

Press Release

Aarey Drugs and Pharmaceuticals Limited

February 08, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	19.50	ACUITE BBB Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	19.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.19.50 crore bank facilities of Aarey Drugs & Pharmaceuticals Limited (ADPL). The outlook is '**Stable**'.

Reason for Upgrade

The rating is upgraded on account of improvement in the company's overall financial performance in its quarterly & half yearly results because of increase in demand during the pandemic phase for various chemical as well as pharma products manufactured by the company along with introduction of certain range of high value products into the business which ultimately helped the company to boost their sales. The rating also factors in the established track record of operations with experienced promoters and above average financial risk profile. The rating however continues to be constrained by the company's working capital intensive operations and foreign exchange risk coupled with susceptibility to volatile raw material prices.

About the Company

ADPL incorporated in the year 1990, is a Mumbai based company engaged in the business of manufacturing of Active Pharmaceutical Ingredients (APIs), intermediates, specialty chemicals and offers a range of products for diverse industrial applications. The high quality pharmaceutical products of the Company cater to well-established pharmaceuticals formulation manufacturers and pharmaceutical merchant exports. With 29 years of experience in the field of pharmaceuticals, the Company is also a supplier of industrial chemicals and solvents to different industries across the globe.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

ADPL, is engaged in the business of manufacturing of APIs, intermediates, speciality chemicals and offers a wide range of products for diverse industrial applications. It has an established operational track record of three decades. It is promoted by, Mr. Rajesh P. Ghatalia who possesses more than two decades of experience in the chemical and pharmaceutical industry. He is supported by Mr. Mihir R. Ghatalia (Chairman and MD) and its qualified team of senior management in managing operations of ADPL. The extensive experience of the promoters has enabled ADPL to establish a healthy relationship with its customers and suppliers.

Acuité believes that ADPL will continue to benefit from its experienced management and established track record of operations.

Healthy financial risk profile

ADPL's financial risk profile is healthy marked by healthy capital structure and coverage indicators. ADPL's net worth stood Rs.98.84 crore as on 31 March, 2021 as against Rs.92.29 crore as on 31 March, 2020. ADPL follows a conservative gearing policy of 0.18 times as on 31 March, 2021 marginally declining from 0.19 times as on 31 March, 2020. The total debt of Rs.18.02 crore as on 31 March, 2021 consists of unsecured loans from promoters of Rs. 0.55 crore and short term working capital debt of Rs.17.47 crore. The interest coverage ratio stood comfortable despite a marginal decline at 4.79 times for FY2021 as against 5.56 times for FY2020. The DSCR stood at 4.06 times for FY2021 as compared to 4.75 times for FY2020. The Net Cash Accruals to Total debt stood at 0.41 times for FY2021 and 0.37 times as on FY2020. The Total outside liabilities to Tangible net worth stood at 1.07 times for FY2021 as against 0.46 times in FY2020.

Acuité believes that ADPL's financial risk profile is expected to improve on the back of its improving operating performance and no plans of significant debt funded capex plans.

Improving Operating Performance

ADPL caters primarily to domestic markets and it has been able to achieve improvement in its scale of operations on the back of established relations with its customers & suppliers and diversified product profile. It has been dealing with its larger clients for over three decades. Some of its clientele include Apra Enterprises, M.J. Chemicals, Pooja Petrochemicals and Bajaj Healthcare Ltd. ADPL reported revenues of Rs.355.43 crore for FY2021 as against Rs.304.27 crore in FY2020 and Rs.357.81 crore in FY2019. This improvement was primarily driven by the increase in demand for pharmaceutical products due to the ongoing COVID – 19 pandemic and the introduction of higher value products such as Albendazole, Nimesulide, Lumefantrine and Metronidazole during that period which are pain killers and anti-biotics.. The operating margin of the company stood at 3.28 percent in FY2021 as against 3.26 percent in FY2020. Further, ADPL's revenue has continued its growing trend from the previous year. a Revenue for H1 FY2022 stood at Rs.232.17 Cr. against Rs.75.04 Cr. in the previous year and revenue of Rs.134.65 Cr in Q2 FY2022 as against Rs.97.52 Cr in Q1 FY2022. This demand is expected continue into the next two quarters etc.

Acuité expects the ADPL' ability to maintain its scale of operations will continue to remain a key rating sensitivity factor.

Weaknesses

Working capital intensive operations

ADPL's operations are highly working capital intensive marked by Gross Current Assets (GCA) of 195 days for FY2021 as against 146 days for FY2020. This is primarily on account of high receivable days which stood at 170 days in FY2021 as against 117 days in FY2020. High receivable days is on account of significant sales being reported during the last quarter of FY2021 where there was an ongoing effect of second wave of Covid-19 pandemic which led to increase in demand of various pharma & chemical products manufactured by the

company. In order to fulfil the demand, purchase of raw materials during that period from the suppliers had also increased and therefore the creditors stood at 88 days in FY2021 as against 23 days in FY2020. , ADPL offers credit period of upto 120 days to its customers and it enjoys credit period of upto 60 days in normal course of business from its suppliers which they intend to follow going forward in order to improve the overall working capital cycle.

Acuité believes any further elongation in the company's working capital position will remain key monitorable and will lead to negative bias towards the rating.

Foreign exchange risk

ADPL imports traded products from overseas suppliers. Imports contributed around 2.85 percent of the overall purchases as on November 2021. 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

The pharmaceutical formulations and chemical compounds industry has a large number of players which makes this industry highly fragmented and intensely competitive. ADPL is also a moderate sized player, thereby limiting its bargaining power and susceptibility to pricing pressure is also higher compared to well-established and larger players. However, the company's presence of over three decades in the industry has enabled it to partially offset competitive pressures. Further, it undertakes regular research and development to improve its product offerings. This will help the company is improving its competitive position.

Rating Sensitivities

- Ability to maintain scale of operations and maintaining profitability
- Any further elongation in working capital cycle

Material covenants

None

Liquidity Position - Adequate

ADPL has adequate liquidity position marked by healthy net cash accruals against no maturing debt obligations. The company generated cash accruals in the range of Rs.7.55 crore – Rs.7.43 crore during FY19 to FY21 against no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.9.74 crore – Rs.13.72 crore for period FY2022-FY2024 against no repayment obligation for the same period. The company's operations are highly working capital intensive marked by gross current asset (GCA) days of 195 days for FY2021 due to high receivable days. This makes the company dependent on bank borrowing for working capital requirement. Average bank limit utilization for 6 months' period ended Dec 2021 stood at 79.61 percent. Current ratio stands at 1.83 times as on 31 March 2021. The company has maintained cash & bank balance of Rs.0.65 crore in FY2021.

Acuité 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 constrained to some extent on account of working capital intensive operations.

Outlook: Stable

Acuité believes that ADPL will maintain a 'Stable' outlook in near to medium term on account of its experienced management and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to negative in case of moderation in liquidity profile and its profitability margins, and deterioration in debt protection indicators.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	355.43	304.27
PAT	Rs. Cr.	6.51	5.79
PAT Margin	(%)	1.83	1.90
Total Debt/Tangible Net Worth	Times	0.18	0.19
PBDIT/Interest	Times	4.79	5.56

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

Not Applicable

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Trading Entity: <https://www.acuite.in/view-rating-criteria-61.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Dec 2020	Cash Credit	Long Term	19.50	ACUITE BBB- Stable (Reaffirmed)
05 Sep 2019	Cash Credit	Long Term	19.50	ACUITE BBB- Stable (Reaffirmed)
23 Oct 2018	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

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