

Rating Report

Brickwork Ratings assigns 'BWR BB-' & 'BWR A4' for the Bank Loan Facilities amounting to ₹ 14.68 Cr of Acebright (India) Pharma Pvt. Ltd.

Brickwork Ratings (BWR) has assigned the following **Ratings**¹ for the Bank Loan facilities sanctioned by Corporation Bank amounting to ₹ 14.68 Crores of Acebright (India) Pharma Private Limited (AIPPL).

Facility	Limit (₹ Cr)	Tenure	Rating
Term Loan	4.68	Long Term	BWR BB- (Pronounced BWR Double B minus) (Outlook:Stable)
Cash Credit	7.00		
Bank Guarantee	1.00	Short Term	BWR A4 (Pronounced BWR A Four)
Inland Letter of Credit	2.00		
Total	14.68	(INR Fourteen Crore & Sixty Eight Lakhs only)	

BWR has principally relied upon the audited financial results upto FY13, projected financials upto FY15 of AIPPL and publicly available information and information/ clarifications provided by the Company's management.

The rating factors in the strong support of the parent group, Shanghai Acebright Pharmaceuticals ,China ,experienced management of the company, approval from WHO for GMP (Good Manufacturing Practices) for the company's API unit and the company having revenues of ₹ 100 Crores for H1FY14.

However, the rating is largely constrained by the Company's moderate revenues with cash losses in FY13, resultant weak debt protection metrics and substantial increase in inventory and payables in FY13.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

Background:

Acebright (India) Pharma Private Limited was established in 1994 in Bangalore, Karnataka as Intermed Labs Pvt Ltd. It is part of the Shanghai Acebright Pharmaceuticals Group Co.,Ltd. (formerly Shanghai Desano Group) who are an innovative pharmaceutical group in the healthcare industry. Headquartered in Shanghai, Acebright has established a number of GMP standard manufacturing sites in China (Shanghai , Dafeng, Qidong, Chifeng) and India (Bangalore, Goa) to provide high quality products and related services to customers worldwide. Couplet Limited, a U.K.-based subsidiary company of Shanghai Acebright Pharmaceuticals Group Co.,Ltd. (formerly Shanghai Desano Group) has acquired 97% stake in AIPPL, as on March 31, 2012, while the balance stake is held by its executive director, Ms. Manorama Avinash.

AIPPL have a WHO certified GMP standard facility for manufacture of API's (Active Pharmaceutical Ingredient) or bulk drugs. The company produces several kinds of API's such as Capecitabine usp, Atazanavir , Efavirenz usp and Tenofovir which are mainly the anti-neoplastic (Cancer), general medicine, anti-HIV and anti-Hepatitis B drugs. The company has two production blocks the Oncology API block & General API block and have a combined capacity of 200 Metric Tonnes Per Annum.

Credit Risk Determinants:

Strengths:

- **Group Support :** Strong support of the parent company, Shanghai Acebright which is an established player in the pharma industry with multinational presence
- Sales have been increasing y-o-y in the past years
- Company has good fixed assets in the form of plant and machinery and also stable reserves
- Long term borrowings have decreased over two years
- **WHO approved Facilities :** The company's facilities are WHO approved for the production of API's
- USP of company is manufacture of API's for **anti-cancer and anti-retroviral drugs** which are difficult to produce

Weaknesses:

- **Loss making nature :** The company has incurred heavy losses in FY13 and some losses in FY12 as well
- **Increased operating expenses :** Operating expenses in FY13 have been significantly higher than operating income, this is mainly due to higher margins charged on raw materials by the supplier (Parent co- Shanghai Acebright) which puts a strain on the working capital
- High bargaining power of Supplier
- Working Capital intensive operations

Financial Performance:

The net sales of AIPPL grew from ₹ 45.16 Crores in FY12 to ₹ 59.84 Crores in FY13. Net losses rose to ₹ 21.94 Crores in FY13 from losses of ₹ 4.28 Crores in FY12.

The net worth of the Company stood at ₹ 14.87 Crores on March 31st, 2013 as against ₹ 36.80 Cr on March 31st, 2012. Although the debt equity ratio is high at 5.30 times in FY13 compared to 0.73 times in FY12, this is due to a Short Term Loan of ₹ 55 Crores which has since been repaid and the subsequent modified gearing levels are at ~1.6 times in FY13. The Current Ratio is at 0.52 times in FY13 compared to 0.81 times in FY12 .

Rating Outlook

The ability of the Company to increase revenues , improve the profitability and net worth levels with infusion of equity by the parent Group and effectively manage its working capital shall remain key rating sensitivities.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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Annexure 1: P and L account/Income Statement

Profit and Loss Account			
Crores	FY 2011	FY 2012	FY 2013
Result Type	Audited	Audited	Audited
Gross Sales	41.20	45.16	59.84
Traded Goods Sales	0.00	0.00	0.00
Excise Duty/Sales Tax	1.14	0.85	0.84
Net Sales	40.06	44.31	59.01
Other Operating Income	0.00	0.00	0.00
Total Operating Income	40.06	44.31	59.01
Operating Expenses	41.70	39.70	65.34
OPBDIT	-1.64	4.61	-6.34
Depreciation/Amortization/Impairment	0.56	3.85	8.62
OPBIT	-2.19	0.76	-14.96
Interest and Finance Charges	0.56	2.01	4.71
OPBT	-2.75	-1.25	-19.67
Non Operating Income(Expenses)	0.50	-2.13	-2.44
PBT	-2.25	-3.38	-22.11
Extraordinary/Prior Period - Income(Expense)	3.78	0.00	0.00
Provision for Taxes	0.53	0.91	-0.17
PAT(Continuing Operations)	0.99	-4.28	-21.94
PAT(Discontinuing Operations)	0.00	0.00	0.00
PAT	0.99	-4.28	-21.94

Annexure 2: Balance Sheet

Balance Sheet			
Crores	FY 2011	FY 2012	FY 2013
Liabilities			
EQUITY AND RESERVES	27.18	36.80	14.87
Share capital	2.34	3.34	3.34
Reserves and Surplus	24.84	33.46	11.53
Non-current liabilities	41.90	26.07	23.45
Long-Term Borrowings	38.63	21.91	19.46
Deferred tax Liabilities (Net)	0.16	1.07	0.89
Long-Term Provisions	3.10	3.10	3.10
Foreign Currency Monetary Item Translation Difference Account - Liability	0.00	0.00	0.00
Current liabilities	9.07	32.71	102.35
Short-Term Borrowings	2.05	4.80	4.32
Current Portion Of Long Term Debt	0.00	0.00	55.00
Trade Payables	5.88	26.52	41.11
Other Current Liabilities	0.39	0.08	0.32
Short-Term Provisions	0.75	1.30	1.60
Total Liabilities	78.15	95.59	140.67
ASSETS			
Non-current assets	54.70	69.16	87.68
Net Fixed assets	6.40	49.21	68.74
Capital Work-In-Progress	34.78	5.33	3.20
Long Term Loans and Advances	13.52	14.63	15.74
Foreign Currency Monetary Item Translation Difference Account - Asset	0.00	0.00	0.00
Current assets	23.44	26.43	52.99
Inventories	9.65	14.62	29.62
Trade Receivables > Six Months	0.00	0.00	0.45
Trade Receivables < Six Months	8.32	3.61	11.54
Cash and Cash Equivalents	0.01	0.02	0.08
Short-Term Loans and Advances	5.45	8.18	11.31
Total Assets	78.14	95.59	140.67

Annexure 3: Financial Ratios

Financial Ratios	FY 2011	FY 2012	FY 2013
Current Assets (in Rs. Cr)	23.44	26.43	52.99
Current Liabilities and Provisions	7.02	27.91	43.03
Working Capital for DSCR	16.42	-1.48	9.97
25% of Incremental Working capital	0.00	0.00	2.86
Long Term Borrowings	38.63	21.91	19.46
Short Term Borrowings	2.05	4.80	4.32
Current Portion Of Long Term Debt	0.00	0.00	55.00
Total Debt	40.69	26.71	78.78
Total Debt (Analyzed)	40.69	26.71	78.78
Tangible Net Worth	27.18	36.80	14.87
Tangible Net Worth (Analyzed)	27.18	36.80	14.87
Capital Employed	68.02	64.58	94.54
Total Debt/TNW (Times)	1.50	0.73	5.30
Total Debt/TNW(Analyzed)	1.50	0.73	5.30
Long Term Debt/TNW	1.42	0.60	1.31
TOL/TNW	1.88	1.60	8.46
ISCR	NA	2.29	NA
ISCR(Analyzed)	NA	2.29	NA
DSCR	3.79	0.21	NA
DSCR(Analyzed)	3.79	0.21	NA
Net Cash Accruals/Total Debt	0.03	0.09	NA
Net Cash Accruals/Long Term Debt	0.03	0.11	NA
Net Cash Accruals/Long Term Debt (Analyzed)	0.03	0.11	NA
Net Profit Margin (%)	2.48	NA	NA
Operating Profit Margin	NA	10.41	NA
ROCE	NA	1.15	NA
Current Ratio (Times)	2.58	0.81	0.52
Current Ratio(Analyzed)	2.58	0.81	0.51
Days Receivables (Days)	75.85	49.18	48.26
Days Inventory	90.85	122.77	135.06
Days Payable	55.95	183.49	191.66
Conversion Cycle	110.75	NA	NA