

Press Release

Aeon Formulations Private Limited

June 04, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE BB**' (**read as ACUITE double B**) to the Rs.10.00 crore bank facilities of Aeon Formulations Private Limited (AFPL). The outlook is '**Stable**'.

The downgrade reflects deterioration in its liquidity profile marked by stretched creditors and fully utilised bank lines. The creditor days have elongated from 137 days as on March 31st, 2018 as against 102 days in the previous year. Moreover, the bank limits of the company have been fully utilised in the past 6 months ended March 2019 despite enhancement in their credit facilities from Rs 5.00 Crore to Rs 6.00 Crore.

The rating continues to reflect the company's established track record in manufacturing of pharmaceutical formulations and moderate financial risk profile. Moderate scale of operations and comfortable profitability.

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).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of AFPL to arrive at the rating.

Key Rating Drivers

Strengths

- Moderate scale of operations and comfortable profitability**

AFPL's scale of operation remains moderate with modest year on year growth of 7.00 percent. The operating revenue stood at Rs 37.64 Crore in FY2018 as against Rs 35.18 Crore in FY2017. Further the company has registered revenue of Rs 42.40 Crore (provisional) in FY2019. The profitability remained comfortable with EBITDA margins of 10.62 percent in FY2018 as against 10.42 percent in the previous year.

- 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.

Weaknesses

- Working capital intensive nature of business**

AFPL's operations are working capital intensive reflected in high GCA of 153 days in FY2018 as compared to 133 days in FY2017. The GCA days are dominated by credit period extended to

customer at 77 days in FY2018 as against 67 days in FY2017. The inventory level remained at 77 days in FY2018 as against 62 day in FY2017. The creditor days have elongated from 137 days as on March 31st, 2018 as against 102 days in the previous year.

• **Moderate financial risk profile**

AFPL's financial risk profile remains moderate with modest net worth and gearing and comfortable debt protection metrics. The net worth stood at Rs. 5.10 Crore in FY2018 as against Rs. 4.84 Crore in FY2017 supported by internal accruals. The gearing deteriorated to 1.85 times in FY2018 as against 1.59 times in FY2017. The same was on account of infusion of unsecured loans by promoters amounting to Rs 1.13 Crore and higher working capital utilization. The total outside liability against total net worth stood at 3.97 times in FY2018 as against 3.16 times in the previous year. The debt protection metrics remained comfortable with interest coverage ratio of 5.00 times in FY2018 as against 4.91 times in the previous year.

Liquidity Profile

The liquidity profile remained stretched with bank limit fully utilized and stretched creditor's days. The company generated cash accruals of Rs.3.06 crore in FY2017-18, while it's maturing debt obligations stood at Rs. 0.77 crore over the same period. The cash accruals of the company are estimated to remain comfortable to meets its repayment obligations during 2019-21. The cash credit limit in the company remains fully utilised during the last 6 months period ended March 2019. The current ratio of the company stands low at 0.91 times as on March 31, 2018.

Outlook: Stable

Acuité believes that AFPL will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience in the industry and moderate profitability. The outlook may be revised to 'Positive' in case the company achieves more than envisaged sales and profitability while efficiently managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company fails to sustain growth in revenue and improvement in profitability or the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	37.64	35.18	36.40
EBITDA	Rs. Cr.	4.00	3.67	3.40
PAT	Rs. Cr.	1.19	1.15	1.50
EBITDA Margin	(%)	10.62	10.42	9.35
PAT Margin	(%)	3.16	3.26	4.13
ROCE	(%)	17.11	18.55	50.01
Total Debt/Tangible Net Worth	Times	1.85	1.59	1.23
PBDIT/Interest	Times	5.00	4.91	5.71
Total Debt/PBDIT	Times	2.28	2.09	1.52
Gross Current Assets (Days)	Days	153	133	96

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Mar-2018	Cash Credit	Long Term	5.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.94	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.06	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB / Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB / Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB- / Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.94	ACUITE BB- (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.12	ACUITE BB- / Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable (Downgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	1.88	ACUITE BB- / Stable (Assigned)

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About Acuité Ratings & Research:

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