

Press Release

Aeon Formulations Private Limited

February 01, 2023

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE B+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 and working capital intensive nature of operations.

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

Acuite 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.34.77 Cr in FY2022 against Rs.39.10 Cr in FY2021 and Rs.44.71 Cr in FY2020. AFPL has a World Health Organization (WHO) - Good manufacturing practice (GMP) compliance manufacturing plant.

The EBITDA margins of AFPL improved to 7.69 per cent in FY2022 against (0.86) per cent in FY2021. The PAT margins of AFPL has remained positive in FY2022 and stood at 1.90 per cent in FY2022 in comparison to (6.31) per cent in FY2021. The improvement in profitability levels is mainly due to decrease in manufacturing costs in FY2022.

Acuité believes that AFPL will continue to benefit through its establish presence in industry and extensive experience of the promoters.

Weaknesses

Below-average financial risk profile

AFPL's financial risk profile is below-average, marked by a low net-worth, high gearing along with below average debt protection metrics. The net worth of the company stood at Rs.1.35 Cr as on March 31, 2022 as against Rs.(0.09)Cr as on March 31, 2021. The improvement is on account of accretion of net profit in the reserves and infusion of equity of Rs.0.50 Cr by the promoter during the period. The gearing level (debt-equity) and TOL/TNW (Total outside liabilities/Total net worth) stood at 5.97 times and 11.98 times respectively as on March 31, 2022. The total debt of Rs.8.09 Cr as on March 31, 2022 consist of long-term debt of Rs.1.94 Cr, unsecured loans of Rs.1.06 Cr, short term debt of Rs.3.67 Cr and maturing portion of long term borrowings of Rs.1.42 Cr. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.23 times and 1.39 times respectively in FY2022. NCA/TD (Net cash accruals to total debt) stands at 0.24 times in FY2022 as against (0.11) times in FY2021.

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 133-139 days over the last 3 years ending March 31, 2022. The GCA days are majorly marked by moderate inventory and debtor days. The receivable days stood at 62 days as on March 31, 2022 as against 56 days as on March 31, 2021. The inventory days ranged between 34-36 days for the two years ended March 31, 2022. The moderate GCA cycle has led to high utilization of around 98.80 per cent of working capital facilities for the past twelve months ending October, 2022.

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.

Rating Sensitivities

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Any deterioration in working capital cycle and liquidity profile of the company.

Material covenants

None

Liquidity: Stretched

AFPL's liquidity is stretched marked by modest generation of net cash accruals in FY2022 against its maturing debt obligations AFPL has generated NCA of Rs.1.92 Cr in FY2022 against debt obligation of Rs.1.42 Cr. However, the company is expected to generate adequate NCAs in the range of Rs.1.55 – 1.74 Cr. against repayment obligations of Rs.0.72-0.86 Cr. The current ratio stood at 0.95 times as on March 31, 2022 against 0.88 in previous year and the

fund based limit remains utilized at 98.80 per cent over the 12 months ended October 2022. AFPL maintained Rs.1.07 Cr unencumbered cash and bank balances as on March 31, 2022 against Rs.0.32 Cr in previous year.

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 sustainable improvement in its scale of operations and profitability margins with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case AFPL 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	34.77	39.10
PAT	Rs. Cr.	0.66	(2.47)
PAT Margin	(%)	1.90	(6.31)
Total Debt/Tangible Net Worth	Times	5.97	(101.83)
PBDIT/Interest	Times	3.23	(0.26)

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>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Nov 2021	Proposed Bank Facility	Long Term	3.14	ACUITE B+ Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	0.23	ACUITE B+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.71	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	4.00	ACUITE B+ Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.92	ACUITE B+ Stable (Reaffirmed)
28 Aug 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	0.72	ACUITE B+ Stable (Downgraded from ACUITE BB- Stable)
	Proposed Bank Facility	Long Term	3.08	ACUITE B+ Stable (Downgraded from ACUITE BB- Stable)
	Term Loan	Long Term	0.20	ACUITE B+ Stable (Downgraded from ACUITE BB- Stable)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE B+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	3.74	ACUITE B+ Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Demand Loan (WC DL)	27 Apr 2020	8.05	27 Apr 2022	Simple	0.71	ACUITE B+ Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	15 Jun 2020	7.50	15 Jun 2024	Simple	0.55	ACUITE B+ Stable Reaffirmed
Canara Bank	Not Applicable	Working Capital Term Loan	21 Oct 2020	10.80	21 Oct 2025	Simple	1.00	ACUITE B+ Stable Reaffirmed

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About Acuité Ratings & Research

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