Rating Advisory

October 30, 2018 | Mumbai

Albert David Limited

Advisory as on October 30, 2018

This rating advisory is provided in relation to the rating of Albert David Limited

The key rating sensitivity factors for the rating include:

- Financial exposure to group companies
- Operating profitability
- Regulatory restriction on sale, if any, of placental extract-based drugs
- Capex plans and their funding

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Albert David Limited (ADL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If ADL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About The Company

ADL was incorporated in 1938; its present promoters, the Kothari group, acquired a controlling stake in 1965. The company's first manufacturing facility was set up in Kolkata to manufacture pharmaceutical formulations in the form of parenteral drugs, tablets, and syrups. In 1981, it set up a unit in Ghaziabad, Uttar Pradesh, to manufacture intravenous fluids in glass bottles and in polyethylene bottles based on form-fill-seal technology. Capacity to manufacture capsules, ointments, and ophthalmological products was added to this unit later. The third manufacturing plant was set up in Mandideep, Madhya Pradesh, to manufacture disposable syringes and hypodermic needles; this unit became operational in August 1990. ADL outsources production of traditional medicines (herbal products). Its facilities follow good manufacturing practices (GMP) guidelines and produce both parenteral and non-parenteral formulations. It has a well-connected distribution network.

Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

September 22, 2017 | Mumbai

Albert David Limited

Rating outlook revised to 'Stable'; ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.70 Crore**
Long Term Rating	**CRISIL A-/Stable (Outlook revised from 'Positive' and rating reaffirmed)**
Short Term Rating	**CRISIL A1 (Reaffirmed)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised the outlook on the long-term bank facilities of Albert David Limited(ADL) to **'Stable'** from 'Positive'. The ratings on the bank facilities have been reaffirmed at **'CRISIL A-/CRISIL A1**'.

The revision in outlook factors in CRISIL's expectation that the earlier anticipated improvement in ADL's operating performance would take considerably longer given the challenges associated with demand from channel partners. CRISIL now expects the revenue to grow at 5-6% per annum, slower than earlier expected, over the medium term, but will be supported by an established market position and a pipeline of new product launches. The operating margin is also expected to increase only gradually from second quarter of fiscal 2018 to 6-8% in fiscal 2019, still lower than earlier expectations.

ADL reported a weaker than industry performance in the first quarter of fiscal 2018, even as other pharmaceutical companies' sales and profitability too were affected on account of destocking by primary dealers in anticipation of GST implementation. ADL's revenue declined 33% y-o-y (6% decline for corresponding quarter last year) while reporting *negative* 21% operating margin (8% in the corresponding quarter last year). Further, even in fiscal 2017, the company's operating margin declined higher-than-anticipated; margin in fiscal 2017 was 8.6% vis-Ã -vis 10.0% in fiscal 2016. CRISIL had expected a decline in operating margin consequent to sale of high margin Actibile brand in the last quarter of fiscal 2016; however the decline was higher, partly on account of demonetization driven impact on demand. While some of the external drivers affecting ADL's business are transitory, CRISIL believes that improvement in ADL's performance will nevertheless be modest and prolonged.

The ratings continue to reflect ADL's adequate financial risk profile, supported by ample liquidity, steady accretion to reserves and no major debt-funded capital expenditure (capex), ADL's sound marketing and distribution network. These strengths are partially offset by a limited product profile with exposure to intense competition from domestic players and susceptibility to any adverse impact of regulatory changes.

CRISIL's short term rating specifically factors in ADL's ample liquidity. Cash and cash equivalents stood at over Rs 50 crore as on June 30, 2017; substantial part of liquid surplus is expected to be maintained over the medium term given no major capex in ADL or investment plans in any of the group companies, barring any exigencies.

Analytical Approach

CRISIL's ratings on ADL are based on a standalone assessment of its credit profile. CRISIL has, however, adjusted the debt to include the corporate guarantee of Rs 35 crore extended to a group company.

Key Rating Drivers & Detailed Description
Strengths
* **Adequate financial risk profile:** The management's conservative financial policy and company's steady accrual helped maintain strong capital structure and debt protection metrics. Adjusted gearing was 0.44 time as on March 31, 2017 while net cash accrual to adjusted debt and adjusted interest coverage ratios stood at 0.30 time and 22.89 times for fiscal 2017. Further, ADL has ample liquidity with unencumbered cash and equivalents to the tune of over Rs 50 crore as on June 30, 2017.

* **Established market position, particularly in placental extract-based drugs:** ADL's placental-based formulation Placentrex is the only human placenta-based product in the country developed through indigenous research. The company is the market leader in this segment and has a process patent over Placentrex, which mitigates competition risk. It is among the top 100 pharmaceutical companies in India (ranked 57th) as per June 2016 rankings of All-India Organisation of Chemists and Druggists, with a strong presence in the eastern and northern parts of the country.

Weakness
* **Product profile limited to acute therapeutic segments which are exposed to intense competition from domestic players**: ADL's product portfolio is largely restricted to acute therapeutic segments such as anti-bacterials, anti-infectives, and placental extracts. This exposes the company to intense competition from other players, which constitute a major portion of the market.

* **Susceptibility to adverse regulatory changes**: The players in pharmaceutical industry are exposed to adverse regulatory changes. For instance, changes like the ban on 344 fixed-dose combinations in fiscal 2016 and revision in drug price control order in 2013, which brought more drugs under price control, impacted the industry adversely. ADL was also impacted by a ban (which was later lifted) on placental extract-based drugs in February 2011, based on safety concerns over the company's product.

Outlook: Stable
CRISIL believes ADL will maintain its adequate financial risk profile over the medium term, backed by healthy capital structure and debt protection metrics. The business risk profile will remain supported over this period by an established market position in the pharmaceutical industry, especially in the anti-inflammatory segment.

Upside scenario
* Faster-than-anticipated recovery and sustenance in operating profitability over the medium term, while maintaining adequate financial risk profile
* Higher-than-expected revenue growth

Downside scenario
* Deterioration in the capital structure or liquidity due to large debt-funded capex or increased exposure to group companies
* Operating profitability remaining low or further significant decline on account of regulatory changes

About the Company

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In fiscal 2017, profit after tax (PAT) was Rs 12 crore on net sales of Rs 303 crore, against PAT of Rs 48 crore (includes Rs 41 crore on net proceeds from Actibile brand sale) on net sales of Rs 318 crore in fiscal 2016. In the three months ended June 30, 2017, net loss was Rs 8 crore on net sales of Rs 53 crore, against PAT of Rs 3 crore on net sales of Rs 83 crore in the corresponding period of the previous fiscal.

Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs. Cr.	305	320
Profit After Tax	Rs. Cr.	12	48
PAT Margins	%	4.0	14.9
Adjusted Debt/Adjusted Net worth	Times	0.44	0.40
Interest coverage	Times	22.89	15.76

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr.)	Rating Assigned with Outlook
NA	Cash Credit*	NA	NA	NA	35.0	CRISIL A-/Stable
NA	Letter of Credit and Bank Guarantee	NA	NA	NA	18.01	CRISIL A1
NA	Term loan	NA	NA	31-Aug-2019	16.3	CRISIL A-/Stable
NA	Proposed Term Loan	NA	NA	NA	0.69	CRISIL A-/Stable

Interchangeable with packing credit

Annexure - Rating History for last 3 Years

	Current			2017 (History)		2016		2015		2014		Start of 2014
Instrument	**Type**	**Quantum**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fixed Deposits	FD		--		--	01-12-16	Withdrawal/Positive	30-10-15	FA/Positive	18-08-14	FA/Stable	--
Fund-based Bank Facilities	LT/ST	51.99	CRISIL A-/Stable		No Rating Change		No Rating Change	30-10-15	CRISIL A-/Positive		No Rating Change	CRISIL A-/Stable
Non Fund-based Bank Facilities	LT/ST	18.01	CRISIL A1		No Rating Change	01-12-16	CRISIL A1		No Rating Change		No Rating Change	CRISIL A2+

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	**Amount (Rs.Crore)**	**Rating**	**Facility**	**Amount (Rs.Crore)**	**Rating**
Cash Credit*	**35**	**CRISIL A-/Stable**	**Cash Credit***	**35**	**CRISIL A-/Positive**
Letter of credit & Bank Guarantee	**18.01**	**CRISIL A1**	**Letter of credit & Bank Guarantee**	**18.01**	**CRISIL A1**
Proposed Term Loan	**.69**	**CRISIL A-/Stable**	**Proposed Term Loan**	**.69**	**CRISIL A-/Positive**
Term Loan	**16.3**	**CRISIL A-/Stable**	**Term Loan**	**16.3**	**CRISIL A-/Positive**
Total	**70**	**--**	**Total**	**70**	**--**

Interchangeable with packing credit

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for the Pharmaceutical Industry

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