

January 19, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF ZUVENTUS HEALTHCARE LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	41.57	CARE A+ (Single A Plus)	Reaffirmed
Short-term Bank Facilities	5.00	CARE A1 (A One)	Reaffirmed
Long-term/Short-term Bank Facilities	15.00	CARE A+/CARE A1 (Single A Plus/ A One)	Reaffirmed
Total Facilities	61.57 (Rupee Sixty One crore and Fifty Seven lakh only)		

Rating Rationale

The ratings assigned to the bank facilities of Zuventus Healthcare Limited (ZHL) continue to take into account the comfortable consolidated financial risk profile of the Emcure group marked by growth in total operating income and improvement in the capital structure during FY15 (refers to the period April 1 to March 31). The ratings further take into account stabilization of operations of the group companies in various geographies and lower then envisaged impact of US-Food and Drug Administration (USFDA) ban on the Hinjewadi plant of EPL on the consolidated revenue and profitability of the group during H1FY16 (refers to the period April 01, 2015 to September 30, 2015).

The ratings assigned continue to derive strength from experience and long track record of the promoters of over three decades and accredited manufacturing facilities along with diversified product portfolio with new launches and long-term contracts with the pharmaceutical majors.

The ratings, however, are constrained by the intense competition in the generic formulations industry along with regulatory risk inherent in the pharmaceutical industry. The ratings further take a note of the ongoing debt funded capital expenditure (capex) in group companies and debt funded acquisitions of two Canada based pharmaceuticals companies.

The ability of the group to further increase its scale of operations by expanding its footprint in regulated markets and therapeutic segment, while maintaining its leverage and coverage indicators, improvement in the profitability margins and efficient management of working capital are the key rating sensitivity.

Background

Zuventus Healthcare Ltd. (ZHL) was incorporated in May 27, 2002 as a public limited company through a Joint Venture between the promoters [Mr Prakash Kumar Guha (JMD), Mr C V Shetty, and Mr S Balasubramaniam] and Emcure Pharmaceuticals Ltd. (EPL; rated 'CARE AA-', 'CARE A1+'; in the ratio of 22:78). ZHL is a part of Emcure group based out of Pune. The primary business of ZHL was to market the products of its holding company, Emcure Pharmaceuticals Ltd. (EPL). Subsequently, ZHL started selling its own brand of pharmaceutical products in the domestic market by outsourcing its

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

manufacturing activities to the third party contract manufacturers either on Loan License (LL) basis or Principal to Principal (P2P) basis. ZHL has set up a manufacturing plant at Jammu, which commenced commercial operations on July 23, 2011 for manufacture of formulations. The plant at Jammu has an installed capacity of 36,000,000 nos. per annum for tablets, 1,800,000 kgs per annum for dry powder suspension and 15,300,000 nos. per annum for vials. Some of the major therapeutic (anti-infective, reparatory and nutritional) products manufactured at Jammu plant are C-TAX, Augtax, C-TRI, Monobact, SCUD and ZOSTUM in injections, CTAX-O drops and CTAX-O, ZOSTRUM and POLARES in tablets. The products manufactured at Jammu plant were earlier outsourced completely from various vendors on a P2P basis.

ZHL is managed by a seven-member Board with Mr Satish Mehta being the Chairman and Mr P K Guha the Managing Director.

ZHL is in the process of setting up a new manufacturing facility at Sikkim and the same is expected to cost around Rs.75 crore during FY16 and FY17 to be funded through term debt of Rs.52.50 crore.

ZHL is a part of Emcure group which is vertically-integrated with major thrust on manufacturing and marketing of formulations (own brands) as well as APIs, Contract Research and Manufacturing Services (CRAMS) and R&D activity. The group's branded formulation business caters to the regulated as well as the semi regulated markets. The group has presence in most of the chronic therapeutic segments such as Cardiology, Nephrology, Anti-HIV, and Neurology and also has presence in acute segments such as Anti-infective, Pain Management, Dermatology, Gynecology and Pediatrics.

On April 29, 2011, EPL acquired Heritage Pharmaceuticals Inc. (HPI) through its subsidiary Emcure Pharmaceuticals Holding USA (Emcure Holding). The acquisition was through a reverse merger of Emcure Holding and Heritage Pharma Holdings Inc (holding company of HPI). Also, during December 2012, EPL acquired worldwide rights of 'BiCNU', a branded oncology product from Bristol Myers Squibb (BMS), a US-based company.

During April 2014, the group acquired a marketing company named Tillomed Holdings Limited in Europe along with its subsidiary Tillomed Laboratories Limited for an acquisition price of GBP 8.7 million. Furthermore, during November 2015, Emcure group acquired two Canada-based pharmaceuticals companies [ie, International Pharmaceutical Generics Limited (IPG) and Marcan Pharmaceuticals Inc (Marcan)] through its 100% subsidiary Emcure Pharmaceuticals Canada Inc. {Special Purpose Vehicle (SPV) formed in August 2015} for total consideration of around Canadian Dollar (CAD) 125 million to be paid over a period of five years.

The Emcure group (as on March 31, 2015) consists of twelve direct subsidiaries and six indirect (step down) subsidiaries located at various regulated and emerging markets including USA, UK, Dubai, Nigeria, Brazil, South Africa, Mexico, Peru, Turkey and Canada. It has liquidated its subsidiary located at Singapore (Emcure Pharmaceuticals Singapore PTE Ltd) with effect from February 2015. Furthermore, majority of the subsidiaries of EPL are engaged in trading and marketing of products manufactured by EPL across various geographies.

For FY15 (refers to the period April 1 to March 31), the Emcure group's consolidated total income stood at Rs.3,784.73 crore and a PAT of Rs.261.06 crore against a total income of Rs.2,906.0 crore and a PAT of Rs.267.94 crore in FY14. The lower PAT in FY15 is on account charging of one time exceptional item (prior period product development cost) amounting to Rs. 243 crore. The standalone total income of EPL stood at Rs.2,059.88 crore and a PAT of Rs.206.67 crore during FY15.

During H1FY16 (provisional) (refers to the period April 1 to June 30), the group has achieved a total income of Rs.2,188.34 crore as against Rs.1,866.95 crore in H1FY15.

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