

Press Release

Aeon Formulations Private Limited (AFPL)



21 March, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	SMERA BB/ Outlook:Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as SMERA double B) on the above mentioned facility of Aeon Formulations Private Limited. The outlook is '**Stable**'.

Incorporated in 2008 by Mr. A P Vaitheeswaran and Mr. H D Vora, Aeon Formulations Private Limited (AFPL) is a WHO GMP certified company engaged in manufacture of pharmaceutical products such as tablets, capsules and dry powder sachets. The company has facility located in Puducherry with installed capacity to manufacture 20 crore tablets, 10 crore capsules and 50 lacs of dry powder sachets per year. Around 20 per cent of company's production is met through contract manufacturing facilities located in Chennai (Tamil Nadu), Puducherry, Haridwar (Uttarakhand State) and Baddi (Himachal Pradesh).

Key rating drivers

Strengths

Experienced management: AFPL was incorporated in 2008 by Mr. A P Vaitheeswaran and Mr. H D Vora. Mr. A P Vaitheeswaran has around 20 years of experience in the pharmaceutical industry and is also a director of Traditional Ayush Cluster of Tamilnadu Private Limited. Mr. H D Vora has more than four decades of experience in the pharmaceutical industry.

Moderate scale of operations and profitability: The company generated revenue of Rs.35.18 crore in FY2017 as compared to Rs.36.40 crore in FY2016. The operating income declined marginally in FY2017 as compared to FY2016 due to demonetisation during which the plant was not fully operational. The company generated an operating income of Rs.31.87 crore from April 2017 to January 2018 (provisional). The company manufactures a wide range of around 600 products and has trademarks for 20 products. Operating margins improved from 9.35 per cent in FY2016 to 10.42 per cent in FY2017 due to decrease in raw material cost.

Weaknesses

Average financial risk profile: The average financial risk profile is marked by moderate net worth, modest gearing levels and comfortable debt protection measures. The net worth levels of the entity stood at Rs.4.84 crore as on 31 March, 2017 as compared to Rs.4.22 crore in the previous year. The gearing levels increased to 1.59 times as on 31 March, 2017 as compared to 1.23 times in previous year due to increase in utilisation of working capital limits. The interest coverage levels declined to 4.91 times in FY2017 from 5.71 times in FY2016 due to increase in interest expense. The net cash accruals to total debt (NCA/TD) stood at 0.36 times in FY2017.

Working capital intensive operations: The company has intense working capital operations, as reflected in high gross current assets (GCA) of 133 days as on March 31, 2017 compared to 96 days as on March 31, 2016 due to moderate debtor and inventory days. Inventory days increased to 62 in FY2017 as compared to 32 days in FY2016 due to increase in contract manufacturing locations. The company gives trade credit of up to two months to its customers. Debtor days stood at 67 in FY2017 as compared to 58 days in FY2016.

Highly fragmented and competitive industry: The pharmaceutical formulations industry has a large number of players which makes this industry highly fragmented and intensely competitive. AFPL is also a moderate sized player, thereby limiting its bargaining power and pricing pressure compared to well-established and larger players.

Analytical approach:

SMERA has considered standalone business and financial risk profiles of AFPL.

Outlook – Stable

SMERA believes that AFPL will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in revenues, profit margins, or deterioration in the financial risk profile.

About the rated entity Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	35.18	36.40	32.89
EBITDA	Rs. Cr.	3.67	3.40	3.22
PAT	Rs. Cr.	1.15	1.50	1.41
EBITDA Margin (%)	(%)	10.42	9.35	9.79
PAT Margin (%)	(%)	3.26	4.13	4.29
ROCE (%)	(%)	18.55	29.38	66.64
Total Debt/Tangible Net Worth	Times	1.59	1.23	1.36
PBDIT/Interest	Times	4.91	5.71	5.46
Total Debt/PBDIT	Times	2.09	1.52	1.16
Gross Current Assets (Days)	Days	133	96	83

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Entities In Manufacturing Sector - <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>

Status of non-cooperation with previous CRA (if applicable): Not Applicable.

Rating History (Upto last three years)

Not Applicable

***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	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.94	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.06	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB/ Stable (Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	1.00	SMERA BB/ Stable (Assigned)

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ABOUT SMERA

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