

**Rating Rationale**

April 10, 2023 | Mumbai

**ACG Associated Capsules Private Limited**

Rating migrated to 'CRISIL AA/Stable'; Rating Withdrawn

**Rating Action**

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.190 Crore</b>
<b>Long Term Rating<sup>&amp;</sup></b>	<b>CRISIL AA/Stable (Migrated from 'CRISIL BB+/Stable IssUER NOT COOPERATING<sup>+</sup>'; Rating Withdrawn)</b>

<sup>&</sup> Issuer did not cooperate; based on best-available information

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<sup>+</sup> 1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

**Detailed Rationale**

Due to inadequate information, CRISIL Ratings, in line with SEBI guidelines, had migrated the rating of ACG Associated Capsules Private Limited (ACGAC) to 'CRISIL BB+/Stable/Issuer Not Cooperating'. However, the management has subsequently started sharing requisite information, necessary for carrying out comprehensive review of the rating. Consequently, CRISIL Ratings is migrating the rating on bank facilities of ACGAC from 'CRISIL BB+/Stable Issuer Not Cooperating' to '**CRISIL AA/Stable**' and subsequently **withdrawn** the ratings at the company's request and on receipt of a no-objection certificate from the bankers. The withdrawal is in line with CRISIL Ratings' policy on withdrawal of bank loan ratings.

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 411.85 crore as on March 31, 2022) have been treated as neither debt nor equity in the presence of a track record of non-withdrawal for the three years ended fiscal 2022. 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 marque 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 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: An of March 31,2022** network was robust at Rs 2400 crore, while gearing was healthy at 0.14 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 above 15 times for fiscal 2022. Gearing is expected to be sub 0.1 time as on March 31, 2023. Further, debt protection metrics is expected to improve in fiscal 2023. Though group has debt funded capital expenditure (capex) plan, capital structure is expected to remain comfortable..

**Weakness:**

**Working capital intensive operations:** Group's operations are working capital intensive on account of high debtors and moderate inventory levels. Gross current assets (GCA) were around 156 days as on March 31, 2022. Debtors are at 98 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. Operations are expected to be working capital intensive over medium term with similar Gross current assets.

**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 800 crore each in fiscals 2022 and 2023 should comfortably cover yearly repayment obligations and the surplus will support liquidity. Unencumbered cash and bank balance stood at Rs 800 crore as on March 31, 2022. The fund-based bank limits of Rs 46 crore remained unutilised in the 12 months ended November 2022. Capex plans in fiscals 2023 and 2024 is to be partly funded by debt and the remaining from internal accrual. On group level cash and bank balances (unencumbered in nature) of Rs.1000 Crores are maintained which can be used in case of any exigency

The liquidity is further supported by unsecured loans extended by the promoters to the tune of Rs. 411.85 crore as on March 31, 2022. This funding support is expected to continue over the medium term.

**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**

- Healthy revenue growth over 25% per annum over the medium term, coupled with sustained margins above 32%, resulting in higher-than-expected net cash accruals
- Improved working capital cycle and debt protection metrics coupled with sustained capital structure and enhanced financial flexibility

**Downward Factors**

- Decline in revenue or moderation in operating margins to below 25% leading significant decline in net cash accruals
- Stretch in working capital cycle or significant debt funded capex or large dividend leading to weakening of financial risk profile

**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.

**Key Financial Indicators**

As on/for the period ended March 31	Unit	2022	2021
Operating income	Rs crore	2,458.19	1,996.69
Reported profit after tax	Rs crore	571.98	312.26
PAT margin	%	23.38	15.80
Adjusted debt/Adjusted networth	Times	0.14	0.24
Interest coverage	Times	13.89	11.10

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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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	NA	190	NA	CRISIL AA/Stable (Rating Migrated and withdrawn)

**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	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Fund Based Facilities	LT	190.0	CRISIL AA/Stable (Rating Migrated and Withdrawn)		--	07-10-22	CRISIL BB+ /Stable (Issuer Not Cooperating)*	20-07-21	CRISIL AA/Stable		--	--

All amounts are in Rs Cr.  
\* - Issuer did not cooperate; based on best-available information

**Annexure - Details of Bank Lenders & Facilities**

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

This Annexure has been updated on 10-Apr-23 in line with the lender-wise facility details as on 22-Oct-21 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](#)
- [Assessing Information Adequacy Risk](#)
- [CRISILs Criteria for Consolidation](#)
- [Understanding CRISILs Ratings and Rating Scales](#)

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