

## Rating Report (Annual Review)

### Brickwork Ratings revises 'BWR BB-' & reaffirms 'BWR A4' for the Bank Loan Facilities aggregating ₹ 9.25 Cr of Alliaance Biotech

On an annual review, Brickwork Ratings (BWR) has revised/reaffirmed the following Ratings<sup>1</sup> for the Bank Loan Facilities of Alliaance Biotech (AB or 'the Firm').

Facility	Limits (Cr)	Tenure	Rating revised/reaffirmed	Rating History
Fund Based Cash Credit	8.00	Long Term	<b>BWR BB-</b> (Pronounced BWR Double B Minus)	<b>BWR B</b> (Pronounced BWR Single B)
Fund Based Standby Line of Credit	0.50		<b>Outlook: Stable</b> (Upgraded from BWR B)	<b>Outlook: Stable</b> (March 2013)
Non-Fund Based Letter of Credit	0.75	Short Term	<b>BWR A4</b> (Pronounced BWR A Four) (Reaffirmed)	BWR A4 (Pronounced BWR A Four) (March 2013)
<b>Total</b>	<b>9.25</b>	<b>INR Nine Crores and Twenty Five Lakhs only</b>		

BWR has principally relied upon the audited financial statements of the firm up to FY13, provisional financials for FY14, publicly available information and information/clarifications provided by the firm's management.

The rating has factored, inter alia, the improvement in the performance of the firm, diversified product offerings, diversified clientele in terms of customer type and geographical locations, low gearing level and healthy debt protection metrics. The rating is, however, constrained by the small scale of operations, stretched working capital cycle, average production capacity utilization, high level of competition from other generic drugs manufacturers and exposure to foreign exchange risk.

#### Background

Alliaance Biotech is a partnership firm located at Baddi, Himachal Pradesh with corporate office at Panchkula, Haryana and is operating since 2006. The partnership firm is into manufacturing of a wide range of products such as hormone tablets, capsules, oral liquids, injectables (Wet & Dry), ophthalmic and ear drops. Licenses are obtained from Drug Control Department of State FDA for the manufacturing of drugs. Drugs manufactured are formulated in their Baddi unit. These products are generic drugs like anti-oxidants, anti-inflammatory, pediatric liquids, ophthalmic, antibiotics and other emergency medicines. The manufacturing unit is located at Baddi, Himachal Pradesh. The capacity utilization is around 50% to 55%. The product

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

manufacturing and sales can be categorized into three categories viz., Manufacturing and marketing done by Alliaance Biotech itself, Third party job work in which the products are formulated and manufactured by the firm but marketing/branding is done by the customers and Institutional sales in which tenders are obtained by the firm after technical and monetary bidding and the product specifications are furnished by the customers. The firm has its in-house laboratory for the testing and quality checks of the raw materials and the final products.

### **Management Details**

Mr. Shishir Gupta and Mr. Nitin Singla are the two partners of the Firm with equal partnership shares. There are adequate number of technical and administrative staff, skilled and unskilled workers available at operational level.

### **Financial Performance**

The firm reported a Total Operating Income of ₹ 31.46 Cr with a Net profit of ₹ 2.05 Cr against a Total Operating Income of ₹ 23.38 Crores with a Net profit of ₹ 2.31 Cr for FY12. Total Operating Income has increased by 34.56% in FY13. Net Profit Margin declined from 9.89% in FY12 to 6.51% in FY13. Tangible Net worth of the Firm increased from ₹ 11.19 Crores in FY12 to ₹ 11.70 Cr in FY13 due to retention of profits.

On a provisional basis, the firm has reported Total Operating Income of ₹ 40.94 Cr with a Net Profit of ₹ 2.76 Cr for FY14

Key performance /financial indicators have been shown in the Annexures II, III & IV.

### **Key Rating Determinants**

Product Portfolio: The Firm is manufacturing generic drugs in diversified product categories of anti-oxidants, anti-inflammatory, pediatric liquids, ophthalmic, antibiotics and other emergency medicines. The Firm, however, has a low scale of operations.

Business Risk: The Firm has customers both in India and foreign countries like Ghana, Nigeria and Uzbekistan. It is manufacturing and marketing for itself and also undertaking third party job works. It has also done institutional sales to Rajasthan state government and ESI suppliers in FY14. This diversified client base has lowered the business risk for the firm. The sales has grown at a CAGR of ~21% over the last three financial years. The capacity utilization is average at around 50% to 55% and going forward improving it would be a key rating sensitivity.

Industry Risk: The pharmaceutical industry is highly regulated and fragmented and because of the presence of a large number of generic drugs manufacturers, the level of competition is high.

Financial Risk: The profit margin of the Firm has been declining over the last three financial years mainly due to increased competition, increased manufacturing capacity with average

utilization and also due to forex losses. The gearing level is low and the debt protection has marginally improved in FY14 compared to FY12 & FY13. Although the working capital cycle has improved in FY14, it continues to be stretched due to high level of receivables and inventory.

### Rating Outlook

The performance of the firm is expected to remain stable over the next year. The firm's ability to effectively manage input costs, mitigate forex fluctuation risks with appropriate covers, manage its working capital efficiently and improve its production capacity utilization would be crucial to its performance and are also the key rating sensitivities.

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**Alliaance Biotech**  
**Annexure I: Details of the bank facilities rated**

Nature of Facilities	Bank: State Bank of India	(` Cr)		
		Sanctioned Limits	Outstanding (as on 8 <sup>th</sup> July, 2014 )	Amount Rated
<b>Fund Based Limits</b>				
Cash Credit		8.00	7.99	8.00
Standby Line of Credit		0.50	0.50	0.50
<b>Total Fund Based</b>				<b>8.50</b>
<b>Non-fund Based Limits</b>				
Letter of Credit		0.75	0.36	0.75
<b>Total Non-fund Based</b>				<b>0.75</b>
<b>Total</b>	<b>` 9.25 Cr</b>	<b>Rupees Nine Crores and Twenty Five Lakhs only</b>		

**Annexure II: Profit & Loss Statement**

<b>P &amp; L Summary (` Cr)</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>
<b>Result Type</b>	<b>Audited</b>	<b>Audited</b>	<b>Audited</b>
Gross Sales	23.17	23.38	31.46
<b>Net Sales</b>	<b>23.17</b>	<b>23.38</b>	<b>31.46</b>
<b>Total Operating Income</b>	<b>23.17</b>	<b>23.38</b>	<b>31.46</b>
<b>Operating Expenses</b>	<b>19.56</b>	<b>19.21</b>	<b>27.42</b>
<b>OPBDIT</b>	<b>3.61</b>	<b>4.17</b>	<b>4.04</b>
Depreciation/Amortization/Impairment	0.30	0.35	0.37
<b>OPBIT</b>	<b>3.31</b>	<b>3.82</b>	<b>3.67</b>
Interest and Finance Charges	1.16	1.55	1.52
<b>OPBT</b>	<b>2.15</b>	<b>2.27</b>	<b>2.15</b>
Non-Operating Income(Expenses)	0.10	0.04	0.07
<b>PBT</b>	<b>2.25</b>	<b>2.31</b>	<b>2.22</b>
Provision for Taxes	0.00	0.00	0.17
<b>PAT</b>	<b>2.25</b>	<b>2.31</b>	<b>2.05</b>

**Alliaance Biotech**  
**Annexure-III: Balance Sheet**

<b>Liabilities ( ` Cr)</b>	<b>FY11 (A)</b>	<b>FY12 (A)</b>	<b>FY13 (A)</b>
<b>Equity and Reserves</b>	<b>9.14</b>	<b>11.19</b>	<b>11.70</b>
Share capital	9.14	11.19	11.70
<b>Non-current liabilities</b>	<b>0.66</b>	<b>1.04</b>	<b>1.74</b>
Long-Term Borrowings	0.66	1.04	1.74
<b>Current liabilities</b>	<b>13.31</b>	<b>18.80</b>	<b>20.06</b>
Short-Term Borrowings	8.81	8.30	7.83
Trade Payables	4.17	10.12	10.82
Other Current Liabilities	0.33	0.38	1.40
Short-Term Provisions	0.00	0.00	0.01
<b>Total Liabilities</b>	<b>23.11</b>	<b>31.03</b>	<b>33.50</b>
<b>Assets ( ` Cr)</b>	<b>FY11 (A)</b>	<b>FY12 (A)</b>	<b>FY13 (A)</b>
<b>Non-current assets</b>	<b>5.25</b>	<b>6.77</b>	<b>6.67</b>
Net Fixed assets	5.25	6.77	6.67
<b>Current assets</b>	<b>17.86</b>	<b>24.26</b>	<b>26.83</b>
Current Investments	0.04	0.31	0.52
Inventories	4.99	7.24	9.24
Trade Receivables < Six Months	12.11	16.09	15.72
Cash and Cash Equivalents	0.08	0.18	0.10
Short-Term Loans and Advances	0.64	0.44	1.25
<b>Total Assets</b>	<b>23.11</b>	<b>31.03</b>	<b>33.50</b>

**Annexure-IV: Key Financial Ratios**

<b>Ratios</b>	<b>FY11 (A)</b>	<b>FY12 (A)</b>	<b>FY13 (A)</b>
Debt: Equity (times)	1.04	0.83	0.82
ISCR (times)	3.11	2.69	2.65
DSCR (times)	3.19	2.56	2.36
Operating Margin (%)	15.59	17.83	12.85
Net Profit Margin (%)	9.72	9.89	6.51
ROCE (%)	17.82	19.53	17.55
Current Ratio (times)	1.34	1.29	1.34
Days Payable (days)	96	136	150
Days Receivable (days)	191	220	185
Days Inventory (days)	102	123	118
Cash Conversion Cycle (days)	197	207	153