

Rating Advisory

September 10, 2022 | Mumbai

ACG Associated Capsules Private Limited

Update as on September 10, 2022

This rating advisory is provided in relation to the rating of ACG Associated Capsules Private Limited

The key rating sensitivity factors for the rating include:

Upward factors

- Increase in revenue by over 30% and sustained operating margin of more than 30% results in healthy accrual
- Improvement in working capital cycle while maintaining financial risk profile

Downward factors

- Lower than expected revenue along with drop in earnings before interest, depreciation, tax and amortisation (EBIDTA) margin to below 26% due to increased competition or weaker-than-expected operating performance in new plants.
- Increase in working capital requirement, significant debt-funded capex or acquisition, or more-than-expected dividend pay-out, weakening the financial risk profile, particularly liquidity and debt (excluding unsecured loans from promoters) to EBIDTA increasing to above 2.5 times

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 Ratings is yet to receive adequate information from ACG Associated Capsules Private Limited (ACGAC) to enable it to undertake a rating review. CRISIL Ratings 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 Ratings views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings' criteria available at the following link, https://www.crisil.com/content/dam/crisil/criteria_methodology/basics-of-ratings/assessing-information-adequacy-risk.pdf)

If ACGAC continues to delay the provisioning of information required by CRISIL Ratings to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL Ratings will carry out the review based on best available information and issue a press release.

About the Group

ACGAC was incorporated in 1961. ACG Capsule group is engaged in manufacturing of a variety of capsule shells in a wide range of sizes, colours such as EHG, HPMC, Flofit and Brandshield 4C. Mr Ajit Singh, Mr Jasjit Singh and Mr Karan Singh are the promoters. Three of its four manufacturing units in India are in Maharashtra-Kandivali (Mumbai), Dahanu (Thane), Shirwal (Khandala)-while another is in Madhya Pradesh-Pithampur (Indore). The group also has facilities in Croatia and Brazil.

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Rating Rationale

July 20, 2021 | Mumbai

ACG Associated Capsules Private Limited

'CRISIL AA/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.190 Crore
Long Term Rating	CRISIL AA/Stable (Assigned)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA/Stable**' rating to the long-term bank facilities of ACG Associated Capsules Private Limited (ACGAC, part of ACG Capsule group).

The rating reflects the ACG Capsule group's strong business risk profile marked by its established position in the domestic and global capsule markets, longstanding relationships with reputed clients, sound operating efficiencies, geographical diversification in revenue and strong financial risk profile. These strengths are partially offset by the working capital intensive operations and exposure to risks related to competition from other drug delivery formats over the medium-to long term.

Analytical Approach:

CRISIL Ratings has consolidated the business and financial risk profiles of ACGAC along with its subsidiaries ACG Europe Ltd, ACG Lukaps D O O Croatia, ACG DO Brazil SA, ACG Capsules (Thailand) Co Ltd, ACG Capsules (Thailand) Co Ltd, ACG Associated Capsules Canada Ltd, ACG FZE, Centercorp and Vantage Nutrition LLP, collectively referred to as ACG Capsule group. This is because ACGAC owns a controlling stake in these subsidiaries with presence of intercompany transactions. ACGAC has also provided funding support to its subsidiaries.

Unsecured loans from the promoters (Rs 283.92 crore as on March 31, 2020) have been treated as neither debt nor equity in the presence of a track record of non-withdrawal for the three years ended fiscal 2020. The loans are to be retained in the business over the medium term.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Strong business risk profile marked by established position in the domestic and global capsules industry, supported by longstanding relationships with reputed clients:** The ACG Capsule group is one of the leading players in the domestic and international empty hard gelatin (EHG) capsules industry with growing global presence. One of the largest players in the world, the group has a capsule manufacturing capacity of around 115 billion units per annum spread across six plants located in India (4), Croatia (1) and Brazil (1). Presence in multiple locations aids proximity to customers, which acts as one of the critical considerations for global majors while selecting vendors.

The group's diversified customer portfolio consists of marquee clients such as Cadila Healthcare Ltd, Aurobindo Pharma Ltd, Alkem Laboratories Ltd, Sanofi S.A, among others. This also limits counter party risks to a large extent. Ability to supply large volumes of capsules as per client's specifications, customised solutions, value-added products, and innovation have strengthened the group's market position and reach.

The over six decades of experience of the promoters, their strong understanding of market dynamics and healthy relations with stakeholders will continue to support the business.

- **Sound operating efficiencies:** Over the years, on the back of continuous improvement in the manufacturing process and strong research and development (R&D), the group has added product variants such as Hydroxy Propyl Methyl

Cellulose (HPMC) type of capsules. Driven by high economies of scale, optimal capacity utilisation at most of the units, and steady and high profitability, the group has returned 15% plus consistently on the capital employed.

- **Geographical diversification in revenue:** The group caters to a large number of clients, both in India and abroad (over 100 countries) backed by strong distribution network owing to presence of subsidiaries in some major countries. Entry into new geographies and applications has enabled the group to receive incremental orders from existing customers as well as acquire new customers. Exports consistently account for 45-50% of the revenue. Diversity in geographic reach and clientele should continue to aid the business.
- **Strong financial profile:** Networth was robust estimated at above Rs 1800 crore as on March 31, 2021, while gearing was healthy estimated at sub 0.3 time on account of low reliance on external funds. The group's debt protection measures have also been adequate due to strong profitability; interest coverage ratio was estimated above 9 times for fiscal 2021. In the absence of any major debt funded capital expenditure (capex), debt protection metrics are expected to remain at similar levels over the medium term.

Weaknesses:

- **Working capital intensive operations:** Group's operations are working capital intensive on account of high debtors and moderate inventory levels. Gross current assets (GCA) is estimated to be around 180-200 days as on March 31, 2021. Debtors are estimated to be in range of 100-120 days. However this risk is partially mitigated by strong credit quality of customer. Further, healthy cash accruals and lower reliance on external debt further supports the financial flexibility to meet incremental working capital requirement.
- **Exposure to risk related to competition from other drug delivery formats in future:** Group is operating in evolving markets and might face substitutes and replacement products because of alternate/ new forms of drug delivery system, which can impact the market share and thus growth rate of hard gelatine capsules. However, these risks are mitigated by the group's ability to manufacture gelatin as well as HPMC capsules and improve manufacturing technology backed by R&D along with huge investment and long duration required for these alternate or new forms of drug delivery system.

Liquidity: Strong

Cash accrual, expected at Rs 450 crore each in fiscals 2022 and 2023 should comfortably cover yearly repayment obligation of Rs 130 crore and the surplus will support liquidity. Unencumbered cash and bank balance stood at Rs 99 crore as on March 31, 2020. The fund-based bank limits of Rs 46 crore remained unutilised in the 12 months ended April 2021. Capex plans of Rs 120-200 crore each in fiscals 2022 and 2023 is to be partly funded by debt and the remaining from internal accrual.

The liquidity is further supported by unsecured loans extended by the promoters to the tune of Rs. 283.92 crore as on March 31, 2021. This funding support is expected to continue over the medium term. Investment in bonds, debentures and liquid products stood at Rs 465 crore as on March 31, 2020. No further support to group entities (Rs 206 crore as on March 31, 2021) operating in other business segments is expected over the medium term, as the entities have turned self-sustainable.

Outlook: Stable

CRISIL Ratings believes ACG Capsule group will continue to benefit from its leadership position in a niche market, the extensive experience of its promoters, and established relationships with clients.

Rating Sensitivity factors

Upward factors

- Increase in revenue by over 30% and sustained operating margin of more than 30% results in healthy accrual
- Improvement in working capital cycle while maintaining financial risk profile

Downward factors

- Lower than expected revenue along with drop in earnings before interest, depreciation, tax and amortisation (EBIDTA) margin to below 26% due to increased competition or weaker-than-expected operating performance in new plants.
- Increase in working capital requirement, significant debt-funded capex or acquisition, or more-than-expected dividend pay-out, weakening the financial risk profile, particularly liquidity and debt (excluding unsecured loans from promoters) to EBIDTA increasing to above 2.5 times

About the Group

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Shirwal (Khandala)-while another is in Madhya Pradesh-Pithampur (Indore). The group also has facilities in Croatia and Brazil.

Key Financial Indicators (Consolidated)

As on / for the period ended March 31		2020	2019
Operating income	Rs crore	1576	1621
Reported profit after tax	Rs crore	167	242
PAT margin	%	10.6	14.9
Adjusted debt/Adjusted networkth	Times	0.30	0.32
Interest coverage	Times	8.30	9.34

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 crore)	Complexity level	Rating assigned with outlook
NA	Long Term Loan	NA	NA	Dec-26	190	NA	CRISIL AA/Stable

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
ACG Associated Capsules Private Limited	Full	ACGAC owns a controlling stake in subsidiaries with presence of intercompany transactions
ACG Europe Limited	Full	Subsidiary of ACGAC
ACG Lukaps D O O Croatia	Full	Subsidiary of ACGAC
ACG DO Brazil SA	Full	Subsidiary of ACGAC
ACG Capsules (Thailand) Co Limited	Full	Subsidiary of ACGAC
ACG Capsules (Thailand) Co Limited	Full	Subsidiary of ACGAC
ACG Associated Capsules Canada Limited	Full	Subsidiary of ACGAC
ACG FZE	Full	Subsidiary of ACGAC
Centercorp	Full	Subsidiary of ACGAC
Vantage Nutrition LLP	Full	Subsidiary of ACGAC

Annexure - Rating History for last 3 Years

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	190.0	CRISIL AA/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Name of Lender	Amount (Rs.Crore)	Rating
Long Term Loan	Kotak Mahindra Bank Limited	190	CRISIL AA/Stable

This Annexure has been updated on 24-Nov-2021 in line with the lender-wise facility details as on 22-Oct-2021 received from the rated entity.

Criteria Details

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[Rating criteria for manufacturing and service sector companies](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[CRISILs Criteria for Consolidation](#)

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