



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Arion Healthcare

March 04, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1	Bank Facilities- Long Term	18.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)
2.	Bank Facilities- Short Term	2.00	IVR A4 (IVR A four)
	Total	20.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Arion Healthcare (AH) derives comfort from its experienced partners, long track record in pharmaceutical industry with diversified client base, locational advantage, synergies derived from group concerns and comfortable capital structure with moderate debt protection metrics. The rating strengths are partially offset by its small scale of operations with weak profitability, moderate debt protection metrics, working Capital intensive operations, and inherent risk available in the constitution of partnership firm.

Key Rating Sensitivities

Upward factors

Sharp increase in scale of operation with improvement in profitability on a sustained basis

Improvement in the net worth base and capital structure

Improvement in operating cycle and improvement in liquidity with reduction in working capital limits utilisation

Downward factors

Moderation in total income and/or profitability affecting the debt protection metrics and/or liquidity

Deterioration in capital structure

Elongation in the operating cycle



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced partners

Mr. Abhay Jain and Mr. Ravi Jain are the partners of the firm and carrying over a decade of experience in the industry. Also, the firm is getting benefitted from their experience as partners are having long standing relationship with their customers and suppliers which reduces the counterparty default risk as well as enjoys extended credit period from its suppliers.

Long track record in pharmaceutical industry with diversified client base

The firm has about one and half decade-long track record of operations in the pharmaceutical industry. AH's revenues are diversified across revenues from owned brand sales, contract manufacturing and tender-based business. Over the years, AH has built an established client base in the contract manufacturing segment, while it distributes its own products through a network of dealers.

Locational Advantage

Its plant is located in Baddi, Himachal Pradesh which is in proximity to its principals and suppliers and provides competitive advantage.

Synergies derived from group concerns

The firm has more than 50 products in its product profile and caters to a broad range of segments like analgesic, nutritional, dermatological, anti-allergic, anti-diabetic, anti-fungal, and anti-depressant. Having a wide product portfolio helped the firm to have a diversified customer base. Further, its group entity, Navkar Lifesciences is also in the same line of business. Presence of group concern in the same field provides synergy benefits. Further, the partners also has a packaging manufacturing entity which further lends some synergies.

Comfortable capital structure with moderate debt protection metrics

The debt profile of the firm mainly comprised working capital borrowings due to its working capital intensive nature of operations. With no long term debt in the capital structure, the overall gearing ratio stood moderate at 0.74x as on March 31, 2019 (0.75x as on March 31,2018).



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Further, total indebtedness of the firm as reflected by TOL/TNW also stood moderate at 1.46x as on March 31, 2019 (against 1.45x as on March 31, 2018).

Key Weaknesses

Small scale of operations

The total operating income of the firm though witnessed a moderate growth at a CAGR of ~9% and witnessed a y-o-y growth of ~11% remained small over the past two years during FY17-FY19. Small scale of operations limits the economics of scale benefits and pricing flexibility. Further, the profit margins of the firm also remained range-bound over the past two years with an EBITDA margin of 6.36% and PAT margin of 1.15% in FY19. During 9MFY20, the firm has achieved a total operating income of Rs.60.49 crore.

Moderate debt protection metrics

The debt protection metrics of the firm remained moderate with an interest coverage at 1.76x and Total debt to GCA at 7.55x in FY19. The firm witnessed marginal increase in its gross cash accruals from Rs.2.10 crore in FY18 to Rs.2.25 crore in FY19.

Working Capital intensive operations

Pharma manufacturing operations are working capital intensive in nature marked by high inventory holding require to procure raw materials for manufacturing variety of products simultaneously. Further, AH's operations are also affected due to its high collection period, which further elongates the operating cycle. Consequently, the operating cycle of the firm remained elongated at 117 day in FY19. To fund its working capital requirements the firm is largely dependent on bank borrowings and consequently it has a high working capital limit utilisation at ~99% in the past 12 months ended September, 2019.

Inherent risk available in the constitution of partnership firm:

Being a partnership firm, AH is exposed to inherent risk of withdrawal of capital and less regulatory compliances.

Analytical Approach: Standalone



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Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

Liquidity is stretched marked by its highly utilized bank limits due to high working capital intensity in the business. The average cash credit utilization for the past twelve months ended on Sep, 2019 remained high around 99% indicating no liquidity buffer. Further extension of the limits remains crucial for the firm to manage working capital.

About the Firm

Arion Helatcare (AH) incorporated in 2005, located in Baddi, Himachal Pradesh, is engaged in manufacturing, distributing and supplying of medicines for various purposes. Its, product range includes Pharmaceutical Tablets, General Health Tablets, Vitamin B Complex Syrup, Eye Drops, Liver Tonic and many more. AH follows different business channels to cater to different segments of the market. Partners have other venture in the name of Navkar Lifesciences in the same line of business.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	71.34	79.13
EBITDA	4.50	5.03
PAT	0.66	0.89
Total Debt	16.85	17.65
Tangible Net worth	22.50	23.75
EBITDA Margin (%)	6.31	6.36
PAT Margin (%)	1.09	1.15
Overall Gearing Ratio (x)	0.75	0.74

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	18.00	IVR BB-/Stable	-	-	-
2.	Bank Guarantee	Short Term	2.00	IVR A4	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/Outlook
Long Term Bank Facilities-Cash Credit	-	-	-	18.00	IVR BB- /Stable
Short Term Bank Facilities-Bank Guarantee	-	-	-	2.00	IVR A4