



Press Release
Aarey Drugs And Pharmaceuticals Limited
November 21, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	59.50	ACUITE BBB Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	20.05	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	79.55	-	-

Rating Rationale

Acuite has reaffirmed 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.79.55 Cr bank facilities of Aarey Drugs & Pharmaceuticals Limited (ADPL). The outlook is revised from '**Stable**' to '**Negative**'.

Rationale for rating reaffirmation and revision in outlook

The outlook revision of ADPL from 'Stable' to 'Negative' takes in to account subdued operating performance in H1FY2024 marked by decline in the operating income and estimated deterioration in debt protection metrics. The company reported an operating income of Rs.109 Cr in H1FY2024 as against Rs.194 Cr in H1FY2023. The operating profitability recorded an improvement as it stood at 2.93 percent in H1FY2024 as against 1.93 percent in the same period last year. However, due to increase in total debt in FY2024 as compared to last year and reduced accruals due to decline in operating income, the debt protection metrics marked by interest coverage ratio and debt service coverage ratio is estimated to deteriorate more than estimated earlier.

The rating reaffirmation of ADPL takes into account experienced management of the company with an established track record of operations and moderate financial risk profile. Going forward, ability of the company to improve its scale of operations while improving the profitability margins along with ability to improve and maintain an efficient working capital cycle will remain key rating sensitivity factors.

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite 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.

Moderate financial risk profile

Financial risk profile of ADPL is moderate marked by healthy networth, low gearing and moderate debt protection metrics. The networth of the company stood improved at Rs.117 Cr as on 31 March, 2023 as against Rs.114 Cr as on 31 March, 2022 due to accretion of profits to reserves. The gearing (debt-equity) stood increased at 0.32 times as on 31 March, 2023 albeit remained comfortable as against 0.12 times as on 31 March, 2022. The increase in the company's gearing in FY2023 is marked by increase in the company's overall debt profile during the year to meet the working capital requirements. The gearing of the company is further expected to increase over the medium term on account of proposed debt funded capex plan to be undertaken in FY2024 towards expansion of its production capacity by introducing additional range of pharmaceutical products. The total debt of Rs.38 Cr as on 31 March, 2023 consists of long term bank borrowings of Rs.4 Cr, short term bank borrowings of Rs.32 Cr and unsecured loans from directors of Rs.2 Cr.

The interest coverage ratio and DSCR though moderated, it however remained comfortable at 3.64 times and 2.86 times respectively for FY2023 as against 6.90 times and 5.19 times respectively for FY2022. In view of the H1FY2024 performance of the company, the interest coverage ratio and debt service coverage ratio of the company is estimated to range between 1.95-2 times and 1.4-1.8 times respectively in the near to medium term. The Net Cash Accruals to Total debt stood lower at 0.14 times for FY2023 as against 0.60 times for FY2022. The Total outside liabilities to Tangible net worth stood increased at 1.48 times for FY2023 as against 1.16 times for FY2022. The Debt-EBITDA ratio stood increased at 3.61 times for FY2023 as against 1.01 times for FY2022.

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

Weaknesses

Subdued operating performance

The operating performance of ADPL remained subdued with reduced operating income of Rs.421 Cr in FY2023 as against Rs.496 Cr in FY2022. In addition to this, the operating and net profit margins of the company stood declined at 2.48 percent and 0.89 percent in FY2023 as against 2.84 percent and 1.32 percent in FY2022. For the current year, as on H1 FY2024, the revenue of the company stood at Rs.109 Cr as against Rs.194 Cr in H1 FY2023. The operating profitability recorded a slight improvement as it stood at 2.93 percent in H1FY2024 as against 1.90 percent for the same period last year.

Acuité believes that the ability of ADPL to improve its scale of operations while improving the profitability margins will remain a key rating sensitivity factor.

Working capital intensive operations

The working capital operations of ADPL are highly intensive marked by its Gross Current Assets (GCA) days of 239 days for FY2023 which stood high as against 167 days for FY2022. This is on account of its receivables and inventory cycle which stood elongated at 165 days and 26

days in FY2023 as against 101 days and 10 days in FY2022. On the other hand, the creditors also stood elongated at 115 days in FY2023 as against 85 days in FY2022. 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.

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

All Covenants

Not applicable

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.5 Cr to Rs.7 Cr during FY2021 to FY2023 against its no repayment obligation during the same period. Going forward the NCA are expected in the range of Rs.3 Cr to Rs.4 Cr for period FY2024-FY2025 against its debt repayment obligation in the range of Rs.1 Cr to Rs.2 Cr during the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 239 days for FY2023 as against 167 days for FY2022 on account of its elongated receivables cycle. Current ratio stands at 1.66 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.0.71 Cr in FY2023.

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: Negative

The outlook of ADPL is revised from 'Stable' to 'Negative' marked by company's reduced scale of operations during H1 FY2024 as against H1 FY2023 and estimated deterioration in debt protection metrics. The outlook may be revised to 'Stable' in case of improvement in the company's scale of operations while maintaining the profitability margins and comfortable financial risk profile. The rating shall be downgraded upon further deterioration in the scale of operations or incurring of additional debt funded capex leading to further deterioration in the financial risk profile of the company.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	421.69	495.27
PAT	Rs. Cr.	3.77	6.54
PAT Margin	(%)	0.89	1.32
Total Debt/Tangible Net Worth	Times	0.32	0.12
PBDIT/Interest	Times	3.64	6.90

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

Not applicable

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 Entitie: <https://www.acuite.in/view-rating-criteria-61.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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Apr 2023	Letter of Credit	Short Term	10.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	19.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Facility	Short Term	10.05	ACUITE A3+ (Assigned)
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
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	19.50	ACUITE BBB Negative Reaffirmed Stable to Negative
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB Negative Reaffirmed Stable to Negative
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	10.05	ACUITE A3+ Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	

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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