



Press Release
AAREY DRUGS AND PHARMACEUTICALS LIMITED
March 04, 2025
Rating Downgraded and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	54.44	ACUITE BBB- Stable Downgraded Negative to Stable	-
Bank Loan Ratings	5.06	Not Applicable Withdrawn	-
Bank Loan Ratings	11.50	-	ACUITE A3 Downgraded
Bank Loan Ratings	8.55	-	Not Applicable Withdrawn
Total Outstanding Quantum (Rs. Cr)	65.94	-	-
Total Withdrawn Quantum (Rs. Cr)	13.61	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BBB**' (read as **ACUITE triple Ba**) and the short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A3+**' (read as **ACUITE A three plus**) on the Rs.65.94 Cr. bank facilities of Aarey Drugs and Pharmaceuticals Limited (ADPL). The outlook is revised from '**Negative**' to '**Stable**'.

Acuite has withdrawn the long-term rating on Rs.5.06 Cr. and short-term rating on Rs.8.55 Cr. bank facility without assigning any rating as it is a proposed facility of Aarey Drugs and Pharmaceuticals Limited. The rating has been withdrawn on account of the request received from the company. The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating as applicable to the respective facility / instrument.

Rationale for Rating

The rating downgrade of ADPL considers decline in revenues and profitability in FY2024 which further moderated in 9MFY2025 along with elongation in working capital cycle of the company. However, the rating is supported with experienced management of the company with an established track record of operations and healthy financial risk profile. Further, the rating remains constrained on account of foreign exchange risk and company's presence in highly competitive industry.

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. The company is also a supplier of industrial chemicals and solvents to different industries across the globe.

Unsupported Rating

Not Applicable

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 remained healthy marked by healthy net worth, low gearing and healthy debt protection metrics. The networth of the company stood improved at Rs.132.78 Cr. as on 31 March, 2024 as against Rs.117.41 Cr. as on 31 March, 2023 on account of moderate accretion to reserves and additional equity infusion by the promoters to the tune of Rs.2.67 Cr. as equity capital and share premium of Rs.8.01 Cr. The gearing (debt-equity) stood low at 0.24 times as on 31 March, 2024 as against 0.32 times as on 31 March, 2023. The total debt of Rs.31.35 Cr. as on 31 March, 2024 consists of short term bank borrowings of Rs.28.13 Cr. and long term loans of Rs.3.22 crore during the year. The interest coverage ratio and DSCR stood comfortable at 2.61 times and 2.46 times respectively for FY2024 as against 3.65 times and 2.87 times respectively for FY2023. The Net Cash Accruals to Total debt stood at 0.20 times for FY2024 as against 0.14 times for FY2023. The Total outside liabilities to Tangible net worth stood at 1.28 times for FY2024. The Debt/EBITDA ratio stood improved at 2.75 times for FY2024 as against 3.61 times for FY2023. The company is undergoing a CAPEX of around Rs.24.43 crore which is going to be undertaken in 2 phases i.e., 13000MT of each out of which Phase 1 is expected to be operational is November 2025 and Phase 2 in August 2026.

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

Weaknesses

Declining operating performance

The operating performance of ADPL remained subdued with decline in operating income of Rs.397.65 Cr. in FY2024 as against Rs.418.96 Cr. in FY2023. In addition to this, the operating margins of the company declined and stood at 1.64 percent against 1.84 per cent albeit the PAT margins improved marginally and stood at 1.18 per cent in FY2024 as against 0.90 per cent in FY2023. For the current financial year, as of the 9MFY2025, ADPL has shown improvement in revenues, reaching Rs.365.84 crore compared to Rs.185.26 crore for the same period last year. The company expects to close the year with revenue of ~Rs. 470.00 crore. However, the operating profitability recorded a decline and stood at 1.94 percent in 9MFY2025 as against 3.18 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 moderately intensive marked by its high Gross Current Assets (GCA) days of 258 days for FY2024 which stood high against 235 days for FY2023. This is on account of its receivables cycle which though remains elongated and stood at 170 days in FY2024 as against 167 days in FY2023. On the other hand, the creditors also stood high at 123 days in FY2024 as against 115 days in FY2023. In general, the company offers credit period of upto 120 days to its customers and it Back to top 13 enjoys credit period of upto 60 days in normal course of business from its suppliers. The inventory days of the company stood at 32 days in FY2024 as against 26 days in FY2023. The average bank limit utilization for 6 months' period ended December 2024 stood high at ~95 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. 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
- Deterioration in financial risk profile owing to higher-than-expected debt funded capex

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 of Rs.6.38 Cr. in FY2024 against no maturing debt obligations. The company is further expected to generate cash accruals in the range of Rs.7.00-10.00 Cr. during FY2025 to FY2027 against repayment obligation in the range of Rs.1.00-1.50 crore during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 258 days for FY2024 as against 235 days for FY2023 on account of its elongated receivables cycle. The average bank limit utilization for 6 months' period ended December 2024 stood high at ~95 percent. Current ratio stands at 1.70 times as on 31 March 2024. The company has maintained cash & bank balance of Rs.1.59 Cr. in FY2024.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	397.65	418.96
PAT	Rs. Cr.	4.68	3.78
PAT Margin	(%)	1.18	0.90
Total Debt/Tangible Net Worth	Times	0.24	0.32
PBDIT/Interest	Times	2.61	3.65

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

Not Applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
23 Feb 2024	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	10.05	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	19.50	ACUITE BBB Negative (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	25.00	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB Negative (Reaffirmed)
21 Nov 2023	Letter of Credit	Short Term	10.00	ACUITE A3+ (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	10.05	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	19.50	ACUITE BBB Negative (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	25.00	ACUITE BBB Negative (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB Negative (Reaffirmed)
07 Apr 2023	Letter of Credit	Short Term	10.00	ACUITE A3+ (Assigned)
	Proposed Short Term Bank Facility	Short Term	10.05	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	19.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	25.00	ACUITE BBB Stable (Assigned)
08 Feb 2022	Cash Credit	Long Term	19.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
State Bank of India	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	0.50	Simple	ACUITE A3 Downgraded (from ACUITE A3+)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	15.00	Simple	ACUITE BBB- Stable Downgraded Negative to Stable (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	19.50	Simple	ACUITE BBB- Stable Downgraded Negative to Stable (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Letter of Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	10.00	Simple	ACUITE A3 Downgraded (from ACUITE A3+)
State Bank of India	Not avl. / Not appl.	PC/PCFC	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	1.00	Simple	ACUITE A3 Downgraded (from ACUITE A3+)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.06	Simple	Not Applicable Withdrawn
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	8.55	Simple	Not Applicable Withdrawn
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Sep 2027	1.67	Simple	ACUITE BBB- Stable Downgraded Negative to Stable (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2028	1.77	Simple	ACUITE BBB- Stable Downgraded Negative to Stable (from ACUITE BBB)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2030	16.50	Simple	ACUITE BBB- Stable Downgraded Negative to Stable (from ACUITE BBB)

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About Acuité Ratings & Research

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