CARE Ratings
Professional Risk Opinion

CARE/HO/RL/2020-21/2749

Mr. Arvind Agrawal
Chief Financial Officer
Ajanta Pharma Limited
Ajanta House,
Charkop, Kandivali (W),
Mumbai-400067

October 1, 2020

Confidential

Dear Sir,

Credit rating for bank facilities

On the basis of recent developments including operational and financial performance of your company for FY20 (audited) and Q1FY21 (provisional), our Rating Committee has reviewed the following ratings:

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term/Short-term Bank Facilities	55.00 (reduced from 87.50)	**CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)**	**Reaffirmed**
Total	**55.00 (Rs. Fifty Five crore only)**		

2. Refer **Annexure 1** for details of rated facilities.

3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by October 5, 2020 we will proceed on the basis that you have no any comments to offer.

4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.

7. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

8. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

9. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,

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Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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Annexure 1
Details of Rated Facilities

1. Long /Short term Facilities **(Rs. Crore)**

Sr. No.	Name of Bank	Fund Based/Non-Fund Based Limits	
		Cash Credit/WCDL/LC/BG	Total fund-based/Non-Fund Based limits
1.	Citi Bank	35.00	35.00
2.	SBM (India)	10.00	10.00
3.	RBL Bank	10.00	10.00
	TOTAL	**55.00**	**55.00**

Total short-term/long-term facilities (1): Rs.55.00 crore

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Annexure 2
Press Release

Ratings

Facilities	Amount (Rs. crore)	Rating[2]	Rating Action
Long-term/Short-term Bank Facilities	10.00 (reduced from 42.50)	**CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)**	**Reaffirmed**
Long-term/Short-term Bank Facilities	45.00 (45.00)	**CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/A One Plus)**	**Reaffirmed**
Total	**55.00 (Rs. Fifty Five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating to the bank facilities of Ajanta Pharma Limited (APL) continues to derive strength from experienced promoters and management team with a long track record in pharmaceutical industry, strong business profile with focus on specialty therapeutic segments, diversified geographic & product profile and healthy financial risk profile with comfortable liquidity position. The rating also factors in well- established brands catering to multiple therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network.

The aforementioned rating strengths are partially offset by APL's increased business in regulated market, increasing pricing pressure in domestic and export markets amidst intense competition and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Sensitivity

- The ability of the company to efficiently manage its working capital requirements with operating cycle below 100 days on sustained basis
- Higher than anticipated increase in sales with better utilization of expanded capacities with turnover increasing above Rs.4000 crore.

Negative Sensitivity

- Reduction in PBILDT margin below 25% due to lower than expected domestic performance on account of ongoing pandemic
- Weakening of financial profile because of significant increase in working capital requirements and/or large, debt funded capex or acquisitions

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record in the pharmaceutical industry

The company has successful track record of around four decades in the Pharmaceutical business. APL is spearheaded by Mr. Mannalal B. Agrawal (Chairman), Mr Madhusudan Agarwal (Vice Chairman), Mr. Yogesh M. Agrawal (Managing Director), Mr Rajesh M Agarwal (Jt. Managing Director) and the Board is ably supported by qualified and professional senior management team heading various verticals.

Accredited manufacturing facilities supported with well-equipped R&D facility

After the completion of Pithampur plant, APL has 8 facilities in total. From the 8, one is in Mauritius & others in India, namely, Paithan, Waluj, Chikalthana, Chittegaon, Guwahati, Dahej & Pithampur. Dahej and Paithan (Aurangabad) plants for the USA & emerging market are US FDA & WHO-Geneva approved and received EIR in August 2019. APL has commercialized its Pithampur plant in February 2020. The manufacturing facility located at Paithan is USFDA and WHO Geneva approved while the other facilities located at Waluj, Chikalthana, Pithampur, Chitegaon and Mauritius are WHO GMP approved. The manufacturing facility at Dahej (Gujarat) is WHO

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Geneva approved & is the largest manufacturing facility under one roof spread over 41,000 square mtrs. The wide infrastructure of the company is well served with over 600 scientists and a research and development center named as 'Ajanta Research Center' in Kandivali, Mumbai. APL's R&D focuses mainly on development of innovative formulations across various therapeutic segments. Further, all manufacturing sites continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies. APL gets regularly inspected by various regulatory authorities & has not reported any breach of compliance.

Strong business profile with focus on specialty therapeutic segments with diversified geographic and product profile

During FY20, APL had a healthy mix of export (70%) and domestic sales (30%). The company has a wide geographical presence with sales to semi/non-regulated markets like India, Central Asia, West Asia, South East Asia & Africa etc. comprising of over 30 countries across the globe. Going forward, the company aims to strengthen its presence in semi/non-regulated markets as well as regulated markets. Such diversity in the revenue as well as product base insulates the company from significant adverse fluctuation in the revenue. This is evidenced by its improving operational performance in USA, where its saes has increased over the years & improved by 82.33% & its share in total sales increased from 14% (FY19) to 20% (FY20). APL launched total 18 new products in India across 4 specialty therapies. In USA the company launched 7 new products in FY20. The company has MR (Medical Representative) strength of ~3,000.

Improving Revenue & Profit levels; stable margins

The total operating income of the company increased to Rs.2666.81 crore in FY20 from Rs.2,075.30 crore in FY19 on the back of improving demand for Generic brands in USA, The revenue from USA subsidiary has increased from Rs.283 crore in FY19 to Rs.516 crore in FY20, an increase of 82%. This was on account of 8 new product launches during FY20, as the company filed 10 new ANDAs for FY20 & received 9 ANDA approvals. The company plans to file another 5-6 ANDAs during FY21 & expects 6 new product launches over the next year in the US market. PBILDT margin has remained stable on a y-o-y basis, at 28.90% during FY20 vis-à-vis 28.67% during FY19 & PAT margin of 17.54% during FY20 vis-à-vis 18.65% during FY19. APL has expanded their business in USA, thereby leading to an increase in raw material costs, on a similar level to increase in sales. This has led to an increase in profitability on absolute levels, with stable margins.

Healthy financial profile with comfortable liquidity position

The company's capital structure continues to remain healthy with total debt of Rs.78.62 crore as on March 31, 2020 (Rs.54.25 crore as on March 31, 2019). The increase in total debt was due to reclassification of financial lease as per IND AS 116. The overall gearing ratio remained comfortable at 0.03x as on March 31, 2020. The liquidity position of the company remained comfortable marked by the current ratio of 2.38x as on March 31, 2020 as against 3.11x as on March 31, 2019. Furthermore, the liquidity is supported by unutilized fund-based working capital limits. Moreover, the company, on a consolidated basis has from free cash & bank balance amounting to Rs.202.35 crore as on March 31, 2020, the same being Rs.95.16 crore as on March 31, 2019. On a standalone level, APL has free cash and bank balances of Rs.84.95 crore vis-à-vis 30.52 crore in FY19. The capex for FY20 is Rs.254 crore which are funded through internal accruals. Further, with completion of its capex cycle incremental cash flows are expected to further aid in liquidity.

Low Project implementation risk

During FY20, the company has incurred capex of Rs.254 crore which involves Rs.89 crore towards completion of third phase of Guwahati plant & Rs.62 crore towards completion of plant at Pithampur. The plant at Pithampur will cater to the emerging markets of Asia & Africa, whilst Guwahati plant is expected to cater to branded business in India. The balance to the extent of Rs.100 crore is incurred towards regular maintenance capex. This aforementioned capex was entirely funded through internal accruals. During FY21 the company plans to incur capex of around Rs.152.50 crore, of which around Rs.50.00 crore would be utilised in last phase of Guwahati plant & balance would be maintenance capex.

Key Rating Weaknesses

High dependence on regulated markets for Pharmaceutical segment

APL has its presence in multiple countries across the world and it has 8 production units. Considering the nature of the product usage and application, and consequent impacts, APL is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or

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environmental/regulatory policies in the area of operations of the company, can have an impact on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, all manufacturing sites of continue to successfully clear regulatory audits, conducted by various leading global regulatory agencies. The manufacturing facility located at Paithan is USFDA, and WHO Geneva approved while the other facilities located at Chikalthana, Chitegaon and Mauritius are WHO GMP complied. The plants located at Guwahati & Pithampur are WHO-GMP Approved. The manufacturing facility at Dahej (Gujarat), which is USFDA & WHO Geneva approved was given Establishment Inspection Report (EIR) in August 2019 by USFDA.

Intense competition from both MNCs and Indian companies in India and abroad
APL faces intense competition and pricing pressure in the global as well as domestic markets. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with intense increasing competition, increasing regulation and increased sensitivity towards product performance.

Volatility in raw material prices
With limited ability to pass on the increase in raw material costs, any substantial increase in raw material costs may affect the company's profitability in the near term. Nevertheless, over the years the company's PBILDT margin has remained healthy and the company has been able to procure raw material at lower price as it is purchasing raw materials at lower credit period and availing better bargained prices for its raw materials. Company procures almost 90-95% of its raw material from domestic market and balance imports mainly from China. Hence, APL did not face any issues in raw material procurement due to issues in China.

Foreign exchange fluctuation risk
The company derived about 70% of its overall revenues from exports, thus it is exposed to foreign currency fluctuation risk. In FY20, on consolidated basis APL reported Rs.1442.05 crore earnings (previous year Rs.1068.7 crore) and an outgo of Rs.164.22 crore (Previous year Rs.210.19 crore) in foreign currency. The currencies in which these transactions are primarily denominated are US Dollars, Euro, Mauritian Rupee, Philippine Peso and Nigerian Naira.
APL covers its foreign currency risk exposure by hedging at least 50% of net exports. The group uses forward exchange contracts to mitigate its currency risk, most with a maturity of less than one year from the reporting date. In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Industry Outlook
The operations of pharma industry being considered 'necessary' came under the ambit of essential manufacturing during Covid-19 induced lockdown. This supported the pharma facilities to operate though at lower capacities in the initial days of lockdown.
Pharma exports from India increased at a slow pace of 8% y-o-y to USD 20.7 billion in FY20 compared to the growth of 10.9% during FY19. A substantial 22.8% fall in pharma outbound shipments in the month of March 2020 were the prime reason for slower rise in exports during FY20. Covid-19 disruptions are believed to have affected the pharma outbound shipments in the month of April 2020 as it increased only by a marginal 1.6%. In the following month, exports were up by a stronger 17.3% backed by easing lockdown restrictions and demand for antivirals, antimalarials and antibiotics in the international market for treatment of Covid-19.Pharma imports by India were at USD 6.5 billion during FY20. Of this, bulk drugs and drug intermediates hold the largest share in pharma imports. In FY20, they accounted for about 53% of the total pharma inbound shipments. The trend of decline in imports continued even during the first 2 months of FY21 with the inbound shipments of bulk drugs and drug intermediates falling by 6.9% to USD 586 million primarily due to absence of manpower at ports and logistics issues amid lockdown. However to provide some respite to the importers, the Central Drugs Standard Control Organization (CDSCO) allowed import of drug with residual shelf life less than 60% under special condition on 17 April 2020. This has been extended up to 31 October 2020 for now as on 10 July 2020. As a rule, import of drug with residual shelf life less than 60% is not allowed in the country. With relief in various restrictions, the industry is expected to see pent up demand for treatments that were postponed which will support the demand for drugs. Moreover, the demand for medicines will increase during the monsoon season as the distributors and retailers normally stock drugs for the season. These parameters will augur well for pharma industry. In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarial and antibiotics given the spread of Covid-19. Pharma outbound shipments were affected in the initial days of lockdown due to supply-chain and logistical issues. However thereafter, the situation has improved and

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the exports are expected to gain traction. Moreover, the demand for Indian drugs in the international market continues to be there which will support pharma exports from India. Thus, the demand for drugs and pharma is expected to remain steady to a large extent. However, the industry is likely to face delay in product launches and clinical trials given the current scenario. Besides, Covid-19 has also caused disturbances in inspections by the USFDA.

Liquidity analysis: Strong

APL's liquidity remained strong marked by strong cash accruals, healthy current ratio of 2.38x times as on March 31, 2020 and low average utilization of non-fund based working capital limits of around 31% during last 12 months ended July 2020. Cash flow from operations also remained healthy at around Rs.460 crore during FY20. APL has nil term debt repayment obligations. Further, it plans to incur capex of around Rs.250 crore during FY20 and FY21. The planned capex is being funded by internal accruals. Further, cash and cash equivalents of around Rs.202 crore as on March 31, 2020 provides additional liquidity cushion.

Analytical approach: Consolidated

CARE has analyzed APL's credit profile by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries, common management and fungible cash flows. The subsidiaries are listed under Annexure-3

Applicable Criteria

Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Manufacturing Companies
Rating Methodology – Pharmaceutical Sector
Rating Methodology – Consolidation and Factoring Linkages in Ratings
Financial ratios - Non- Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Incorporated in 1973, Ajanta Pharma Ltd (APL) is involved in development, manufacturing and marketing of pharmaceutical formulations for both domestic as well as international markets. The company has a well-diversified product portfolio across therapeutic segments such as Anti- malarial, Cardiovascular Diseases (CVD), Dermatology and Opthalmology. Besides, APL also increasing its presence in other specialty therapeutic segments such as Pain Management, Gastroenterology, and Anti-Gout as well as Antibiotics. APL's manufacturing operations span at eight manufacturing plants (7 in India and 1 in Mauritius). Of these, the company has six manufacturing facilities for formulations and one manufacturing facility for API (Active Pharmaceutical Ingredient) for captive consumption located near Aurangabad, Maharashtra. Besides, the company has one formulation manufacturing facility at Mauritius which is directly managed by its wholly owned subsidiary Ajanta Pharma Mauritius Ltd. The company also has a Research Development (R&D) centre under the name of "Ajanta Research Center" at Mumbai well supported by a team of over 600 scientists enabling the company to introduce innovative products for various markets across the globe.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2075.30	2666.81
PBILDT	595.07	770.63
PAT	386.97	467.70
Overall gearing (times)	0.02	0.03
Interest coverage (times)	512.99	64.70

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

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Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	45.00	CARE AA; Stable / CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	10.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (04-Dec-17)
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	45.00	CARE AA; Stable / CARE A1+	-	1)CARE A1+ (25-Sep-19)	1)CARE A1+ (03-Oct-18)	1)CARE A1+ (04-Dec-17)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (25-Sep-19)	1)CARE AA; Stable / CARE A1+ (03-Oct-18)	1)CARE AA; Stable / CARE A1+ (04-Dec-17)

Annexure 3: List of companies/entities consolidated

Name of companies/ Entities	**% of holding**
Ajanta Pharma (Mauritius) International Limited	100% holding of Ajanta Pharma (Mauritius) Ltd.
Ajanta Pharma (Mauritius) Ltd. (Consolidated)	100% holding of Ajanta Pharma Limited
Ajanta Pharma Philippines Inc.	
Ajanta Pharma USA Inc.	
Ajanta Pharma Nigeria Ltd.	

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-Fund-based –LT/ST	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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