

May 18, 2023

Allchem Lifescience Pvt. Ltd.: ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	75.47	[ICRA]BBB-(Stable); assigned
Short-term – Fund-based- working capital	20.50	[ICRA]A3; assigned
Unallocated	1.03	[ICRA]BBB-(Stable)/[ICRA]A3; assigned
Total	97.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA's assigned ratings for Allchem Lifescience Private Limited (Allchem/ the company) consider the extensive experience of its promoter in the pharmaceutical industry, along with the company's established track record in the intermediates space. The company has over 150 customers, which include reputed pharmaceutical companies like Lupin Limited, Laurus Labs, Sun Pharma, Dr Reddy's Labs, Alembic Pharma, etc., and has developed strong customer relationships, ensuring repeat orders. The company's customer diversification remains healthy with revenue from top-10 customers at ~56% during 11M FY2023. The company has developed and commercialised a product portfolio encompassing over 400 molecules, which include drug intermediates and specialty chemicals with top-10 molecules contributing ~65% of the revenues during FY2023. The company commenced commercial production with a 15-MTPM capacity in 2013 and expanded the same to 55 MTPM in August 2018, resulting in robust 31.3% CAGR in its revenues from FY2018 to FY2023. The enhanced capacity also supported the company in expanding its operating margin (OPM) to 20.7% in FY2019 from 10.9% in FY2018. Since then, the company has consistently maintained a healthy OPM, achieving 31.0% in FY2023, largely driven by increase in scale and improvement in product mix.

The ratings are, however, constrained by the moderate scale of operations, restricting its operational flexibility to a certain extent. The company's revenue remained flat during FY2023 compared to FY2022 due to capacity constraints, as the company operated at almost full capacity in FY2022 and the same continued for FY2023. However, with the ongoing capacity expansion, the scale is expected to improve, going forward. Allchem operates in a highly competitive industry, exposing it to pricing pressure which can affect its margins. API manufacturers which are the end customers for the company are subject to regulatory oversight, and by virtue of the same, the company is also expected to maintain high level of quality standards in its operations. The ongoing expansion capex, which is being funded through a mix of internal accruals and debt, has impacted the company's debt metrics. However, the debt metrics are expected to gradually improve with steady accretions and scheduled repayment of term loans. The company's profitability also remains exposed to any adverse volatility in raw material prices and forex rates. The company is net exporter and does not have any hedging policy in place.

The Stable outlook on the long-term rating reflects ICRA's expectations that Allchem will maintain its credit profile, supported by stable operating performance benefitting from the strong promoter background, well-established relationships with its customers and the expected improvement in scale of operations.

Key rating drivers and their description

Credit strengths

Strong promoter background and established track record of the company in manufacturing drug intermediates - Mr. Bipin Patel is the founder and promoter of the company and has over two decades of experience in the pharmaceutical industry. He has been actively involved in the company's core operations and was instrumental in its diverse product portfolio. Allchem has an established track record of manufacturing drug intermediates which are well received by its customers.

Strong relationships with customers ensure repeat orders; diversified product portfolio - The company's proven capabilities have enabled it to secure orders from reputable clients such as Lupin Limited, Laurus Labs, Dr. Reddy's Laboratories, Sun Pharmaceutical Industries Limited, etc. The company's customer diversification remains healthy with revenue from the top-10 customers at ~56% during 11M FY2023. At present, the company has a diverse range of product portfolio consisting of over 400 molecules, including chemicals, drug intermediates and specialty chemicals, with top-10 molecules contributing ~65% of the revenues during FY2023.

Technical competence to develop new chemical intermediates and update product offerings - Since its incorporation as a proprietorship firm in 2003, the company spent almost a decade focused on research and development, enabling it to develop more than 250 intermediates, before commencing commercial production in 2013. At present, the company has a product portfolio of over 400 molecules and has a wide spectrum of reaction capabilities that can be combined to create new intermediates and update its product offerings on a regular basis, thereby supporting its business prospects.

Healthy revenue growth over the last few years - The company commenced commercial production in 2013 with a capacity of 15 MTPM producing small batches of intermediates. It then expanded its capacity to 55 MTPM in August 2018, resulting in a revenue growth rate of 31.3% CAGR during FY2018 to FY2023. The enhanced capacity also supported the company in expanding its OPM to 20.7% in FY2019 from 10.9% in FY2018. Since then, the company has consistently maintained a healthy OPM, achieving 31.0% in FY2023, largely driven by increase in scale and improvement in product mix. Further, the company is involved in manufacturing some niche products, allowing it to pass on the raw material price increase to its customers, which helped the company expand its margins even during an inflationary environment in FY2023.

Credit challenges

Moderate scale of operations restricting operational flexibility to a certain extent - The company's revenue remained flat during FY2023 compared to FY2022 due to capacity constraints, as the company operated at almost full capacity in FY2022 and the same continued for FY2023. The company's scale of operations remains moderate, restricting its operational flexibility and the benefits from the economies of scale to a certain extent. The scale is expected to improve from FY2024 on the back of ongoing capacity expansion, coupled with healthy business prospects.

Operates in a highly competitive and regulated industry - The company operates in a highly competitive industry, exposing it to pricing pressure which can impact its margins. However, the company's established customer relationships and longer time required to get supplier approved in DMF filing by the API manufacturers, help to mitigate competition to an extent. API manufacturers which are the end customers for the company are subject to regulatory oversight, and by virtue of the same, the company is also expected to maintain high level of quality standards in its operations.

Significant ongoing debt-funded capital expenditure likely to moderate debt coverage indicators in the near term - In January 2021, the company initiated a capex for capacity expansion to 180 MTPM from 55 MTPM. The total project cost of Rs. 128.8 crore was funded through internal accrual and term loan from banks. This has increased external debt of the company to Rs. 89.2 crore as on March 31, 2023, from Rs. 42.7 crore as on March 31, 2022. Consequently, the gearing and total debt/ OPBDITA increased to 1.6 times and 2.8 times, respectively, as on March 31, 2023, from 1.3 times and 1.8 times, respectively, as on March 31, 2022. Going forward, the debt metrics are expected to gradually improve with steady accretions and scheduled repayment of term loans. While the capex is expected to be completed by Q1 FY2024, the company's ability to ramp up the operations of the enhanced capacity will be a key monitorable.

Susceptibility to fluctuations in raw material prices, foreign exchange rates - The company's profitability remains exposed to any adverse volatility in raw material prices. The company's export sales mix has remained in the range of ~40-50% in last three years and being a net exporter, the margins are susceptible to forex volatility in the absence of any active hedging mechanism.

Liquidity position: Adequate

Allchem's liquidity position remains adequate, with cash and cash equivalents of Rs. 0.2 crore and an available working capital buffer of Rs. 6.7 crore (against sanctioned limits of Rs. 20.5 crore) as on March 31, 2023. Its average working capital utilisation was ~37% of the sanctioned limits between April 2022 and March 2023. The company has till now incurred a capex of Rs. 128.8 crore for ongoing capacity expansion, funded by a term loan of Rs. 74.6 crore, while the rest was funded through internal accruals. The company does not have any major capex plans during FY2024 and FY2025. The company has repayment obligations of Rs. 4.1 crore in FY2024, Rs. 8.2 crore in FY2025 and Rs. 8.5 crore in FY2026 for its existing debt. Overall, ICRA expects the company to be able to meet its near-term commitments through healthy accruals from its business operations.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings, in case of any significant increase in the scale of operations and net worth with improvement in debt metrics and liquidity position, while maintaining healthy profit margins.

Negative factors – Pressure on the ratings could arise, if there is any material deterioration in debt metrics and liquidity position, resulting in total debt/OPBDITA greater than 3.0 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology of Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Allchem Lifescience Private Limited (ALSPL), earlier known as Allchem Laboratories, was incorporated in 2003 and is involved in manufacturing intermediates for generic and soon-to-be off-patent innovator molecules, specialty chemicals and custom synthesis for customers in the pharmaceutical industry.

The company was established in 2003 with a small pilot plant in the name of Allchem Laboratories as a proprietorship concern of Mr. Bipin Patel. In 2017, it was converted into Allchem Lifescience Pvt. Ltd. Till 2013, the company mainly focused on R&D and product development and garnered ability to manufacture more than 250+ intermediates. In 2013, the company commenced commercial production for already developed intermediates. With continuous focus on research and development, the company now has the ability to supply intermediates for more than 400 products/ molecules. The company manufactures intermediates which are majorly used in antihypertensive, antidepressant and antipsychotic therapies. The company's plant is in Vadodara, Gujarat. At present, the company has 197 employees and caters to 150+ customers.

Key financial indicators (audited)

ALPL Standalone	FY2021	FY2022	FY2023*
Operating income	93.1	111.9	110.7
PAT	11.2	15.1	21.6
OPBDIT/OI	22.4%	24.3%	31.0%
PAT/OI	12.0%	13.5%	19.5%
Total outside liabilities/Tangible net worth (times)	2.6	2.1	2.1
Total debt/OPBDIT (times)	1.2	1.8	2.8
Interest coverage (times)	10.3	7.7	19.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore *Provisional

Status of non-cooperation with previous CRA

CRA	Rating	Release Date
CARE	CARE BB-/CARE A4; ISSUER NOT COOPERATING	June 23, 2022
BWR	BWR BB/Stable/BWR A4; ISSUER NOT COOPERATING	January 06, 2023

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024 May 18, 2023	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
						Mar 28, 2023	Oct 27, 2022		
1	Term loans	Long term	75.47	75.4	[ICRA]BBB-(Stable)	[ICRA]B+(Stable); ISSUER NOT COOPERATING; Withdrawn	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]B+(Stable); ISSUER NOT COOPERATING	[ICRA]B+(Stable); ISSUER NOT COOPERATING
2	Fund-based-Working Capital	Short term	20.50	13.8	[ICRA]A3	[ICRA]A4 ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4 ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4 ISSUER NOT COOPERATING; Withdrawn	[ICRA]A4 ISSUER NOT COOPERATING; Withdrawn
3	Unallocated	Long term and short term	1.03	-	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short-term – Fund-based working capital	Simple
Long term/ Short term-unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2022	9.0-9.5%	FY2032	75.47	[ICRA]BBB-(Stable)
NA	Working Capital facilities	NA	NA	NA	20.50	[ICRA]A3
NA	Unallocated	NA	NA	NA	1.03	[ICRA]BBB-(Stable)/[ICRA] A3

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis-Not applicable.

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Mythri Macherala

+91 80 4332 6407

mythri.macherala@icraindia.com

Gaurav Kanade

+91 22 6114 3469

gaurav.kanade@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



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