

ACG Associated Capsules Private Limited

October 18, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	228.00 (Enhanced from 38.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total bank facilities	228.00 (₹ Two hundred twenty-eight crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the long-term rating of the bank facilities of ACG Associated Capsules Private Limited (ACPL) factors-in its long track record of operations for over six decades, its strong business profile, the established market position in manufacturing of capsules in drug administration, both domestically and globally, across product categories, and the reputed clientele with long-standing relationships. The rating further derives strength from the steady growth in the total operating income (TOI) of the company along with healthy profitability margins reported by it during FY20-FY22 (refers to the period from April 01 to March 31), the comfortable capital structure as on March 31, 2022, and the strong debt coverage indicators. The rating also factors-in the availability of strong liquidity in the form of cash and liquid investments of around ₹861 crore as on March 31, 2022 (on a standalone level) and prepayment of significant amount of term debt during FY22. Additionally, the extensive and strategic research and development (R&D) investments, strong operating efficiencies, diversified geographic presence and favourable industry outlook bodes well for the company. That said, the rating strengths are partially offset by the regulatory risks associated with the different geographies, the working capital-intensive nature of operations and the increase in the market share by the alternative form of drug administration over the medium to long-term.

The rating also takes into consideration the ongoing capex for the hydroxypropyl methylcellulose (HPMC) capsule raw material unit at Maharashtra and the HPMC capsule manufacturing unit at Gujarat, at an estimated cost of ₹840 crore. The project upon execution would help in backward integration in HPMC capsule manufacturing and augment the production capacity of HPMC capsule.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent growth in the TOI by about 15% and maintaining PBILDT margins over 26%.
- Maintaining an overall gearing below 0.2x and working capital cycle not going beyond 120 days on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Credit metrics deteriorating significantly because of large debt-funded capex or acquisitions with overall gearing increasing beyond 0.5x.
- Significant weakening of the liquidity profile of the company from the current levels.

Detailed description of the key rating drivers

Key rating strengths

Long track record of operations for over six decades with strong business profile: Established in 1961, ACPL has a long track record of operations of over six decades. By virtue of being in the industry for a long period, the company has developed strategic and dependable alliances with leading domestic and global pharmaceutical players. The company has an established presence in the market for both, gelatines as well as HPMC-based capsules. Together with integrated manufacturing solutions, these further augmented ACPL's growth, making it one of the world's largest capsule manufacturers, and Asia's largest.

ACG capsule segment - Diversified product range: ACPL offers a diversified product range across multiple business segments. The company manufactures two types of capsules – hard gelatine capsule and hard cellulose-based vegetarian capsule shells. However, within these two types, there are various sub-types of capsules, which find applications in liquid/semi-liquid filling capsules, pastes and combination filling capsules, dry powder filling capsules, time delay release, clinical trial capsules, cosmetic and lifestyle products. Over the years, ACPL has adapted itself to the changing market dynamics with various forms of complex formulations, the vegetarian options (HPMC capsules), and even the nutraceuticals and cosmetics. The cellulose segment witnessed volume-led growth in the total sales in FY22. The total cellulose sales increased 15% y-o-y from ₹420 crore in FY21 to ₹485 crore in FY22.

Geographical distribution and low client concentration risk: The company's revenues are geographically well diversified with approximately half of its revenues coming from exports. By virtue of being in the industry for over five decades has fetched

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

the company in garnering incremental orders from current as well as new addition of prospective clients, and the trend is expected to continue. During FY22, the domestic market contributed about 52% of the TOI on a standalone basis, while US (21%), Europe (7%), Bangladesh (3%), Brazil (2%) and others (13%) contributed about 48%, thus making the revenue profile geographically diversified. Furthermore, the company has over 200 customers in its portfolio; however, the top five non-group company customers contributed only about 7%. The company caters to some reputed clients, including Sun Pharmaceuticals Industries Ltd, Dr Reddy's Laboratories Ltd, Aurobindo Pharma Ltd, Cadila Ltd, Alkem Laboratories Ltd, etc.

Steady growth in TOI of the company along with healthy profitability margins: ACPL, during FY18-FY22, exhibited healthy growth in TOI at a compounded annual growth rate (CAGR) of about 12%, growing from ₹1,395 crore in FY18 to ₹2,454 crore in FY22. Furthermore, with improvement in realisation, along with deriving benefits from the economies of scale, the company has reported improvement in PBILDT and PAT margins to 28% and 24%, respectively, in FY22 from 25% and 16%, respectively, in FY21.

Strong financial and liquidity profile: The company has a strong financial profile as indicated by a robust tangible net worth (TNW) of ₹2,489 crore at the end of FY22 (PY: ₹1,928 crore). The overall gearing improved to 0.29x as on March 31, 2022 (PY: 0.41x), due to prepayment of debt in FY22 and increase in the net worth. Interest coverage (PBILDT / Interest) remained comfortable at 12.54x in FY22 (PY: 11.10x). Moreover, healthy topline growth, strong profitability and ample cash flow will help meet future expansion plans. However, these indicators might witness some deterioration from the ongoing debt-funded capex.

Ongoing capex for HPMC capsules at Maharashtra and Gujarat: ACPL is currently executing two projects, viz., HPMC capsule raw materials manufacturing unit at Maharashtra and HPMC capsule manufacturing unit at Gujarat at an estimated cost of ₹840 crore. The projects are proposed to be funded with a debt of ₹674 crore and balance with promoters' contribution. The projects are currently at nascent stages with around ₹88 crore incurred as on September 30, 2022. The project upon execution would help in backward integration by providing 1900 MT of raw material and augment HPMC capsule production capacity by 20 billion. The impact of increase in the debt levels due to the ongoing capex is expected to be partially set off by the expected cash accruals from existing operations. Going forward, the product mix of the company is expected to become skewed towards HPMC cellulose in line with the increased demand of HPMC capsules across the globe.

Key rating weaknesses

Working capital intensive nature of operations: Historically, ACPL's operations are working capital intensive with the debtors' days in the range of 90-120. In FY22, the debtors' days improved to 80 days. However, this risk is mitigated by strong credit quality of the debtors. Moreover, with low reliance on external debt, working capital requirements are adequately funded by internal accruals and trade payables, providing additional financial flexibility. The operating cycle remained stable at 99 days (PY: 99 days). The collection period improved further (from 89 days in FY21 to 80 days in FY22), while the inventory days increased to 56 days (PY: 50 days) as the company is required to maintain substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. The creditors are paid in about 35-40 days.

Competition from alternative drug delivery formats: The market is continuously evolving with new substitutes and products, which might impact the market share of both gelatine and cellulose-based capsules. However, with continuous innovation and extensive R&D facilities, the company has been agile to adapt itself to new products, building capability and capacity around it.

Foreign exchange fluctuation risk: On a consolidated basis, the company is an export-oriented company with around 50% of its overall revenues being earned in foreign currency mainly denominated in USD (US Dollar), Pound Sterling and Euro. The company enters derivative financial instruments with various counterparties, including foreign exchange forward contracts, Interest rate swaps and cross currency interest rate swaps. Moreover, there is a partial natural hedge available as the company's receivables and borrowings are in US Dollars and Euro.

Liquidity: Strong

ACPL's liquidity remains strong marked by nil utilisation of its fund-based working capital limits on a standalone basis during last 12 months ended August 2022, cash and liquid investments of around ₹861 crore as on March 31, 2022 (on a standalone level) and healthy cash flow from operations of around Rs. 251 crore during FY22. ACG has scheduled term-debt repayment obligation of around ₹26.56 crore during FY23, of which the company has already repaid to the extent of ₹15.54 crore during H1FY23. Furthermore, it expects to incur capex of around ₹840 crore in next three years towards the greenfield projects for cellulose capsule and its raw material manufacturing. ACG's internal accruals are expected to remain adequate to meet its term-debt repayment obligation, and capex requirement. Furthermore, its un-utilised working capital limits imparts additional liquidity cushion. This apart, its healthy net worth base and comfortable leverage provides significant financial flexibility to ACG.

Analytical approach

CARE Ratings Limited (CARE Ratings) has analysed ACPL's credit profile by considering the consolidated financial statements owing to the financial and operational linkages between the parent and subsidiaries and common management. The subsidiaries of ACPL, which have been consolidated, are mentioned under Annexure-6.

Applicable criteria

[Policy on default recognition](#)
[Consolidation](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Credit Watch](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company

Incorporated in 1961, ACG Associated Capsules Private Limited (ACPL) is one of the world's largest and well-equipped modern manufacturers of empty hard gelatine capsules, hydroxypropyl methylcellulose (HPMC) capsules (derived from natural plant sourced cellulose) and speciality capsules (application-based, for cosmetic and lifestyle products). Headquartered in Mumbai, ACPL has factories in multiple locations, including India, Europe, and Brazil. It caters to the pharmaceutical, nutraceutical and dietary supplement industries across 138 countries. The company is founded and managed by Ajit Singh and Jasjit Singh, and is currently managed majorly by Karan Singh. It generates majority of its revenue from the sale of gelatine capsules; and sold over 100 billion of gelatine (74%) and HPMC capsules (26%) in FY22 (refers to the period April 1 to March 31). With a total annual capacity of 120 billion (capacity utilisation consistently above 90% peaking-up to 100%), majority of these capsules are produced at ACPL's five state-of-the-art manufacturing plants in Mumbai, India.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23 (UA)
TOI	1998	2454	527
PBILDT	490	677	170
PAT	315	596	113
Overall gearing (times)	0.41	0.29	NA
Interest coverage (times)	11.10	12.54	NA

A: Audited, P: Provisional, UA: Unaudited, NA: Not available

Status of non-cooperation with previous CRA:

The rating of the company migrated to 'CRISIL BB+ /Stable (ISSUER NOT COOPERATING; Migrated from 'CRISIL AA/Stable')' vide their press release dated October 07, 2022, on account of inadequate information.

Any other information:

Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-Long term	-	-	-	August 2026	228.00	CARE AA+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long term	LT	228.00	CARE AA+; Stable	-	1)CARE AA+; Stable (15-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities – Not applicable**Annexure-4: Complexity level of various instruments rated for this company**

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long term	Simple

Annexure-5: Bank lender details for this companyTo view the lender wise details of bank facilities please [click here](#)**Annexure-6: List of subsidiaries considered for consolidation**

Name of companies/ Entities	% of holding
ACG Europe Ltd.	100%
ACG Europe D.O.O, Croatia	100%
ACG Associated Capsules Philippines Inc	100%
ACG Cellulose Pvt Ltd	100%
ACG Sports Pvt Ltd	100%
Gel Strength Company Ltd., Thailand	100%
PT. ACG Indonesia	100%
Vantage Nutrition LLP	99%
ACG DO Brazil S.A.	100%
ACG Capsules (Thailand) Co. Ltd	100%
ACG Capsules Canada Limited	100%
ACG (FZE) - Dubai	100%
ACG Universal Capsule Pvt Ltd	51%
ACG Gelatin Pvt Ltd	100%
Centercorp	65%

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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