

## Press Release

### Aarey Drugs And Pharmaceuticals Limited

April 07, 2023



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB   Stable   Assigned	-
Bank Loan Ratings	19.50	ACUITE BBB   Stable   Reaffirmed	-
Bank Loan Ratings	20.05	-	ACUITE A3+   Assigned
<b>Total Outstanding Quantum (Rs. Cr)</b>	<b>79.55</b>	-	-

### Rating Rationale

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

Acuite has also assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and the short term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.60.05 crore bank facilities of Aarey Drugs & Pharmaceuticals Limited (ADPL). The outlook is '**Stable**'.

#### Rationale for rating

The rating of ADPL continues to factor stable operating performance in FY2022. The company reported an increase in its revenue of Rs.495.27 Cr for FY2022 as against Rs.355.43 Cr in FY2021 which is a growth of ~39 percent, primarily on account of increase in the prices, despite of decrease in the overall production and sales volume. The company although expanded its present installed capacity of manufacturing pharmaceutical products and speciality chemicals to 4980 MT in FY2022 as against 4440 MT in FY2021, the utilisation however remained lower at 58 percent in FY2022 as against 71 percent in FY2021.

For the current year, as on 9M FY2023, ADPL has however achieved lower revenue of Rs.258 Cr as against Rs.374 Cr in 9M FY2022 on account of volatility in the prices. The rating further draws comfort from ADPL's experienced management with an established track record of operations and healthy financial risk profile.

The rating strengths are however constrained by decline in ADPL's profitability margins, moderately working capital intensive nature of operations, foreign exchange risk and presence in a highly competitive and fragmented industry. Going forward, ability of the company to improve its working capital intensity will remain a key rating sensitivity factor.

#### About the Company

ADPL incorporated in 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 company

caters to pharmaceuticals formulation manufacturers and pharmaceutical merchant exports. With over 30 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 has an operational track record of more than three decades. It is promoted by, Mr. Rajesh P. Ghatalia who possess more than two decades of experience in the chemical and pharmaceutical industry. He is supported by his son Mr. Mihir R. Ghatalia (Chairman and MD) and its qualified team of senior management in managing day to day 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**

Financial risk profile of ADPL is healthy marked by healthy network, low gearing and healthy debt protection metrics. The network of the company stood improved at Rs.114 Cr as on 31 March, 2022. The gearing (debt-equity) stood lower at 0.12 times as on 31 March, 2022 as against 0.18 times as on 31 March, 2021. The gearing of the company is however expected to increase over the medium term on account of proposed debt funded capex plan to be undertaken by the company in FY2024 towards expansion of its production capacity by introducing additional range of pharmaceutical products. The total debt of Rs.14.16 Cr as on 31 March, 2022 consists of short term bank borrowings of Rs.13.76 Cr and unsecured loans from directors of Rs.0.40 Cr.

The interest coverage ratio and DSCR stood improved at 6.90 times and 5.19 times respectively for FY2022 as against 4.79 times and 4.06 times respectively for FY2021. The Net Cash Accruals to Total debt stood improved at 0.60 times for FY2022 as against 0.41 times for FY2021. The Total outside liabilities to Tangible net worth stood improved at 1.16 times for FY2022 as against 1.36 times for FY2021. The Debt-EBITDA ratio stood improved at 1.01 times for FY2022 as against 1.55 times for FY2021.

Acuité believes that the financial risk profile of ADPL is however expected to remain moderate over the medium term due to an increase expected in the debt levels towards completion of proposed capex.

#### **Weaknesses**

##### **Decline in profitability margins**

Despite of increase in the overall revenue, ADPL however reported decline in its profitability margins. The operating margin of the company stood declined at 2.84 percent in FY2022 as against 3.28 percent in FY2021 due to significant increase in the raw material prices and various other manufacturing and administrative expenses which have incurred towards meeting the rising demand and business expansion purpose. Further, the net profit margin of the company also stood declined at 1.32 percent in FY2022 as against 1.83 percent in FY2021.

Acuité believes that the ability of ADPL to maintain its scale of operations while improving its profitability margins in near to medium term will remain a key rating sensitivity factor.

##### **Moderately working capital intensive operations**

The working capital operations of ADPL are moderately intensive marked by its Gross Current Assets (GCA) days of 167 days for FY2022 which stood moderately high albeit improved against 224 days for FY2021. This is on account of its receivables cycle which though remains elongated, however recorded an improvement in FY2022 of 101 days as against 170 days in

FY2021. On the other hand, the creditors also stood improved at 85 days in FY2022 as against 117 days in FY2021. In general, the company 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. The inventory cycle of the company also stood improved at 10 days in FY2022 as against 20 days in FY2021. The average bank limit utilization for 6 months' period ended February 2023 stood high at ~96 percent.

Acuité believes that the ability of ADPL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

### **Foreign exchange and commodity price risk**

ADPL imports traded products from overseas suppliers. Imports contributed around 25 percent of the overall purchases as of March 31, 2022. The profitability of the company is also 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 in improving its competitive position.

### **Rating Sensitivities**

- Ability to maintain scale of operations while improving profitability margins
- Ability to improve and maintain an efficient working capital cycle

### **Material covenants**

None

### **Liquidity position - Adequate**

ADPL has adequate liquidity position marked by sufficient net cash accruals (NCA) to its no maturing debt obligations. The company generated cash accruals in the range of Rs.7 Cr to Rs.9 Cr during FY2020 to FY2022 against its no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.7 Cr to Rs.9 Cr for period FY2023-FY2024 against its low repayment obligation in the range of Rs.1 Cr to Rs.1.30 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 167 days for FY2022 as against 224 days for FY2021 on account of its elongated receivables cycle. The average bank limit utilization for 6 months' period ended February 2023 stood high at ~96 percent. Current ratio stands at 1.75 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.19 Cr in FY2022.

Acuité believes that the liquidity of ADPL is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

### **Outlook: Stable**

Acuité believes that ADPL will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	495.27	355.43
PAT	Rs. Cr.	6.54	6.51
PAT Margin	(%)	1.32	1.83
Total Debt/Tangible Net Worth	Times	0.12	0.18
PBDIT/Interest	Times	6.90	4.79

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

ICRA vide its press release dated 25.02.2022, had reaffirmed the company to ICRA B+/A4 Stable; INC.

### 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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Feb 2022	Cash Credit	Long Term	19.50	ACUITE BBB   Stable (Upgraded from ACUITE BBB-   Stable)
02 Dec 2020	Cash Credit	Long Term	19.50	ACUITE BBB-   Stable (Reaffirmed)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.50	ACUITE BBB   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB   Stable   Assigned
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+   Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB   Stable   Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.05	ACUITE A3+   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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