RATING RATIONALE

19 Dec 2019

Agog Pharma Limited

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities ₹.12.50 Crores of Agog Pharma Limited

Particulars:

<table>
<tr><th rowspan="2">Facility**</th><th colspan="2">Amount (₹ Cr)</th><th rowspan="2">Tenure</th><th colspan="2">Rating*</th></tr>
<tr><th>Previous</th><th>Present</th><th>Previous (January 2019)</th><th>Present</th></tr>
<tr><td>Fund based
EPC
Cash Credit
EPC (sublimit of CC)
FUBD/ FBD/PSFC (sublimit of CC)</td><td>2.50
(0.20)
0.00
0.00</td><td>0.00
2.50
(2.50)
(2.50)</td><td>Long Term</td><td>BWR BB+ (Stable)</td><td>BWR BB+ (Stable) Reaffirmed</td></tr>
<tr><td>Non Fund Based
Letter of Credit
Counter Bank Guarantee (sublimit of LC)
Bank Guarantee</td><td>7.00
0.00
(1.00)</td><td>7.00
(7.00)
3.00</td><td>Short Term</td><td>BWR A4+</td><td>BWR A4+ Reaffirmed</td></tr>
<tr><td>Total</td><td>9.50</td><td>12.50</td><td colspan="3">INR Twelve Crores and Fifty Lakhs Only</td></tr>
</table>

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
** Details of Bank facilities/NCD/Bonds/Commercial Paper is provided in Annexure-I&II

Rating Action/Outlook

The rating reaffirmation inter-alia factors extensive experience of the partners in the pharmaceutical industry, moderate financial risk profile and moderate profitability margins and liquidity. The rating is however constrained by degrowth in scale of operations, Client Concentration Risks and Extended Receivable Period and sensitivity to external factors such as Exposure to Forex Fluctuation, Regulatory Risks, and Risks from Tender based Sales. BWR expects that Agog Pharma Limited' (APL's or the firm's) financial risk profile will be maintained over the medium term.

Key Rating Drivers
The key rating drivers of the firm are as follows:

Credit Strengths:

- **Extensive experience of Partners**: The promoters have an extensive experience of over 40 years in the industry and a proven track record of the business. Benefits from the 4-decade-long experience of the promoters, their keen grasp over industry dynamics, and healthy relationships with clients abroad and suppliers should support business risk profile.
- **Moderate Financial Risk Profile:** Tangible Net Worth (Analysed) [TNW - A] remained at a moderate level and has increased to 13.30 cr in FY19 from 12.61 cr in FY18 mainly on account of ploughing back of profits while gearing (adjusted) was low and stood at 0.003x in FY19 due to negligible external debt. Interest Service Coverage Ratio (ISCR) stood at 19.01x in FY19 up from 17.23x in FY18 reflecting increase in profits in absolute terms.
- **Moderate Profitability Margins and Liquidity**: NPM and OPM stood at 10.03% and 12.58% in FY19 up from 6.44% and 9.42% in FY18 on account of improvement in OPBDIT and PAT respectively. Current Ratio (Adjusted) stood at an adequate level of 1.96x in FY19 marginally up from 1.91x in FY18.

Credit Risks:

- **Degrowth in Scale of Operations**: Gross Sales has decreased YoY to 50.60 cr in FY19 from 65.22 cr in FY18 (22.41%) and Rs. 70.70 cr in FY17 (7.75%) on account of reduction in Selling Price of goods as well as GMP audits conducted in that year leading to bottlenecks in overall sales. Under-utilisation of manufacturing capacity was evidenced by average 58% utilisation in FY19 which was at a similar level in FY18. However provisional Total Operating Income (TOI) till October FY20 stood at 38.49 cr (~21% YoY improvement over previous year).

- **Client Concentration Risks and Extended Receivable Period:** Over 80% of company's revenue is derived from just 3 customers which renders its revenues susceptible to their business plans and performance. Further, receivable days are high at 135 days since over 95% of the revenues are derived from export. Receivables > 6 months stood at Rs. 6.31 cr in FY19 on account of majority of its sales derived from exports as well as delays in approvals of purchase orders wrt to tender based sales. However, the company has low dependence on working capital borrowings and the liquidity position remains comfortable with cash balances of Rs. 15.90 crore as on FY19.

- **Sensitivity to external factors**: The company exports over 95% of its products including to African nations such as Rwanda, Uganda and Tanzania and imports about 20-30% of its raw materials. Although no hedging mechanism has been implemented by the company, the risk is partially mitigated by a natural hedge through imports. Exports include sales to Foreign Government Medical Procurement and Distribution Operations on tender basis which limits pricing flexibility and bargaining power. APL operates in the pharmaceutical industry with large players having established brands and marketing set up as well as players at the regional level which limits price flexibility and exerts pressure on margins. Furthermore, the pharmaceutical industry is highly regulated, and hence, any adverse change in government/ regulatory policies can impact the business profile of the Company.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA
For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES
The ability of the concern to increase its revenue, improve its customer base, and its working capital cycle as well as realisation of debtors would be its key rating sensitivity.

Positive: The ratings may be upgraded in case revenue, customer base and receivables management show significant improvement.
Negative: The rating may be downgraded in case there is a significant deterioration in business and financial risk profile of the company from its current level due to significant delays in export receivables.

Liquidity Position: Adequate:

Adequate liquidity characterized by negligible Working capital facility utilisation and moderate unencumbered cash and bank balance of Rs.14.24 Crore. Its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Current Ratio stood at 2.26x in FY19 up from 1.95x in FY18.

Firm Profile:

Incorporated in 1990, Agog Pharma Ltd (APL) was set up by Mr. Aziz Abdul Hamid Damani and is based in Thane, Maharashtra. APL manufactures and markets pharmaceutical formulations in the form of tablets, liquid orals, capsules, dry syrup etc. The company has a single manufacturing facility located at Vasai, Thane and exports over 95% of its products and imports about 20-30% of its raw materials. Although no hedging mechanism has been implemented by the company, the risk is partially mitigated by a natural hedge through imports.

Key Financial Indicators (in ₹ Cr)

As per FY19 financials, total operating income of the firm reported at Rs.50.60 Crores as against Rs.68.47 Crores in FY18. Provisional 10MFY20 shows Sales standing at Rs. 38.49 cr. NPM increased to 10.03% in FY19 from 6.44% in FY18 while OPM has also increased to 12.58% in FY19 from 9.42% in FY18. TNW (Analysed) stood at 31.65 cr in FY19 while Current Ratio (adjusted) stood at 1.96x.

Key Parameters	Units	FY19	FY18
Result Type		**Audited**	**Audited**
Operating Revenue	Rs.cr	50.60	68.47
EBITDA	Rs.cr	7.17	6.45
PAT	Rs.cr	5.72	4.41
Tangible Net Worth	Rs.cr	30.26	24.56
Total Debt/ TNW	Times	0.05	0.06
Current Ratio	Times	2.26	1.95

Non-cooperation with previous rating agency: Nil

Rating History

Sr.No	Facilities	Current Rating			Rating History		
		Tenure	Amount (₹ Cr)	Rating	Jan 2019	2018	2017
1	Fund Based	Long Term	2.50	BWR BB+ (Stable) Reaffirmed	BWR BB+ (Stable)	N/A	BWR BB+ (Stable)
2	Non Fund Based	Short Term	10.00	BWR A4+ Reaffirmed	BWR A4+	N/A	BWR A4+
	Total		**12.50**	**INR Twelve crores and Fifty Lakhs only.**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria
General Criteria
Approach to Financial Ratios
Short Term Debt

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Agog Pharma Limited
ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	ICICI Bank, ICICI Venture House, Prabhadevi	Cash Credit	2.50	0.00	2.50
2		EPC (sublimit of CC)	(2.50)	0.00	(2.50)
3		FUBD/FBD/ PSFC (sublimit of CC)	(2.50)	0.00	(2.50)
4		Letter of Credit	0.00	7.00	7.00
5		Counter Bank Guarantee (sublimit of LC)	0.00	(7.00)	(7.00)
6		Bank Guarantee	0.00	3.00	3.00
TOTAL					**12.50**

Total Rupees Twelve Crores and Fifty Lakhs Only.

For print and digital media

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DISCLAIMER

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