable (Assigned)
	Proposed Long Term Loan	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	ACUITE BBB-/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294051 avadhoot.mane@acuите.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuите.in</p>

About Acuite Ratings & Research:

Acuite Ratings & Research 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.

Disclaimer: An Acuite rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuite ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuite ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuite.