

Press Release

Flamingo Pharmaceuticals Limited

March 03, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.120.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.120.00 Cr. bank facilities of Flamingo Pharmaceuticals Limited (FPL). The outlook is '**Stable**'.

About the Company

Flamingo Pharmaceuticals Limited (FPL) incorporated in 1985 by Mr. Ashwin Thacker, is an export-oriented entity based in Mumbai. It is engaged in manufacturing and export of pharmaceutical formulations and products under its own brands and also on a contract basis. The company caters to the regulated as well as semi-regulated markets with presence in acute therapies such as antibiotics and antipyretic and also in chronic segment such as anti-diabetic and anti-hypertensive.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and presence in multiple segments and products lines**

FPL, incorporated in 1985 is a Mumbai based export-oriented pharmaceutical player led by Mr. Ashwin Thacker with more than 3 decades of experience. FPL has 3 manufacturing facilities certified by USFDA, UKMHRA & WHO-GMP, located in Nanded, Rabale and Taloja. The company caters to regulated, semi-regulated and unregulated markets. The company's product line includes tablets, capsules, dry syrups and injectable.

Acuité believes that FPL will continue to benefit from the company's established presence in multiple markets and multiple product profile, which is also expected to support its business risk profile over the medium term.

- **Moderate financial risk profile and debt protection metrics**

FPL has average financial risk profile marked by moderate tangible net worth, average gearing and debt protection metrics.

The tangible net worth of the company stood at Rs.93.83 Cr. as on March 31, 2020 as against Rs.86.37 Cr. as on March 31, 2019. The Gearing (Debt to Equity) Ratio improved and stood at 1.12 times as on March 31, 2020 as against 1.64 times as on March 31, 2019 on account of reduction in overall debt in the entity and increase in the tangible net worth. The debt profile majorly comprises of short term debt of Rs.54.25 Cr, unsecured loans of Rs.5.57 Cr. and long term debt of 18.33 Cr. as on March 31, 2020.

The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 2.64 times as on March 31, 2020 as against 3.07 times as on March 31, 2019. The Debt-EBITDA has seen improvement to 2.88 times in FY2020 as against 3.07 times in FY2019 on account of.

The debt protection metrics have remained consistent in a particular range, with ICR (Interest Coverage Ratio) at 3.05 times in FY2020 as against 2.22 times in FY2019 and as against 2.36 times in FY2018. The DSCR (Debt-Service Coverage Ratio) stood at 0.78 times in FY2020 as against 0.62 times in FY2019 as against 2.36

times in FY2018. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.23 times in FY2020 as against 0.13 times in FY2019 and 0.14 times in FY2018.

Acuité believes that the sustainability in the financial risk profile of the company will be a key rating sensitivity.

• **Regulatory approved manufacturing facilities**

FPL's manufacturing facilities are certified by multiple major global health authorities such as USFDA, UKMHRA & WHO-GMP. The approvals from these health authorities have global acceptance, whose approvals can help the company to avoid regulatory bottlenecks in major global markets.

Acuité believes that continuous approval from these authorities will be a key rating sensitivity factor. Any further delay in additional approvals or adverse action from these authorities can have significant impact on its business and financial risk profile of the company, as visible in the past.

Weaknesses

• **Intensive working capital requirements**

FPL has intense working capital requirements marked by high (Gross Current Assets) GCA of 225 days in FY2020 as against 173 days in FY2019 and 192 days in FY2018. The significant increase in GCA days is primarily on account increase in Other Current Assets (OCA), Inventory holding period and Debtors collection period, while OCA stood at Rs.29.17 Cr. as on March 31, 2020 as against Rs.28.57 Cr. as on March 31, 2019 and Rs.40.57 Cr. as on March 31, 2018, the Inventory holding period stood at 95 days in FY2020 as against 66 days in FY2019 and 75 days in FY2018. The Debtors stood at 83 days in FY2020 as against 69 days in FY2019 and 61 days in FY2018. The fund based working capital limits remained utilised at ~70 percent during the last trailing 7 months ended December 2020, while the non fund based working capital limits remained utilised at about 90 percent as on December 31, 2020.

Acuité believes that any further deterioration in the working capital management of FPL will remain key rating sensitivity factor.

Liquidity position: Stretched

FPL has stretched liquidity marked by inadequate Net Cash Accruals (NCA) to its maturing debt obligations. The company has generated cash accruals of Rs.24.37 Cr. during the FY2020, while its maturing debt obligations were Rs.27.27 Cr. over the same period. The company is expected to satisfy its obligations from cash accruals, realisations of other current assets. The cash accruals of the company are expected to remain around Rs.25-30 crore during 2021-23 period, while its repayment obligations are expected to significantly reduce from FY2021 from current levels, having satisfied its major repayment obligations. The company maintains unencumbered cash and bank balances of Rs.1.67 Cr. as on March 31, 2020. The current ratio of the company stood at 0.58 times as on March 31, 2020 with significant OCL (Other Current Liabilities) in the form of Advances from Customers and Statutory liabilities. The working capital limits remained utilised ~70 percent during the last trailing 7 months ended December 2020, while the non-fund based remained 90 percent utilised as on December 31, 2020.

Acuité believes that the liquidity of the company is expected to improve on the back of significant decline in its repayment obligations over the medium term, howbeit, the working capital management in the near to medium term will remain a key rating sensitivity factor amidst the realisations of OCA and satisfying the OCL obligations.

Rating Sensitivities

- Improvement in scale of operations, while maintaining its profitability margins.
- Further deterioration in the working capital cycle leading to stress on the debt protection metrics or on the liquidity position of the company.
- Improvement in NCA vis-à-vis its repayment obligations.
- Further reliance on debt resulting in deterioration of Gearing.
- Timely realisations of the OCA (Other Current Assets) and satisfying the OCL (Other Current Liabilities).
- Changes in approval from USFDA, UKMHRA & WHO-GMP, and receipt of observations from these authorities.

Material Covenants

None

Outlook: Stable

Acuité believes that FPL will maintain a 'Stable' outlook in the near to medium term on account of its established presence in the drugs and pharmaceutical industry, experience of the promoters in the business and supported improvement in the business and financial risk profile. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in its scale of operations, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability amidst intensifying competition in the area of operation, decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher-than-expected increase in debt-funded capex or working capital requirements resulting in deterioration in the overall capital structure.

About the Rated Entity – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	214.60	265.75
PAT	Rs. Cr.	6.80	1.76
PAT Margin	(%)	3.17	0.66
Total Debt/Tangible Net Worth	Times	1.12	1.64
PBDIT/Interest	Times	3.05	2.22

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>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Assigned)
Term Loan – I	October, 2015	12.15%	March, 2021	1.00	ACUITE BB- / Stable (Assigned)
Term Loan – II	September, 2012	11.50%	March, 2021	10.00	ACUITE BB- / Stable (Assigned)
Term Loan – III	June, 2016	12.50%	June, 2021	1.77	ACUITE BB- / Stable (Assigned)
EPC/PCFC	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4+ (Assigned)
EPC/PCFC/EBD/EBR	Not Applicable	Not Applicable	Not Applicable	27.00	ACUITE A4+ (Assigned)
FUBD/FBP	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+ (Assigned)

Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	46.73	ACUITE BB- / Stable (Assigned)
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About Acuité Ratings & Research:

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