Press Release

Abhilash Chemicals And Pharmaceutical Private Limited

D-U-N-S® Number: 65-033-3164

August 01, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+' (read as ACUITE double B plus)** and short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 34.00 crore bank facilities of ABHILASH CHEMICALS AND PHARMACEUTICAL PRIVATE LIMITED. The outlook is **'Stable'**.

Abhilash Chemicals and Pharmaceuticals Private Limited (ACPL) is a Tamil Nadu based company incorporated in the year 1994. The company is engaged in manufacturing of pharmaceutical raw materials, specialty chemicals and resins. The company's manufacturing facility is located at Madurai (Tamil Nadu) with an installed capacity of 300 tons per month for pharma division (API), 300 tons per month for Leather Chemical Division and 100 tons per month for Resins. The products manufactured by the company are used for Diabetic Formulation Industries, Leather Manufacturers and Ink/Paint Industries among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**
  ACPL has been in the said line of business since 1994. The company is promoted by Mr. L Lakshminarayanan and family who possess more than three decades of experience in the chemical industry. The same has helped the company in expanding its business operations and revenues have grown at a compound annual growth rate (CAGR) of about 17.7 per cent over the past three years through FY2019 at Rs.93.4 crore. It exports to over 30 countries with customer base of over 100. About 83 per cent of revenues comes from pharma division, and rest from specialty chemicals. Further to diversify, the promoters along with other group has promoted 'Abhilash Life Science LLP (ALS)' for manufacture of formulation tablets. ACPL has invested about Rs.31.70 crore by way of share capital, and loans and advances. Acuité believes that improving revenue contribution from pharma division is expected to drive the business risk profile further over the medium term.

- **Improvement in revenues**
  Revenues of the company grew at a CAGR of 17.7 per cent over the past three years through FY2019; supported by increase in orders from the customers and client addition. About 83 percent of revenues are from pharma division, 12 percent from specialty chemicals and remaining from the resins and scrap sales. As of June 25, 2019, the company reported revenues of Rs.17.00 crore and has orders of Rs.42.00 crore to be executable in the next six months period. Acuité believes that the business risk profile of the company is expected to improve marginally over the medium term in the absence of any significant capex.

- **Comfortable financial risk profile**
  Financial risk profile of the company is comfortable marked by healthy gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The gearing

(debt-to-equity) and TOL/TNW are healthy at 0.38 and 0.67 times as on 31 March, 2019 (Provisional) as against 0.30 and 0.60 times as on 31 March, 2018. Net worth stood at Rs.48.12 crore as on 31 March, 2019 (Provisional) as against Rs.42.10 crore as on 31 March, 2018. ACPL has invested about Rs.31.70 crore in ALS by way of share capital and loans advances. On adjusting the advances to group concern out of net worth, the adjusted net worth stood at Rs.27.70 crore as of March 31, 2019 and the adjusted gearing stood at 0.26 times, which is still healthy. Of the total debt of Rs.18.36 crore as on 31 March, 2018, long term debt stood at Rs.0.88 crore, unsecured loans of Rs.11.28 crore and short term debt at Rs.6.19 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 5.35 times and 0.39 times in FY2019 (Provisional) as against 9.29 times and 0.43 times in FY2018. The company reported net cash accruals (NCA) of Rs.7.12 crore in FY2019 (Provisional) as against Rs.5.15 crore in FY2018. Cash accruals are expected in the range of Rs.7-10 crore, against the minimal debt obligations of about Rs.0.20-0.30 crore. Acuité believes that with moderate accruals and any further investments in group entity may impact the financial risk profile and key rating sensitivity factor.

Weaknesses

- **Fluctuating in operating margins**
  Operating margins of the company are fluctuating over the last three years at 11-13 percent due to fluctuations in raw material costs. Further, margins are also susceptible to currency risk as the company deals in exports and imports. Of the total revenues around 67 percent of the revenues are from export market in FY2019 (Provisional) and the currency risk is partly mitigated by natural hedge in terms of imports of about 40 per cent of totalrequirement.

- **Exposure to group entity**
  The company has invested and given advances to its group entity 'Abhilash Life Science LLP' which is in the project execution stage. As on March 2019, the company has investment by way of share capital of Rs.7.40 crore, holding 74 percent, given by way of loans and advances of Rs.24.30 crore. The company has funded this project by taking loans from its promoters to an extent of about Rs.11.2 crore, and rest from its internal accruals. Any slowdown in execution of the project or any significant further investment may affect the liquidity profile of ACPL.

- **Working capital intensive operations**
  The company's operations are working capital intensive marked by high gross current asset (GCA) of 246 days for FY 2019 (Provisional) as compared 233 days for FY 2018. This is mainly on account of high debtor cycle which stood at 131 days in FY2019 (Provisional) as against 195 days in FY2018. It has receivables of about Rs.15.08 crore for more than 120 days, majorly pertaining to the specialty chemicals division. Inventory cycle stood comfortable at 10 days in FY2019 as against 21 days in FY2018. The company has funded part of its working capital cycle from the support of creditors of about one month. utilisation of its bank lines are comfortable at about 60 percent for six months through April 2019. Acuité believes that the operations continue to be working capital intensive owing to large receivable cycle of specialty chemical division and industry nature.

- **Liquidity Position**
  ACPL has moderate liquidity marked by comfortable net cash accruals though partly constrained by working capital intensive operations and advances to its group entity which is at project level. The company reported cash accruals of Rs.7.12 crore for FY2019 (Provisional). The cash accruals of the company are estimated to remain at around Rs.7-10 crore during 2020-22, against which its repayment obligations are about Rs.0.2-0.3 crore. Operations are working capital intensive as reflected in high GCA at 246 days in FY2019 as against 233 days in FY2018. The company has given loans of Rs.24.30 crore and invested about Rs.7.40 crore as equity by bringing fund from the promoters which are interest baring and rest out of internal accruals. Bank limits utilisation is at 60 percent for six months through April 2019. The current ratio is comfortable at 1.71 times (After removing debtors exceeding one year) as on March 31, 2019. Acuité believes that the liquidity of ACPL is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes that ACPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected investments leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	93.42	76.64	67.45
EBITDA	Rs. Cr.	11.87	8.59	8.38
PAT	Rs. Cr.	6.02	4.42	4.47
EBITDA Margin	(%)	12.70	11.21	12.42
PAT Margin	(%)	6.45	5.77	6.63
ROCE	(%)	17.75	15.39	19.02
Total Debt/Tangible Net Worth	Times	0.38	0.30	0.14
PBDIT/Interest	Times	5.35	9.29	10.54
Total Debt/PBDIT	Times	1.54	1.48	0.63
Gross Current Assets (Days)	Days	246	233	229

Status of non-cooperation with previous CRA (if applicable)
India Ratings, vide its press release dated May 24, 2019 had denoted the rating of Abhilash Chemicals and Pharmaceuticals Private Limited as 'IND BB+ / IND A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'IND BB+/Stable /IND A4+' vide its press release dated June 13, 2018

Any other information
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BB+ / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE BB+ / Stable
Letter of credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+
Letter of credit	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE A4+

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About Acuité Ratings & Research:
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