Press Release

Aeon Formulations Private Limited

November 12, 2021

Rating Reaffirmed

Total Instruments Rated*	Rs. 10.00 Cr
Long Term Rating	ACUITE B+/ Outlook: Stable (Reaffirmed)

* *Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed its long term rating of **'ACUITE B+' (read as ACUITE B 'Plus')** on the Rs.10.00 Cr bank facilities of Aeon Formulations Private Limited (AFPL). The outlook is **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation draws comfort from its established track record of operations and experienced management. However, the rating is constrained due to its below-average financial position, stretched liquidity position marked by high utilization of the working capital facilities. The operations of the AFPL have also been impacted in FY2021 due to global outbreak of COVID-19.

About the Company

Aeon Formulations Private Limited (AFPL), Tamil Nadu-based company was incorporated in the year 2008 by Mr. A P Vaitheeswaran and Mr. H D Vora. AFPL is engaged in manufacturing of pharmaceutical formulations such as tablets, capsules and dry powder sachets. AFPL has facility located in Puducherry with installed capacity to manufacture 35 Cr tablets, 20 Cr capsules and 27 Cr of dry powder sachets per year.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record and extensive experience of promoters**

  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 was moderate with operating revenue of Rs.39.13 Cr in FY2021 (provisional) against Rs.44.71 Cr in FY2020 and Rs.41.40 Cr in FY2019. The capacity utilization of the manufacturing facilities stands around 80 per cent as of October'2021. Around 85 per cent of AFPL's production is met through contract manufacturing with the rest 15 percent is through normal manufacturing. AFPL has a World Health Organization (WHO) - Good manufacturing practice (GMP) compliance manufacturing plant. Acuité believes that AFPL will continue to benefit through its establish presence in industry and extensive experience of the promoters.

- **Capex proposal underway for setup of additional manufacturing plant**

  AFPL will be incurring a total capex of Rs.3.0 Cr for setting up of Anti-Cancer Plant and towards upgradation of existing machinery which will be funded by term loan of Rs.2.00 Cr and remaining through internal accruals, equity and unsecured loans (USL). The implementation will begin in the month of March 2022 and estimated to be completed by FY2023. AFPL have been generating revenue of around Rs.0.20-0.25 Cr per month from the similar tablets being produced from the existing plant. The additional plant will contribute to around Rs.1.00 Cr revenue per month in its initial period and is expected to improve over time. Acuité believes that the capex towards additional facility would aid the business and financial risk of the AFPL over the medium term.

Weaknesses

- **Below-average financial risk profile**
AFPL's financial risk profile is below-average, marked by a low networth, high gearing along with below average debt protection metrics. The EBITDA margins of AFPL deteriorated to 3.45 per cent in FY2021 (Prov) against 3.61 in FY2020. The deterioration is attributable to increase in administration and selling overheads in FY2021. The PAT margins of AFPL has remained negative and stood at (4.04) per cent in FY2021 (Prov) in comparison to (5.09) per cent in FY2020. The deterioration in profitability levels led to deterioration in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 1.30 times and 0.84 times respectively in FY2021 (Prov) as against 1.38 and 0.70 times respectively in the previous year.

  The net worth of the company stood at Rs.1.22 Cr as on 31 March, 2021 (Prov) as against Rs.1.38 Cr as on 31 March, 2020. The deterioration is on account of accretion of negative net profit in the reserves despite infusion of equity of Rs.0.50 Cr by the promoter during the period. The gearing level (debt-equity) stands deteriorated at 7.15 times as on 31 March, 2021 (Prov) as against 5.96 times as on 31 March, 2020, the deterioration is on the high leverage position of the company and decline in the net worth. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands high at 13.44 times as on 31 March, 2021 (Prov) against 15.62 times in previous year. High TOL/TNW is on account of presence of high long term debt during the period against previous year.

  The total debt of Rs.8.76 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.2.26 Cr, Unsecured loans of Rs.1.12 Cr, short term debt of Rs.3.77 Cr and maturing portion of long term borrowings of Rs.1.60 Cr. NCA/TD (Net cash accruals to total debt) stands low at 0.04 times in FY2021 (Prov) as against 0.01 times in FY2020.

  Acuité expects the financial risk profile to remain moderate over the medium to long term on account of established operations of the company.

- **Working capital operations marked by moderate GCA days**
AFPL's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 115-150 days over the last 3 years ending March 31, 2021(Prov). The GCA days are majorly marked by moderate inventory and debtor days. The improved GCA days of 115 days as on March 31, 2021 (Provisional) is on account of improvement in the debtors and inventory days to 48 days and 45 days in FY2021 (Prov) against 66 days and 49 days in FY2020, respectively. The receivables collection has improved as evident from reduction in debtors to Rs.5.14 Cr in FY2021 (Prov) as against Rs.8.08 Cr in FY2020. These are partially offset by creditor days at 90 days as on March 31, 2021 (provisional). The moderate GCA cycle has led to high utilization of around 96 per cent of working capital requirement bank lines of Rs.4.00 Cr over the past 9 months ending September, 2021. Acuité believes that the operations of the AFPL will remain moderately working capital intensive on account of nature of industry.

- **Intense competition in the pharmaceutical industry along with exposure to any adverse regulatory changes**
The pharmaceutical industry has been highly regulated worldwide by virtue of its direct bearing on public health. Furthermore, with presence of a large number of players in the unorganized sector exposes AFPL to intense competition from other players. Further, Government regulations, including those implemented by the National Pharmaceutical Pricing Authority (NPPA), have also impacted the industry's growth and profitability. Nevertheless, domestic formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income and improvement in access to healthcare facilities along with growing penetration of health insurance. Besides, AFPL's operations are also exposed to changes in regulatory policy pertaining to pharmaceutical industry.

Liquidity Position: Stretched

AFPL's liquidity is stretched marked by insufficient generation of net cash accruals in FY2021 to its maturing debt obligations and low level of unencumbered cash and bank balance. AFPL has generated cash accruals in the range of Rs.0.10-0.32 Cr during last 3 years ending FY2021 as against its long term debt obligations of Rs.0.58-0.77 Cr for the same period. AFPL reported cash accruals of Rs.0.32 Cr in FY2020 (Provisional) as against repayment obligation of Rs.0.58 Cr during the period. The insufficient net accruals against the repayment obligations were supported by equity infusion by the promoters of Rs.0.50 Cr in FY2021 and unsecured loans. AFPL's working capital is moderate as evident from Gross Current Asset (GCA) of 115 days as on March, 2021 as compared to 139 days as on March, 2020. The current ratio stood at 0.95 times as on 31 March 31 2021 against 0.85 in previous year and the fund based limit remains utilized at 96 per cent over the 9 months ended

September, 2021. AFPL maintained Rs.0.31 Cr unencumbered cash and bank balances as on March 31, 2021 against Rs.0.32 Cr in previous year. AFPL has maintained fixed deposits of Rs.0.55 Cr with the bank. Acuité believes that the liquidity of the AFPL is likely to improve with increasing exports order which is expected to generate higher margins and capex underway towards setting up an additional plant leading to improvement in profitability and revenue profile over the period of the medium term. However, the timely implementation of the capex plan, improvement in realization and sales volumes along with efficient working capital management will be key monitorables over the medium term for the assessment of liquidity position of the company. AFPL is expected to generate NCAs in the range of Rs.0.98-1.21 Cr. against CPLTD of Rs.1.18-1.60 Cr.

Rating Sensitivities

Positive

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in volume of sales and realizations per unit of the product offered.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that AFPL will continue to benefit over the medium to long term on account of established track record of operations and experience of the management in the industry. The outlook may be revised to 'Positive', in case of in case of sustainable improvement in capacity utilization along with the improvement in volume and realization per unit of the product offered leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case AFPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	39.13	44.71
PAT	Rs. Cr.	(1.58)	(2.28)
PAT Margin	(%)	(4.04)	(5.09)
Total Debt/Tangible Net Worth	Times	7.15	5.96
PBDIT/Interest	Times	1.30	1.38

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

Not Applicable

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
28-August-2020	Cash Credit	Long Term	6.00	ACUITE B+/ Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan	Long Term	0.12	ACUITE B+ (Withdrawn)
	Term Loan	Long Term	0.20	ACUITE B+/ Stable (Downgraded from ACUITE BB-/Stable)
	Term Loan	Long Term	0.72	ACUITE B+/ Stable (Downgraded from ACUITE BB-/Stable)
	Proposed Bank Facility	Long Term	3.08	ACUITE B+/ Stable (Downgraded from ACUITE BB-/Stable)
04-June-2019	Cash Credit	Long Term	6.00	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
	Term Loan	Long Term	1.00	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
	Term Loan	Long Term	1.94	ACUITE BB- (Withdrawn)
	Term Loan	Long Term	0.12	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
	Term Loan	Long Term	1.00	ACUITE BB-/ Stable (Downgraded from ACUITE BB/Stable)
	Proposed Bank Facility	Long Term	1.88	ACUITE BB-/ Stable (Assigned)
21-March-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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/ Outlook
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/ Stable (Reaffirmed)
Canara Bank	Working Capital Demand Loan	27-APR-2020	8.05	27-APR-2022	0.23	ACUITE B+/ Stable (Reaffirmed)
Canara Bank	Working Capital Term Loan	15-JUN-2020	7.50	15-JUN-2024	0.92	ACUITE B+/ Stable (Reaffirmed)
Canara Bank	Working Capital Term Loan	21-OCT-2020	10.80	21-OCT-2025	1.71	ACUITE B+/ Stable (Reaffirmed)

Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.14	ACUITE B+/ Stable (Reaffirmed)

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About Acuité Ratings & Research:
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