

Rating Report

Brickwork Ratings assigns 'BWR BBB-' & 'BWR A3' for the Bank Loan Facilities aggregating ₹ 104 Cr of Astra Lifecare India Pvt. Ltd.

Brickwork Ratings has assigned 'BWR BBB-' **Ratings**¹ for the long term Bank Facilities of ₹ 96 Cr and BWR A3 for short term bank facilities of ₹ 8 Cr of Astra Lifecare India Pvt Ltd (AL IPL).

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based			
Working Capital Facility	78.00	Long Term	BWR BBB- (Pronounced BWR Triple B Minus) (Outlook : Stable)
Term Loan	18.00		
Non Fund Based			
Bank Guarantee	8.00	Short Term	BWR A3 (Pronounced BWR A Three)
Total	104.00	(INR Rupees One Hundred and Four Crores only)	

The rating inter alia, factors promoters' experience in the pharmaceutical business in Africa, company's strong presence and established brand name in the African market and long standing customer relations. The rating is however constrained by moderate financial profile, geographic and customer concentration of revenues, and highly competitive nature of the generic pharma industry. Improvement in financial profile as envisaged, efficient working capital management, ability to manage regulatory changes coupled with retention of market share in African countries and timely recovery of revenues will be key rating sensitivity factors.

Background

Astra Lifecare India Pvt. Ltd. (AL IPL) is engaged in manufacturing of generic pharmaceutical formulations in tablet and capsule form. The company was incorporated in 2004 and started commercial production in 2006-07. The company's manufacturing unit at Bavla, Ahmedabad is WHO-GMP certified with an annual capacity of 50000 tablets and 8000 capsules. The manufacturing units are also approved by the regulators of Uganda, Tanzania, Ethiopia, Kenya, Congo and Malawi.

Experienced Promoters

Mr. Azizali Bhaidani, Mr. Ahmedali Bhaidani and Mr. Shabbir Kassam are the promoters of the company. They have extensive industry experience of ~18 years in East African nations in sales and marketing of pharmaceutical products. Mr. Azizali started his pharmaceutical trading

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

business in 1996 and set up Astra Pharma (Uganda) Ltd in 1997 and Astra Pharma (Tanzania) Ltd in 1998. These companies import pharmaceutical products from various countries including

India & China and sell the same in the local markets. As part of backward integration, the promoters set up Astra Lifecare India Ltd in 2004.

Operations

ALIPL markets all its products under the brand name Astra Lifecare. Products range comprises of antibiotics, anti-bacterial, anti-viral, anti-fungal, anti-malarial, anti-inflammatory, anti TB, anti-diabetic, anti-thyroid, cardio vascular, fertility and vitality drugs etc. The company has a strong presence in medicines for water and airborne diseases. Key products are AsmoX and Asmol.

The company is a leading exporter to East African nations like Uganda, Tanzania, Ethiopia, Kenya, Congo and others countries in the region. The company is also looking to explore new markets in West Africa, Latin and Central America, and Far East nations. ALIPL has ~181 products registered in the East African region and has a strong distribution network at wholesale and institutional level. It has associate entities (promoter owned) in Uganda, Tanzania, Congo and Kenya through which it sells in these nations. In Uganda and Tanzania it also directly participates in tenders for institutional sales. In Ethiopia it has appointed an exclusive distributor. While this has enabled ALIPL to establish strong customer relations, it exposes the company to risks related to customer concentration, with top five customers contributing ~87% to sales and associate companies Astra Pharma (U) and Astra Pharma (T) contributing 50% to sales.

In FY14, exports and domestic trading constituted ~62% and 32% respectively of sales. ALIPL receives export incentives from Govt. of India for export to East African nations under the Focused Market Scheme.

The company is exposed to local regulations of the various counties it caters to. There was decline in production in FY14 due to change in regulations for packaging of medicines in Uganda and Tanzania. ALIPL's ability to manage regulatory changes will be a key sensitivity factor.

Financial Performance

ALIPL's total operating income was ₹ 154.57 Cr in FY14 as compared to ₹155.96 Cr in FY13. Company registered a marginal decline on account of change in packing regulations in Uganda and Tanzania which resulted in lower production. In FY14, ALIPL had applied for Government tenders in Directorate of Health Services, Mumbai & achieved sales of ₹6.72 Crores which resulted in EBITDA improvement. EBITDA increased to ₹17.68 Cr in FY14 from ₹15.56 Cr in FY13. Profit after Tax (PAT) for the year stood at ₹0.83 Cr as compared to ₹5.29 Cr in FY13. Decline in PAT is due to higher forex loss in FY14 and reversal of excess deferred tax booked in

earlier years. In FY 2013-14, company has reversed MAT credit entitlement of earlier years

aggregating to ₹3.41 Cr. Company has informed that this is in compliance with the accounting standard.

EBITDA margin improved to 11.44% in FY14 from 9.97% in FY13 while PAT margin declined to 0.53% in FY14 from 3.39% in FY13. Exposure to foreign exchange fluctuations and regulatory changes are expected to impact company's profitability margins. Interest cover was at ~2.36x in FY14. Company has an extended working capital cycle with high receivables and inventory as compared to payables. Receivable days are ~112 days, inventory is maintained for 70 days while payable days are ~36 days. Company has started procuring directly from China in FY14 and pays partial advance. Efficient working capital management will be crucial for the company. As on March 31, 2014, debt to networth was 1.75x and networth was ₹50.33 Cr.

For three months ending June 30, 2014, company registered PAT of ₹2.32 Cr on revenues of ₹36.55 Cr.

Credit Risk Assessment

ALIPL faces customer and geographic concentration of revenues. The company is looking to expand exports to other locations to address the same. Revenues were stagnant in FY14 as changes in product packaging regulations resulted in introduction of new packing line and decline in production during the year. The company also saw decline in PAT due to reversal of MAT entitlement of earlier years and higher forex loss. Working capital intensive nature of business and below average gearing levels in a highly competitive generic pharma industry, are key credit concerns. Improvement in financial profile as envisaged, efficient working capital management and ability to manage regulatory changes will be key sensitivity factors.

Outlook - Stable

ALIPL benefits from experienced promoters and established presence in the East African markets. Retention of market share in African countries and timely recovery of revenues will also be crucial. Improvement in financial profile as envisaged and efficient working capital management in a highly fragmented and competitive industry will be key sensitivity factors.

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Annexure – Abridged Key Financials – ALIPL

Balance Sheet		₹Crore		
As on March 31,	2012	2013	2014	
	Audited	Audited	Audited	
LIABILITIES				
EQUITY AND RESERVES	33.40	49.70	50.52	
Share capital	17.50	21.42	21.42	
Reserves and Surplus	15.90	28.27	29.10	
Long-Term Borrowings	24.88	19.76	15.38	
Deferred tax Liabilities (Net)	1.55	2.53	7.99	
Other Long Term liabilities	0.00	0.00	3.23	
Current liabilities	87.87	78.58	91.42	
Short-Term Borrowings	47.80	60.77	67.53	
Current Portion Of Long Term Debt	6.39	5.23	5.25	
Trade Payables	28.94	10.70	18.10	
Other Current Liabilities	4.54	1.53	0.25	
Total Liabilities	147.98	150.91	168.91	
ASSETS				
Net Fixed assets	59.08	64.81	74.80	
Long Term Loans and Advances	0.43	0.95	1.19	
Inventories	19.85	23.75	27.05	
Trade Receivables	54.67	47.34	45.94	
Cash and Cash Equivalents	5.03	1.00	6.18	
Short-Term Loans and Advances	8.53	12.64	13.37	
Total Assets	147.98	150.91	168.91	

Income Statement		₹Crore		
For the year ending March 31,	2012	2013	2014	
Result Type	Audited	Audited	Audited	
Net Sales	105.29	151.05	151.67	
Other Operating Income	1.61	4.91	2.90	
Total Operating Income	106.90	155.96	154.57	
Operating Expenses	96.62	140.40	136.88	
OPBDIT	10.29	15.56	17.68	
Depreciation/Amortization/Impairment	2.64	4.32	4.73	
Interest and Finance Charges	4.84	7.21	7.51	
Non Operating Income	2.87	2.23	0.82	
PBT	5.68	6.25	6.27	
Extraordinary/Prior Period – Income	0.00	0.02	0.02	
Provision for Taxes	0.78	0.98	5.46	
PAT	4.90	5.29	0.83	

Ratios

	2012	2013	2014
Tangible Net Worth (₹ Crs)	33.14	49.44	50.33
Total Debt/TNW (x)	2.39	1.73	1.75
ISCR (x)	2.13	2.16	2.36
Net Cash Accruals/Total Debt (x)	0.08	0.11	0.10
Net Profit Margin (%)	4.59	3.39	0.53
Operating Profit Margin (%)	9.62	9.97	11.44
ROCE (%)	6.72	8.93	9.12
Current Ratio (x)	1.01	1.08	1.01