Press Release

Aeon Formulations Private Limited

August 28, 2020

Rating Downgraded & Withdrawn

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

** Refer Annexure for details*

Rating Rationale

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

The rating downgrade reflects continuous losses incurred in FY2020 (Provisional) and FY2019 emanating from persistent deterioration in operating profit margins. The operating margin declined from 11.2 percent in FY2018 to 3.6 percent in FY2020 (Provisional) on account of higher research and development costs. The net loss led to further deterioration in debt-to-equity ratio and stretch in liquidity profile resulting in insufficient net cash accruals and fully utilized bank lines with instances of overdraws. AFPL's debt-to-equity ratio stood at 4.4 times as on 31 March, 2020 (Provisional) against 4.2 times as on 31 March, 2019.AFPL reported insufficient NCAs of Rs.0.43 Cr vis-à-vis its term debt obligations of Rs.0.69 Cr in FY2020 (Provisional); the shortfall was met through adhoc working capital availed. These weaknesses are partially offset by management's industry experience, established track record in the pharmaceutical-formulations industry and improving the scale of operations.

Tamil Nadu-based, Aeon Formulations Private Limited (AFPL) was incorporated in the year 2008 by Mr. A P Vaitheeswaran and Mr. H D Vora. The company is engaged in manufacturing of pharmaceutical formulations such as tablets, capsules and dry powder sachets. The company has a WHO-GMP compliance manufacturing plant located in Puducherry with an installed capacity to manufacture 35 Cr tablets, 20 Cr capsules and 27 Cr of dry powder sachets per year. Around 85 per cent of company's production is met through contract manufacturing. Remaining 15 percent is from normal manufacturing.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and improving the scale of operations**

  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. AFPL's scale of operation improved with operating revenue of Rs44.73 Cr in FY2020 (provisional) against Rs.41.40 Cr in FY2019 and Rs.37.78 Cr in FY2018. Acuité believes that the company will benefit from the experience of the management and long track record of operations over the medium term.

Weaknesses

- **Below-average financial risk profile**
The financial risk profile of the company is below-average marked by low net worth, high gearing and modest debt protection indicators. The tangible net worth of the company stood low at Rs.1.94 crore as on 31 March, 2020 (Provisional) against Rs.2.15 Cr as on 31 March,2019; the erosion was due to losses incurred in FY2019 and FY2020 (Provisional). The gearing (debt-equity) and total outside liabilities to Tangible Net Worth (TOL/TNW) are high at 4.41 and 10.73 times, respectively as on 31 March, 2020 (Provisional) vis-à-vis 4.26 times and 10.25 times, respectively as on 31 March, 2019. The deterioration in TOL/TNW is majorly on account of a decrease in networth levels resulting from losses incurred. The total debt outstanding of Rs.8.55 Cr as on 31 March, 2020 (Provisional) constitutes long term debt of Rs.0.57 Cr, unsecured loans of Rs.1.62 Cr and short-term debt of Rs.6.00 Cr. The interest coverage ratio and net cash accruals to total debt (NCA/TD) are modest at 1.36 times and 0.05 times, respectively for FY2020 (Provisional) against 1.08 times and 0.01 times, respectively for FY2019. Interest coverage ratio has improved on account of increase in EBITDA in absolute terms. AFPL generated cash accruals of Rs.0.43 Cr in FY2020 (Provisional) against Rs.0.10 Cr in FY2019. Acuité believes that the financial risk profile of the company will remain modest over the medium term on account of modest net cash accruals.

- **Working capital intensive nature of operations**
AFPL's operations are working capital intensive marked by Gross Current Assets (GCA) of 130 days in FY2020 (Provisional) as against 150 days in FY2019. The GCA days improved, although remained high mainly on account of debtor days. Debtor days improved to 66 days in FY20 (provisional) as against 70 days in FY19. Inventory days were at 45 days as on 31 March, 2020 (Provisional) against 58 days as on 31 March, 2019. These are offset by the creditor days of 118 days as on 31 March, 2020 (Provisional). AFPL's working capital limit over the last six months was fully utilized as on July 2020. Acuité believes that the working capital cycle will remain intensive over the medium term too.

- **Susceptibility to fluctuation in raw material prices and regulatory risks**
The company operates in a highly competitive and fragmented industry and faces tough competition from various players in the market. The profitability margins of the company are susceptible to the fluctuation of raw material prices.

Rating Sensitivities

- Higher-than-expected revenues and operating margins leading to higher net cash accruals and net worth ·
- Any further deterioration in profitability and working capital leading to stretch in financial risk profile and liquidity

Any Material Covenants
None

Liquidity Position: Stretched

AFPL's liquidity is stretched marked by low cash accruals to its debt obligations. It reported cash accruals of Rs.0.43 Cr in FY2020 (Provisional) as against repayment obligation of Rs.0.69 Cr during the same period which remained insufficient and the same was repaid by availing adhoc working capital limit. Further, its accruals are expected in the range of Rs.2.40-4.00 Cr in FY2021-23 where its repayment obligations about Rs.0.35 Cr during the same period. The current ratio stood weak at 0.90 times as on March 31, 2020 (Provisional). The working capital limits of the company remains fully utilized for the last six months ended July, 2020 with few instances of overdraws. Acuité believes that the efficient management of the working capital cycle and improvement in profitability, leading to better liquidity position will remain the key rating sensitivity factor.

Outlook: Stable

Acuité believes that AFPL will maintain a 'Stable' outlook over the medium term owing to its promoter's extensive experience in the industry. The outlook may be revised to 'Positive' in case the company achieves more than envisaged revenue and profitability while efficiently managing its working capital cycle and capital structure. Conversely, the outlook may be revised to 'Negative' if the company registers lower-than-expected revenue and profitability or working capital deteriorates or high debt-funded capital expenditure leads to deterioration in financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	44.73	41.40
PAT	Rs. Cr.	(1.81)	(1.80)
PAT Margin	(%)	(4.05)	(4.25)
Total Debt/Tangible Net Worth	Times	4.41	4.26
PBDIT/Interest	Times	1.36	1.08

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-Jun-2019	Proposed Bank Facility	Long Term	1.88	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	1.00	ACUITE BB- / Stable (Downgraded)
	Term Loan	Long Term	1.94	ACUITE BB- (withdrawn)
	Cash Credit	Long Term	6.00	ACUITE BB- / Stable (Downgraded)
	Term Loan	Long Term	0.12	ACUITE BB- / Stable (Downgraded)
	Term Loan	Long Term	1.00	ACUITE BB- / Stable (Downgraded)
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 B+/Stable (Downgraded)
Term Loan	Nov-2012	16.25	Jan-2020	0.12	ACUITE B+ (Withdrawn)
Term loan	Dec-2015	13.15	Mar-2021	0.20	ACUITE B+/Stable (Downgraded)
Term loan	Oct-2017	12.15	Nov-2022	0.72	ACUITE B+/Stable (Downgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	3.08	ACUITE B+/Stable (Downgraded)

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About Acuité Ratings & Research:

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