Press Release

11 September, 2017

Azine Healthcare Private Limited (AHPL)

Rating Assigned

Total Bank Facilities Rated	Rs. 8.50 Cr#
Long Term Rating	SMERA B+/Stable
Short Term Rating	SMERA A4

 # Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of **'SMERA B+ (read as 'SMERA B plus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the above mentioned facilities of Azine Healthcare Private Limited (AHPL). The outlook is **Stable.**

Azine Healthcare Private Limited (AHPL) incorporated in 2002, is an Ahmedabad-based company promoted by Mr. Shyamsunder Nandkishore Agarwal and Mrs. Rekha Shyamsunder Agarwal. The company is engaged in the manufacturing of pharma products (tablets, capsules, ointments, injectables). The manufacturing units are located at Ahmedabad and Baddi (Himachal Pradesh) with installed capacity of 10, 00,000 units of tablets, 50,000 units of syrups and 1, 00,000 units of ORS per annum.

Key rating drivers

Strengths:

Established track record of operations, experienced management: The Promoter, Mr. Shyamsunder Nandkishore Agarwal has experience of over two decades in the pharmaceutical industry.

SMERA believes that AHPL will continue to benefit from its experienced management and established relationships with clients.

Improvement in operating margins: The operating margins improved from 12.09 per cent in FY2014-15 to 13.68 per cent in FY2015-16 due to decline in cost of raw material. SMERA believes that AHPL will sustain its operating margins on the back of increase in revenue and achievement of economies of scales.

Weaknesses

Modest scale of operations with low profitability: The operations are at a relatively smaller scale in spite of the company being in business since 2002. AHPL reported operating income of Rs.13.19 crore in FY2016 as against Rs.12.54 crore in the previous year. Further, as informed by the management, the company has registered revenue of around Rs.14.00 crore for FY2017. Further, the net profit declined to 0.09 percent in FY2016 as against 0.75 percent in FY2015 mainly on account of payment of tax liability.

Average financial risk profile: The financial risk profile is average marked by low tangible networth of Rs.2.66 crore as on 31 March, 2016 as against Rs.2.43 crore as on 31 March, 2015. The gearing stood at 2.71 times as on 31 March, 2016 compared to 2.46 as on 31 March, 2015 mainly due to an additional term loan of Rs. 1.26 crore as on 31 March, 2016. The total debt of Rs.7.21 crore as on 31 March, 2016 majorly comprises working capital loan from bank of Rs.1.70 crore, term loan of Rs.2.94 crore and unsecured loan of Rs. 2.57 crore.
AHPL has moderate interest coverage ratio of 2.60 times in FY2015-16 as against 2.25 times in FY2014-15.

Going forward, the company is expected to maintain its financial risk profile on account of the absence of debt funded capex plan.

Working capital intensive operations: The operations are working capital intensive marked by high gross current assets (GCA) of 194 days in FY2015-16 as against 197 days in FY2014-15. This is due to holding of inventory apart from the debtor days of 97 and 91 in FY2016 as against 73 and 121 days in FY2015.The operations are working capital intensive as reflected in the average bank limit utilisation of around 95 per cent from November 2016 to April 2017.

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

Highly regulated industry: The pharma industry is highly regulated. Hence, the company is exposed to unfavourable changes in regulations that may affect margins.

Outlook: Stable

SMERA believes that AHPL will maintain a stable outlook over the medium term on account of the company's established presence in the formulation industry and experienced management. The outlook may be revised to 'Positive' in case of higher-than-expected revenues and cash accruals while demonstrating improvement in capital structure and working capital cycle. Conversely, the outlook may be revised to Negative in case of a weak business risk profile resulting in lower than expected revenue or profitability and lower-than- expected net cash accruals leading to significant stretch in the working capital cycle.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of AHPL.

About the Rated Entity - Key Financials

For FY2016, AHPL reported Profit after Tax (PAT) of Rs.0.01 crore on total operating income of Rs.13.19 crore compared with PAT of Rs 0.09 crore on total operating income of Rs.12.54 crore in FY2015. The tangible net worth stood at Rs. 2.66 crore as on March 31, 2016 as against Rs. 2.43 crore in the previous year.

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Manufacturing entities - https://www.smera.in/criteria-manufacturing.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years): NA

*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	N.A.	N.A.	N.A.	2.50	SMERA B+/Stable
Term Loan I	N.A.	N.A.	N.A.	0.85	SMERA B+/Stable
Term Loan II	N.A.	N.A.	N.A.	2.70	SMERA B+/Stable
ILC/FLC	N.A.	N.A.	N.A.	1.45*	SMERA A4
Bank Guarantee	N.A.	N.A.	N.A.	1.00	SMERA A4

**Includes sub-limit of Buyers Credit*

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ABOUT SMERA

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