Rating Rationale

Brickwork Ratings assigns 'BWR B' Rating with Stable outlook for long-term Bank Loan Facilities of Alliaance Biotech amounting to ₹ 8.50 Crores and 'BWR A4' for short-term Bank Loan Facilities amounting to ₹0.75 Crores

Brickwork Ratings assigns the Ratings[1] **BWR B (Pronounced BWR B)** with **Stable outlook** for long term Bank loan facilities of *Alliaance Biotech* amounting to ₹ 8.50 Crores and **BWR A4 (Pronounced BWR A Four)** for short term bank loan facilities amounting to ₹0.75 Crores.

Facility	Tenure	Rating^	Amount (₹ Cr)
Fund based	Long Term	BWR B (Pronounced BWR Single B) (Outlook: Stable)	8.50
Non Fund based	Short Term	BWR A4 (Pronounced BWR A Four)	0.75
Total	INR Nine Crores Twenty Five Lakhs		9.25

The rating factors, inter alia, the strong customer base, diversified product variants and supply of drugs to pan-India locations.

However, the rating is constrained by the small scale of operations of the firm with stagnant revenue growth in the last 3 years, stretched working capital cycle with high receivables vis-a-vis the turnover of the firm, which may lead to liquidity problems in future.

Background

Alliaance Biotech is a partnership concern located at Baddi (H.P.) with corporate office at Panchkula (Haryana) for the manufacture of various types of tablets, capsules, liquid, ampules and injections (vial), based on licenses from the State Drug Control Department. The firm manufactures drugs for their customers which are large pharma companies. Apart from this, they also manufacture products for own marketing, without any branding. The firm's Baddi plant runs at an operational efficiency of 75%.

[1] ***Please refer to BWR website www.brickworkratings.com for definition of the ratings assigned***

Board/Management

This firm was promoted by 3 partners with equal shareholding, namely Mr. Navneet Dhawan, Mr. Shishir Gupta and Mr. Nitin Singla in 2004. The promoters have on an average 10-15 years of experience in the Pharmaceuticals industry.

Capacity levels

With the available machinery the unit can produce the following quantities on 3 shift basis for 300 days at 75% plant efficiency. The firm's capacity expansion took place in FY12 adding Ampules and vials, and the following table provides details of their current capacity:

Particulars	Million Pieces
Tablets	1,012.5
Capsules	202.5
Liquid	19.3
Ampules	40
Vial	13

Strong Customers and Suppliers base

Alliaance Biotech has a diversified base of customers and suppliers. The firm sells mostly to companies like Kymex Pharmaceuticals, CIPLA Ltd, Nava Healthcare Pvt Ltd, Medley Pharnaceuticals Ltd and Themis Medicare Ltd.

Alliaance Biotech's major suppliers are Aquatic Remedies Ltd, Advance Enzymes Technologies Ltd, Parabolic Drugs Ltd, Global Medisciences Pvt Ltd and DPB Antibiotics.

Financial Performance

Net revenue of the firm was almost stable at ₹ 23.38 Crores in FY12 vs. ₹ 23.17 Crores in FY11.

The firm's EBITDA margin improved from 15.58% in FY11 to 17.84% in FY12. However, there was only a marginal improvement in the PAT margin from 9.71% in FY11 to 9.88% in FY12, due to increased interest costs. Net worth stood at ₹ 11.20 Crores in FY12 when compared to ₹ 9.10 Crores in FY11. Due to lower borrowings, firm's debt equity ratio improved from 1.00 in FY11 to 0.80 in FY12. However, the level of receivables is rising year after year, touching Rs. 16.09 crores as on 31 March 2012, indicating a debtor period of 251 days (191 days as on 31 Mar 2011.)

For 8 months, up till November 2012, the firm recorded turnover of ₹ 21.0 Crores vs. turnover of ₹ 15.0 Crores for the same period in the previous year.

Rating Outlook

The performance of the firm is expected to remain stable during the next one year. However firm's ability to improve its turnover levels, and reduce the debtors level significantly would be the key rating sensitivities.

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Alliaance Biotech- Annexure

Annexure1: Profit & Loss

(₹ Crores)

As on March 31	FY10	FY11	FY12
Net Sales	23.45	23.17	23.38
Cost of Goods sold	18.94	17.92	18.10
Selling, General and Other Administrative Expenses	1.43	1.64	1.12
Total operating expenses	**20.37**	**19.56**	**19.21**
EBITDA	3.08	3.61	4.17
Depreciation and amortization	0.29	0.30	0.35
EBIT	**2.78**	**3.32**	**3.82**
Net Interest and finance charges	0.99	1.16	1.55
EBT	**1.79**	**2.15**	**2.27**
Non-operating income (Expense)	0.22	0.10	0.04
Adjusted Profit Before Tax	**2.01**	**2.25**	**2.31**
Provision for taxation	-	-	-
Adjusted Profit After Tax	**2.01**	**2.25**	**2.31**

Annexure2: Balance Sheet

(₹ Crores)

As on March 31	FY10	FY11	FY12
Liabilities and equity			
Equity Share Capital	7.05	9.14	11.19
Non-current Long term borrowings	8.00	0.66	1.04
Short term borrowings	-	8.81	8.30
Other current liabilities	4.19	4.51	10.49
Total Current liabilities	**4.19**	**13.31**	**18.79**
Total Liabilities	**19.24**	**23.11**	**31.03**
Assets			
Net Block (Inclusive of CWIP)	5.22	5.25	6.77
Total Non-Current Assets	**5.22**	**5.25**	**6.77**
Current Investments	-	0.04	0.31
Inventory	6.01	4.99	7.24
Net Trade Receivables < Six Months	7.41	12.11	16.09
Cash and Bank Balance	0.05	0.08	0.18
Short Term Loans and Advances Given	0.55	0.64	0.45
Total Current Assets	**14.02**	**17.87**	**24.26**
Total assets	**19.24**	**23.11**	**31.03**

Annexure3: Key Ratios

As on March 31	2010	2011	2012
Total Debt/ Tangible Net worth	1.1	1.0	0.8
Interest Service Coverage Ratio	3.1	3.1	2.7
Debt Service Coverage Ratio	1.5	2.3	2.5
Tangible Net Worth (Rs Crores)	7.0	9.1	11.2
Net Profit Margin (%)	8.57%	9.72%	9.89%
Net Cash Accruals/Total Debt	0.3	0.3	0.3
ROCE (%)	18.50%	19.70%	19.53%
Current Ratio	3.3	1.3	1.3