

RATING RATIONALE

09 Oct 2019

Asolution Pharmaceutical Pvt Ltd

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 25.90 Crores of Asolution Pharmaceutical Pvt Ltd. ('APPL or the Company')

Particulars:

Facility**	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (December, 2018)	Present
Fund based Tem Loan I Term Loan II Cash Credit	23.92 3.00 (1.50)	15.53 2.37 (2.00)	Long Term	BWR B+ Outlook:Stable	BWR B+ Outlook:Stable Reaffirmed
PCL/PCFC/FDBP /FDBD/FDBN/PS CFC Direct Parcel Bill	6.00 (2.00)	7.00 (3.00)	Short Term	BWR A4	BWR A4 Reaffirmed
Non Fund Based Inland/Import LC/Buyers Credit/BG	(1.00)	1.00	Short Term	BWR A4	BWR A4 Reaffirmed
Total	32.92	25.90	INR Twenty Five Crores Ninety Lakh Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

Rating Action / Outlook:Stable

BWR has essentially relied upon audited financial results of Asolution Pharmaceutical Pvt Ltd. up to FY 19 & projection Upto FY21, publicly available information & clarification/information provided by the company.



The reaffirmation of ratings factors experience of the management in pharma API business, established relationships with customers and suppliers, adequate infrastructure approved by FDA, continuous support from the promoters in term of funds infusion. These strengths are partially offset by the relatively modest size of operations, highly competitive nature of the industry, large working capital requirement, negative profitability leading to poor debt protection metrics, low current ratio indicating a probable liquidity stress and risks relating to significant regulation in the formulations industry & changes in government regulations.

Going forward the ability of the company to further improve its scale of operations, profitability margins, improve its overall credit profile and capital structure, while managing the working capital effectively are the key rating sensitivities.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that Asolution Pharmaceutical Pvt Ltd business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to Negative if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the ratings.

KEY RATING DRIVERS

Credit Strengths:

Experienced Promoter and professionally qualified management: Asolution Pharmaceutical Pvt Ltd promoters Dr. Laxmi Chodankar and Dr. Nandkumar Chodankar have vast experience & engaged in the pharmaceutical industry for more than a decade which helps them to understand the requirement of the market and has helped them to maintain strong relationships with customers and suppliers across India and abroad. Moreover, the promoters are supported by experienced and qualified professionals constituting the management and project team with more than two decades of experience in the pharmaceutical sector.

Continuous support from the promoters: The promoters has infused capital in last three consecutive years to support the operations of the company and also helped the company to service and repay its debt obligations. Going ahead the promoters are committed to further



infusion of capital as per the requirement of the business. i.e. FY16, FY17 and FY18, which results to maintained share capital.

Credit Risks:

Modest scale of operations: The Company's scale of operations stood modest as marked by a total operating income of Rs 17.88 Crs in FY19. The modest scale of operations limits the company's financial flexibility in times of stress and deprives it of scale benefits.

Negative profitability margins: Profitability margins are negative with operating profit margin and net profit margin of 59.67% and (6.57%) respectively for FY19 due to intensely competitive nature of business and research & development based focus in initial year increasing the fixed cost in initial years.

Intense competition and highly fragmented pharmaceutical industry- The Company faces intense competition in the domestic & international market due to pricing pressure, increasing regulation, increased sensitivities towards product performance limiting its price flexibility and impacting overall profitability of the company.

Exposure to regulatory risk- The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for business activities. Each authority has its own requirement and their could be delay or refusal to grant approval. The approval process for a new product registration is complex, lengthy and expensive and the time taken to obtain approval varies by country but generally it takes from six months to several years from the date of application which increases the fixed cost.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of Asolution Pharmaceutical Pvt Ltd and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).



RATING SENSITIVITIES

Going forward the ability of the company to further improve its scale of operations, profitability margins, improve its overall credit profile and capital structure, managing the working capital effectively are the key rating sensitivities.

Positive: Increase in the scale of operations with overall improvement in financial risk profile of the company marked by improved leverage and coverage ratios and better liquidity management will be positive for the ratings.

Negative: Limited growth in scale of operations with further deterioration in profitability and debt protection metrics with further stress on liquidity and promoters inability to infuse funds will be negative for the ratings.

LIQUIDITY POSITION

The company has stretched liquidity position with average working capital utilization level of 95% in the last six months. The current ratio of the company stood at 0.29 times in FY19. Cash and Cash equivalent in FY19 stood at Rs.0.03 Crs. The company has recorded negative cash accruals against debt repayment of Rs. 4.81 Crs.

COMPANY PROFILE

Asolution Pharmaceuticals Private Limited was incorporated in 2010 under the guidance of Dr. Nandkumar Chodankar and Dr. Laxmi Chodankar. The company is engaged in custom synthesis and manufacturing of specialty products for API for the international regulated markets. The manufacturing plant of the company is located at MIDC, Ambarnath, Dist. Thane, Maharashtra.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Income	Rs. Crs	17.88	12.48
Ebitda	Rs. Crs	(1.17)	(1.59)
PAT	Rs. Crs	(10.67)	(10.13)
D/E	Times	6.65	2.89
Current Ratio	Times	0.29	0.29

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY:

Sr. No.	Instrument / Facilities	Current Rating			Rating History		
		Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2018	2017	2016
1	Term Loan	Long Term	17.90	BWR B+ Stable	BWR B+ Stable	-	BWR B+ Stable
2	Cash Credit (CC)	Long Term	(3.00)	BWR B+ Stable	BWR B+ Stable	-	N.A
3	PCL/PCFC/FDBP/FDBD/FDBN/PSCFC	Short Term	7.00	BWR A4	BWR A4	-	BWR A4
4	Direct Parcel Bill	Short Term	(3.00)	BWR A4	BWR A4	-	BWR A4
5	LC/Buyers Credit/BG	Short Term	1.00	BWR A4	BWR A4	-	BWR A4
	Total		25.90	INR Twenty Five Crores Ninety 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](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Asolution Pharmaceutical Pvt Ltd
ANNEXURE I

Details of Bank Facilities rated by BWR

S. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Corporation Bank	Cash Credit (under Term Loan)	(3.00)	-	(3.00)
2		Term Loan	17.90	-	17.90
3		Direct Parcel Bill	-	(2.00)	(2.00)
4		PCL/PCFC/FDBP	-	7.00	7.00
5		Inland/Import LC/Buyers Credit/BG	-	1.00	1.00
TOTAL					25.90



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