

## Press Release

### Aarey Drugs And Pharmaceuticals Limited

September 05, 2019

#### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 19.50 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.19.50 crore bank facilities of AAREY DRUGS AND PHARMACEUTICALS LIMITED. The outlook is '**Stable**'.

Based in Mumbai (Maharashtra), Aarey Drugs and Pharmaceuticals Limited (ADPL) was incorporated in 1990. The company is engaged in manufacturing of API and trading of industrial chemicals and solvents. ADPL has its manufacturing facility at Tarapur, Mumbai.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the ADPL to arrive at this rating.

#### Key Rating Drivers

##### Strengths

- **Experienced management and improving business risk profile**

ADPL was established in 1990 by Mr. Mihir R. Ghatalia, Chairman of Aarey Drugs and Pharmaceuticals Limited, possesses experience of almost four decades in Pharmaceutical industry. The experience of the promoter have enabled ADPL to establish healthy relationship with customers and suppliers. The operating income of the company has improved to Rs.357.81 crore in FY2019 from Rs.351.60 crore in FY2018. The operating and PAT margins of the company have also improved to 3.42 per cent and 1.83 per cent in FY2019, as compared to 3.08 per cent and 1.76 per cent in FY2018 respectively. The improvement in margins on the account of increasing manufacturing activities.

Acuite believes that ADPL will continue to benefit from its established presence in the industry and improving business risk profile over the medium term.

- **Healthy financial risk profile**

ADPL has healthy financial risk profile marked by tangible net worth of Rs.86.47 crore as on 31 March 2019 as against Rs.80.14 crore as on 31 March 2018. The improvement in net worth is attributable to higher accretion to reserves on account of consistent growth in profitability. The gearing stood low at 0.19 times as on 31 March 2019 as against 0.04 times as on 31 March 2018. The debt of Rs.16.16 crore as on 31 March 2019 mainly consists of working capital borrowings of Rs.16.12 crore and term loans of Rs.0.04 crore.

The coverage ratios stood healthy with Interest Coverage Ratio (ICR) of 5.48 times for FY2019 against 5.64 times for FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.68 times as on March 31, 2019 as against 1.12 times as on March 31, 2018. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.47 times in FY2019 as against 2.14 times in FY2018.

Acuite believes that the company will maintain its financial risk profile in the near to medium term backed by growth in revenues.

##### Weaknesses

- **Working capital intensive operations**

Despite of improvement, ADPL's working capital operations are still intensive marked by high Gross Current Asset (GCA) of 136 days in FY2019 compared to 160 days in FY2018. The GCA days are dominated by high receivables of 109 days in FY2019 compared to 100 days in FY2018. However, the inventory days are in the range of 5-22 days for period 2017-2019. ADPL enjoys credit period of 40 days

from its suppliers, which moderates the working capital requirements.

Acuite believes that ADPL's working capital intensive operations will be mitigated by the availability of adequate liquidity over the medium term.

• **Competitive and fragmented industry**

ADPL operates in chemical compounds industry, which is marked by the presence of several mid to big size players in the organised as well as unorganised sector, which limits the pricing power of ADPL. However, this risk is mitigated to an extent as the management has been operating in this industry for the last two decades.

• **Foreign exchange risk**

The company imports traded products from overseas suppliers. The profitability of the company is exposed to fluctuation in the product prices as same constitutes significant portion of the total sales. The prices of the commodity fluctuate and are highly dependent on the demand and supply scenario in the global market. Hence, the margins of the ADPL are exposed to volatility in foreign exchange rate.

**Liquidity Position: Strong**

ADPL has strong liquidity position marked by healthy net cash accruals against no maturing debt obligations. The company generated cash accruals of Rs.6.11 crore to Rs.7.55 crore during the last three years through 2018-19, while there were no maturing debt obligations over the same period. The cash accruals of the company are estimated to remain around Rs.8– 9 crore during 2020-22. The company reliance on working capital borrowings is moderate; the working capital limit in the company remains utilised at ~80 per cent during the last six months period ended July 2019. However, the company's operations are working capital intensive as marked by gross current asset (GCA) days of 136 in FY2019 due to high receivable days. ADPL maintains unencumbered cash and bank balances of Rs.0.35 crore as on March 31, 2019. The current ratio of the ADPL stands at 2.31 times as on March 31, 2019. Acuite believes that the liquidity of the ADPL is likely to remain strong over the medium term on account of healthy cash accrual and no major repayments over the medium term.

**Outlook: Stable**

Acuite believes that the outlook of ADPL will remain 'Stable' over the medium term owing to its experienced management and long standing relationships with customers. The outlook may be revised to 'Positive' if the company achieves higher than expected revenue and profitability while effectively managing its working capital cycle. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt funded capital expenditure resulting in deterioration in its financial risk profile.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	357.81	351.60	399.28
EBITDA	Rs. Cr.	12.22	10.82	12.94
PAT	Rs. Cr.	6.54	6.18	5.47
EBITDA Margin	(%)	3.42	3.08	3.24
PAT Margin	(%)	1.83	1.76	1.37
ROCE	(%)	11.88	13.87	21.90
Total Debt/Tangible Net Worth	Times	0.19	0.04	0.21
PBDIT/Interest	Times	5.48	5.64	2.99
Total Debt/PBDIT	Times	1.32	0.30	0.80
Gross Current Assets (Days)	Days	136	160	118

**Any other information**

Not Applicable

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities - <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
23-Oct-2018	Cash Credit	Long Term	19.50	ACUITE BBB- / Stable (Reaffirmed)
04-Aug-2017	Cash Credit	Long Term	14.50	ACUITE BBB- / Stable (Assigned)
	Proposed Long Term Loan	Long Term	0.50	ACUITE BBB- / Stable (Assigned)

### \*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	19.50	ACUITE BBB- / Stable (Reaffirmed)

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### About Acuité Ratings & Research:

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