Zuventus Healthcare Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1.00 (Reduced from 5.00)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Long Term / Short Term Bank Facilities	1.00 (Reduced from 5.00)	CARE A+; Stable / CARE A1 (Single A Plus ; Outlook: Stable/ A One)	Revised from CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)
Short Term Bank Facilities	10.00 (Reduced from 15.00)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**12.00 (₹ Twelve 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 Zuventus Healthcare Limited (ZHL) factor robust financial performance during FY22 with significant improvement in total operating income and profitability margins. The ratings continue to derive strength from the management's experience and long track record in the pharmaceutical industry, accredited manufacturing facilities, diversified product portfolio and strong marketing and distribution network, improvement in profitability margins and comfortable capital structure. The above rating strengths remain constrained by intense competition in the generic formulations industry along with regulatory risk inherent in the pharmaceutical industry.

Rating sensitivities

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

- Improvement in the overall financial risk profile of the parent company "Emcure Pharmaceuticals Limited" (EPL).
- Improvement by achieving total operating income more than Rs. 1500 crore while maintaining PBILDT margin of about 20% on sustained basis.
- Significant improvement in the free liquidity buffer of the company.

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

- Any deterioration in capital structure as a result of incremental debt constraining debt service coverage ratio falling below 2x and overall gearing ratio increasing to 0.40x on sustained basis.
- Any extension of funding support to related parties resulting in substantially deteriorating the credit profile of the company in the future.
- Any regulatory action against the company significantly impairing the credit profile of the company.
- Any downward movement in the credit risk assessment of the parent company, EPL.

Detailed description of the key rating drivers

Key rating strengths

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

ZHL is the part of Emcure Group, one of the leading pharmaceutical companies based out of Pune. The group is engaged in the manufacturing of APIs (Active Pharmaceutical Ingredients), formulations as well as Research & Development (R & D). The group has presence in domestic as well as regulated and other emerging markets. EPL is the flagship company of the group and holds 79.58% stake in ZHL. The promoters have more than four decades of experience in the pharmaceutical industry. The CEO of EPL, the flagship company, Mr Satish Mehta is a first-generation entrepreneur with an experience of over 4 decades in the field of pharmaceuticals.

Significant improvement in sales and profitability marked by growing scale of operations.

The company's financial performance during FY22 improved significantly. Income from operations improved by around 30% from Rs. 812 crores during FY21 to Rs. 1052 crores during FY22 due to increase in overall demand for anti-infective drugs and vitamin

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

tablets. PAT witnessed an 85% growth Y-o-Y from Rs. 101 crores during FY21 to RS. 188 crores during FY22. PBILDT margin has improved from 24% in FY21 to 26% in FY22. During H1FY23, ZHL has earned a total operating income of Rs. 513 crores and EBIDTA during the said period was Rs. 121 crores.

Presence across therapeutic segments
ZHL has a portfolio of more than 200 products in the high value chronic therapy as well as in acute segments. Under chronic segment, the company's products are diversified across Cardiology, anti- diabetic Oncology, Nephrology, Anti-HIV, etc. Acute products are diversified across Anti-infective, Pain Management, Anemia, Gynaecology, Anti Retrovirals, and Pediatrics etc.

Nation-wide strong marketing network
ZHL has a team of over 25 C&F agents and over 2,000 medical representatives (MR). Furthermore, the company has set up office major metropolitan cities such as Delhi, Kolkata, Bangalore, Hyderabad, Guwahati, and Cuttack. The products are sold through more than 2,000 wholesalers, 1,00,000 retail points and network of around 3,00,000 doctors all over India.

Comfortable capital structure
The capital structure and debt coverage metrics of the company continues to remain comfortable represented by Long-term debt to equity ratio and overall gearing at 0.04x and 0.04x respectively as on March 31, 2022 (0.06x and 0.12x respectively as on March 31, 2021). The company's net worth has improved from Rs. 377.24 crores as on March 31, 2021 to Rs. 522.70 crores as on March 31, 2022. The company doesn't have any term debt outstanding. With improvement in the liquidity profile and lower reliance on working capital borrowings, upon company's request, the lenders have reduced the overall fund-based and non-fund-based limits from Rs. 95 crores in January 2022 to Rs. 25 crores in April 2022 and reduced it further to Rs. 12 crores in December 2022.

Key rating weaknesses
Intense competition and exposure to regulatory risk
The company faces intense competition in the domestic 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).

Stable industry outlook
The Indian pharmaceutical industry (IPI) is ranked 3rd globally in terms of volume and 13th in terms of value. The industry size is estimated at about USD 47-49 billion in 2022. Growth in the domestic pharma market is expected to be driven by increase in the penetration of health insurance, improving access to healthcare facilities, rising prevalence of chronic diseases and rising per capita income. The export growth is expected to be led by increasing generic penetration in the regulated markets on the back of enhanced focus on the niche and complex product segments, patent expiries, medicine patent pool announcing licensing agreement with pharmaceutical companies and growing demand from semi-regulated pharma markets.

Liquidity: Strong
The liquidity position of the company remains comfortable with no term debt payment obligations in FY23. ZHL's liquidity indicator derives comfort from unutilized working capital limits and sufficient internal cash accruals against debt repayments. Average cash credit utilization for 12 months ended October 31, 2022 was low ~5% thereby maintaining sufficient cushion. During FY22, the company has generated healthy net cash flows from operations of Rs. 216.50 crores and with no major capex foreseen in medium term, ZHL's internal cash accruals continue to remain sufficient. The cash and liquid investments of the company as on March 31, 2022 stood at Rs. 164.84 crores.

Analytical approach
Standalone factoring linkages with EPL.

Applicable criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
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

ZHL was incorporated on May 27, 2002, as a public limited company through a Joint Venture between the promoters [Mr Prakash Kumar Guha (MD), Mr C. V. Shetty, and Mr S. Balasubramaniam] and EPL (rated CARE A+; Stable/ CARE A1). ZHL is a part of the Emcure Group based out of Pune. The primary business of ZHL was to market the products of its holding company, EPL. Subsequently, ZHL started selling its own pharmaceutical products in the domestic market. ZHL has got manufacturing facilities at Jammu, Sikkim and Bengaluru.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(UA)
Total operating income	812.44	1,051.50	512.52
PBILDT	194.17	273.20	121.33
PAT	101.48	187.75	80.05
Overall gearing (times)	0.12	0.04	NA
Interest coverage (times)	19.03	37.61	

A: Audited, UA: Un-audited, NA: Not Available

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
Fund-based - LT-Cash Credit	-	-	-	-	1.00	CARE A+; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	1.00	CARE A+; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	5.00	CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	5.00	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/ ST-Cash Credit	LT/ST*	1.00	CARE A+; Stable / CARE A1	1)CARE A; Stable / CARE A1 (06-Apr-22)	1)CARE A; Stable / CARE A1 (07-Jan-22)	1)CARE A; Stable / CARE A1 (08-Jan-21)	1)CARE A; Stable / CARE A1 (23-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	5.00	CARE A1	1)CARE A1 (06-Apr-22)	1)CARE A1 (07-Jan-22)	1)CARE A1 (08-Jan-21)	1)CARE A1 (23-Jan-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (08-Jan-21)	1)CARE A; Stable (23-Jan-20)
4	Fund-based - LT-Cash Credit	LT	1.00	CARE A+; Stable	1)CARE A; Stable (06-Apr-22)	1)CARE A; Stable (07-Jan-22)	1)CARE A; Stable (08-Jan-21)	1)CARE A; Stable (23-Jan-20)
5	Non-fund-based - ST-BG/LC	ST	5.00	CARE A1	1)CARE A1 (06-Apr-22)	1)CARE A1 (07-Jan-22)	1)CARE A1 (08-Jan-21)	1)CARE A1 (23-Jan-20)

*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 - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	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

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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