Emcure Pharmaceuticals Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,075.44 (Enhanced from 972.84)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Positive (Single A; Outlook: Positive)
Long Term / Short Term Bank Facilities	1,286.00 (Enhanced from 1,064.45)	CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable/ A One)	Revised from CARE A; Positive / CARE A1 (Single A ; Outlook: Positive / A One)
Short Term Bank Facilities	254.00 (Reduced from 676.50)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**2,615.44 (₹ Two Thousand Six Hundred Fifteen Crore and Forty-Four Lakhs Only)**		
Non Convertible Debentures	200.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Positive (Single A; Outlook: Positive)
Total Long Term Instruments	**200.00 (₹ Two Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Emcure Pharmaceuticals Limited (Consolidated, hereafter referred to as EPL/ Group) takes into cognizance the operational performance in FY22 (audited, refers to April 1 to March 31) backed by strong revenue growth in domestic and Europe markets. The ratings factor in the demerger of US business to focus on overall business with market specific approach while de-risking the existing company against any potential litigations in the US entities post demerger. The company will continue to cater to regulated markets other than US markets, hence the revenue profile of the existing company is not expected to be impacted and growing sales in remaining markets are expected to offset the loss of revenue on account of demerger in the future. The ratings continue to derive strength from long track record and promoters' vast experience of over four decades in the pharmaceutical industry, accredited manufacturing facilities along with diversified product portfolio across therapeutic segments; different geographies, long-term contracts with the pharmaceutical majors, consistent growth in sales in the domestic and European markets. The rating strengths continue to remain constrained by the moderate albeit improving capital structure, regulatory risks associated with the various geographies in which EPL operates and exposure to foreign exchange fluctuations. The rating assigned also takes into account HDT Bio Corp (HDT) filing a lawsuit in US against EPL and an arbitration suit against Gennova Biopharmaceuticals Limited (GBL), a subsidiary of EPL, in London. Any adverse outcome on account of the said lawsuit and arbitrations leading to significant financial liability would be critical from credit risk point of view and shall remain a key monitorable.

Rating sensitivities

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

- Resolution of pending regulatory issues and realization of envisaged benefits out of expenditure incurred on Research and Development activities and capex across group companies.
- Maintenance of overall PBILDT margin above 20% on sustained basis.
- Significant Improvement in financial risk profile with overall gearing ratio falling below 0.60x on consistent basis.

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

- Any deterioration in the capital structure because of incremental debt constraining debt service coverage ratio below 1.2x and overall gearing ratio increasing to 1.40x on sustained basis at consolidated level.
- PBILDT margin falling below 15% on a sustained basis.
- Any regulatory action other than ongoing, against EPL, significantly impairing the credit profile of the group.

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

Detailed description of the key rating drivers

Key rating strengths

Experienced management and successful track record of the group in pharmaceutical industry

The promoters have more than four decades of experience in the pharmaceutical industry. The CEO of the company, Mr. Satish Mehta is a first generation entrepreneur with an experience of over four decades in the field of pharmaceuticals. Ms. Namita Thapar (MBA from Duke University (Fuqua) School of Business, US & Chartered Accountant, ICAI), looks after India Business. The Company also have strong professionals leading various key aspects of business, including Dr. Mukund Gurjar and Dr. Deepak Gondaliya. Dr. Mukund Gurjar is Chief Scientific Officer. He has over three decades years of experience in pharmaceutical sciences, during which he was involved in advanced research in organic chemistry at the National Chemical Laboratory for 25 years and is a fellow at various national and international academics. Dr. Deepak Gondaliya has over two decades of experience in formulation R&D.

Diversified product portfolio with focus on chronic high-value segments

The group is vertically integrated, manufacturing APIs and formulations and is also involved in the bio-pharma drugs. Under formulations, EPL has presence in the high value chronic therapy as well as in acute segments. The company's products are diversified across chronic and acute segments like cardiology, oncology, nephrology, anti-HIV, anti-infective, pain management, anemia, gynaecology, anti retrovirals, pediatrics, etc. The company has launched multiple products in recent years mainly in the segments of Anti-Neoplastics, Gynaecological, Anti-infectives, Derma, Anti-Diabetics, Analgesics, Neuro/CNS, Respiratory, Cardiac, Hormones etc thereby expanded its presence in varied segments.

Accredited manufacturing facilities with well-equipped R&D facility

Out of the group, EPL, Gennova Biopharmaceuticals Limited (GBL) and Zuventus Healthcare Limited (ZHL) have manufacturing facilities while other subsidiaries are engaged in warehousing and marketing of drugs manufactured by EPL or other companies in various geographies.

The Company has 14 manufacturing facilities across India which are capable of producing pharmaceutical and biopharmaceutical products of a wide range of dosage forms, including oral solids, oral liquids, injectables including lipid, liposomal, lyophilized injectables, biologics, vaccines and complex APIs, including chiral molecules and cytotoxic products. The facilities have obtained approvals from various regulatory bodies including, among others, the USFDA, MHRA (United Kingdom), Health Canada, EDQM (Europe), TGA Australia, ANVISA Brazil, HALMED Croatia and cGMP India.

Geographical diversification coupled with growth in domestic and European markets

The group has a wide geographical presence with sales to more than 60 countries globally, and has an overall healthy mix of exports, providing the group geographic diversification. The group is further expanding its presence in various emerging markets. The group has a strong sales and marketing team both within India and outside the country. The group has an established marketing network through channel partners in the international markets and C&F agents within domestic market. The geographically diversified nature of revenues significantly reduces the exposure of the company towards any adverse economic slowdown in any single geography. Over the years, the group has established its presence in domestic markets through EPL, GBL, and ZHL and in international markets through overseas acquisitions. The group has seen reasonable growth in sales in domestic, European and Canadian market over the past few years.

Improvement in scale of operations and capital structure during FY22, albeit with moderation in profitability

In FY22, the company witnessed growth of around 16% by clocking income from operations of around Rs. 5812 crore as against Rs. 5017 crore during FY21. This is majorly driven by strong growth of 28% and 22% in domestic and European markets. PBILDT and PAT margin of the company during FY22 moderated marginally to 22% and 12% respectively as against PBILDT and PAT margin of around 24% and 10% respectively during FY21 due to increased clinical trials expenses and raw material prices. Overall gearing and debt to equity ratio of the Company improved to 1.17x and 0.59x respectively as on March 31, 2022 from 1.25x and 0.61x respectively as on March 31, 2021. Improvement is owing to improved operational performance of the Company leading to increase in networth base and marginal reduction in total debt of the group.

Improvement in financial risk profile and de-risking from ongoing regulatory encumbrances as consequence of demerger of US based subsidiary

The NCLT by its order dated June 4, 2021 has sanctioned the scheme of de-merger wherein the Company has divested all of its holdings in US operations, including Heritage Pharma Holdings Inc. and its wholly-owned subsidiaries, Heritage Pharmaceutical Labs Inc., Heritage Pharmaceuticals Inc. and Hacco Pharma Inc., into the resulting entity, Avet Lifesciences Private Limited (Avet), which is effective from April 1, 2021. US business has witnessed a considerable dip in its margins over the last few years with loss of Rs. 188.66 crore in FY21.

Key rating weaknesses

Moderately high albeit reducing debt levels

The Capital structure as on March 31, 2022 improved with overall gearing coming down to 1.17x as on March 31, 2022 as against 1.25x as on March 31, 2021. The gearing level remained moderately high due to debt funded capex and acquisition of brands/companies over the recent years as well as higher reliance on external debt to fund working capital requirements.

Nevertheless, with improved scale of operational during FY22, prepayment of loans and company gradually realizing synergy from various acquisitions made during past few years, the gearing levels are expected to improve in the future.

Intense competition and exposure to regulatory risk inherent in pharmaceutical industry
The company faces intense competition in the domestic as well as international markets. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. In India too, government policies have played key role in performance of companies such as explicit control on drug prices in the form of drug price control order (DPCO). Further, the patent laws and related regulations might hamper company's plans to launch new products and cater to new markets.

Foreign exchange fluctuation risk
The group generates majority of its foreign currency revenues denominated in USD, Euro, GBP and CAD. Any fluctuation in foreign currency rates may have an impact on the financials of the Company. However, trade payables and loans in foreign currency are hedged naturally against the foreign currency receivables.

Ongoing lawsuit and arbitration case against the company
A Seattle based biopharma company, HDT Bio Corp (HDT) has filed a lawsuit against Emcure Pharmaceuticals Limited on March 21, 2022 at the US District court at the state of Washington. Besides, an arbitration suit has been filed by HDT against Gennova Biopharmaceuticals Limited in the London Court of International Arbitration. In these cases, HDT has claimed that EPL and GBL have stolen HDT's intellectual property which breaches the License Agreement and constitutes misappropriation of HDT's billion-dollar trade secrets. HDT has sought compensatory damages in excess of USD 950 million. As per Emcure's management, Emcure Pharma has no connection with the matter, and it has been wrongly named as a party. In so far as Gennova is concerned, management have stated that there is no contravention of breach on any contractual obligations or provisions of law and they are working to address the matter and bring it to closure as the matter is to be decided through the arbitration. Any adverse outcome on account of the said lawsuit and arbitrations leading to significant financial liability would be critical from credit risk point of view and shall remain a key monitorable.

Liquidity: Adequate

The fund based working capital utilization remained high at around 93% for past 12 months ending October 2022. Nevertheless, group's internal cash accruals, cash and bank balance and unutilized working capital limits provide adequate buffer to cover the scheduled debt obligations in medium term. The company is expected to generate gross accruals around Rs. 930 crore in FY23, against which the company has Rs. 293 crore of term debt obligations. As on December 29, 2022 the company has already repaid around Rs. 200 crore of debt obligations.

Analytical approach

CARE Ratings has considered consolidated financials of the Emcure Group including EPL and its subsidiaries as on March 31, 2022 on account of exposure of EPL to group companies in terms of corporate guarantee and similar line of business and management. Furthermore, the majority of the subsidiaries of EPL are engaged in the trading and marketing of products manufactured by EPL across various geographies. As a result of similar line of business and inter group transactions, consolidated view has been considered. CARE Ratings has also considered in its analysis the corporate guarantee extended to Avet for USD 65 million stand by letter of credit availed by Avet.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company

Emcure Pharmaceuticals Limited (EPL) was incorporated in April 1981 as a Private Limited Company and is engaged in manufacturing of pharmaceuticals products (mainly formulations). The company has major thrust in the areas of manufacturing and marketing of formulations which contributes 73% revenue of EPL along with APIs, Contract Research and Manufacturing Services. It has presence in multiple therapeutic segments with gynaec, cardiac and ant infective segments being the company's forte with famous brands like orofer, metpure, elaxim etc. Over the last 5 years the group has derived 45%-55% revenue from India and remaining from other parts of the world with a growing focus on emerging market.

Brief Financials (₹ crore)	March 31, 2021 (A)*	March 31, 2022 (A)*	H1FY23 (UA)*
Total operating income	5016.55	5812.35	2789.00
PBILDT	1199.35	1287.27	547.68
PAT	607.25**	702.56	371.39
Overall gearing (times)	1.25	1.17	NA
Interest coverage (times)	8.02	7.46	NA

A: Audited, UA: Unaudited, NA: Not Available, *Excluding US business which is carved out to Avet, **PAT of Rs. 418.59 crore including US business

Status of non-cooperation with previous CRA:
Not applicable

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
Debentures-Non Convertible Debentures	-	Proposed	NA	Proposed	200.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	30-03-2027	1075.44	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	1054.00	CARE A+; Stable / CARE A1
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	100.00	CARE A+; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	-	132.00	CARE A+; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	254.00	CARE A1

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 - LT-Term Loan	LT	1075.44	CARE A+; Stable	1)CARE A; Positive (05-Apr-22)	1)CARE A; Positive (07-Jan-22)	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (23-Jan-20) 2)CARE A; Negative (16-Sep-19)
2	Non-fund-based - ST-BG/LC	ST	254.00	CARE A1	1)CARE A1 (05-Apr-22)	1)CARE A1 (07-Jan-22)	1)CARE A1 (08-Jan-21)	1)CARE A2+ (23-Jan-20) 2)CARE A2+

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
								(16-Sep-19)
3	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	1054.00	CARE A+; Stable / CARE A1	1)CARE A; Positive / CARE A1 (05-Apr-22)	1)CARE A; Positive / CARE A1 (07-Jan-22)	1)CARE A; Stable / CARE A1 (08-Jan-21)	1)CARE A-; Stable / CARE A2+ (23-Jan-20) 2)CARE A; Negative / CARE A2+ (16-Sep-19)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	132.00	CARE A+; Stable / CARE A1	1)CARE A; Positive / CARE A1 (05-Apr-22)	1)CARE A; Positive / CARE A1 (07-Jan-22)	1)CARE A; Stable / CARE A1 (08-Jan-21)	1)CARE A-; Stable / CARE A2+ (23-Jan-20) 2)CARE A; Negative / CARE A2+ (16-Sep-19)
5	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	100.00	CARE A+; Stable / CARE A1	1)CARE A; Positive / CARE A1 (05-Apr-22)	1)CARE A; Positive / CARE A1 (07-Jan-22)	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (23-Jan-20) 2)CARE A; Negative (16-Sep-19)
6	Debentures-Non Convertible Debentures	LT	200.00	CARE A+; Stable	1)CARE A; Positive (05-Apr-22)	1)CARE A; Positive (07-Jan-22)	1)CARE A; Stable (08-Jan-21)	-

*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	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure – 6: List of subsidiaries consolidated as on March 31, 2022

	Name	% Holding as on March 31, 2022
	Direct subsidiaries	
1	Gennova Biopharmaceuticals Ltd	87.95
2	Zuventus Healthcare Ltd	79.58
3	Emcure Nigeria Ltd	100.00
4	Emcure Pharmaceuticals Mena FZ LLC	100.00
5	Emcure Pharmaceuticals South Africa Pty Ltd	100.00
6	Emcure Brasil Farmaceutica Ltd	100.00
7	Emcure Pharma UK Ltd	100.00
8	Emcure Pharma Peru SAC	100.00
9	Emcure Pharma Mexico S.A DE C.V	100.00
10	Emcure Pharmaceuticals Pty Ltd	100.00
11	Marcan Pharmaceuticals Inc	100.00
12	Emcure Pharma Chile SpA	100.00
13	Lazor Pharmaceuticals Limited	100.00
14	Emcure Pharma Philippines Inc*	100.00
Indirect Subsidiaries		
15	Tillomed Laboratories Ltd	100.00
16	Tilomed Pharma GmbH	100.00
17	Laboratorios Tilomed Spain SLU	100.00
18	Tilomed Italia SRL	100.00
19	Tillomed France SAS	100.00
20	Tillomed Laboratories BV	100.00
21	Tilomed d.o.o.**	100.00

* Emcure Pharma Philippines was incorporated on May 07, 2021
** Tilomed d.o.o., a direct subsidiary of Emcure Pharma UK Ltd was incorporated on August 06, 2021

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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About us:
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