Emcure Pharmaceuticals Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	972.84 (Reduced from 1,073.01)	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	964.45 (Enhanced from 608.00)	CARE A; Positive / CARE A1 (Single A ; Outlook: Positive/ A One)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	100.00 (Enhanced from 60.00)	CARE A; Positive / CARE A1 (Single A ; Outlook: Positive/ A One)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Short Term Bank Facilities	676.50 (Reduced from 743.00)	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**2,713.79 (Rs. Two Thousand Seven Hundred Thirteen Crore and Seventy-Nine Lakhs Only)**		
Non Convertible Debentures	200.00	CARE A; Positive (Single A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Long Term Instruments	**200.00 (Rs. Two Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings to the bank facilities of Emcure Pharmaceuticals Limited (Consolidated, hereafter referred to as EPL/ Group) takes into cognizance the operational performance FY21 (audited, refers to April 1 to March 31) backed by strong revenue growth in Emerging, Canadian and Domestic markets, as well as significant improvement in the profitability margins across geographies and liquidity position of the group. The ratings also factors in the demerger of US business (including Heritage Pharmaceuticals Inc) to re-focus on overall business with market specific approach while de-risking the existing company against any potential litigations post demerger. The existing company will continue to cater to regulated markets other than US, hence the revenue profile of the existing company is not expected to be impacted considerably and growing sales in emerging market 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 three 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, Emerging, Canada and European markets.

The rating strengths are however tempered by loss in revenue due to split off of US business which continues to be a leading pharmaceutical market. This apart, the rating strengths continue to remain constrained by the group's exposure to regulated markets which have been witnessing increased stiff competition resulting into pricing pressure in the generics space, moderate albeit improving capital structure, heightened regulatory scrutiny and exposure to foreign exchange fluctuations.

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.
- Deleveraging by way of net proceeds from IPO as envisaged in DRHP.

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.

Outlook: Positive

The outlook on the long-term rating of EPL has been revised from 'Stable' to 'Positive' on CARE's expectation of improvement in its business and financial risk profile in the medium term marked by steady growth in its scale of operations and improvement in its profitability margin along with healthy cash generation resulting in controlled working capital requirement. The outlook

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

may be revised to 'Stable' if there is a sizable decline in EPL's profitability or significant stretch in its working capital requirement or any material adverse impact on its debt coverage indicators due to large size acquisition/capex or any other event.

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 three 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 3 decades in the field of pharmaceuticals. Ms. Namita Thapar (MBA from Duke University (Fuqua) School of Business, US & Certified 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 32 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 20 years of experience in formulation R&D and is named in more than 20 patents.

Diversified product portfolio with the new launches, operations in India and various emerging markets and focus on chronic high-value segments
The group is vertically integrated, manufacturing APIs and formulations and is also involved in the bio-technology drugs. Under formulations, EPL has presence in the high value chronic therapy as well as in acute segments. Under chronic segment, the company's products are diversified across Cardiology, Oncology, Nephrology, Anti-HIV, etc. Acute products are diversified across Anti-infective, Pain Management, Anemia, Gynaecology, Anti Retrovirals, Pediatrics, etc. The company has launched around 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 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.

Strong marketing network in domestic and international 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.

Geographical diversification coupled with growth in domestic, emerging and Canadian markets
The group has a wide geographical presence with sales primarilyto regulated markets and emerging markets, and has an overall healthy mix of exports, providing the group geographic diversification. The group is further expanding its presence in various emerging markets and Canada.
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 and Canadian market over the past few years and substantial growth in emerging markets in FY21.

Successful commissioning of first phase of Sanand plant and acquisition of new unit at Surendranagar
The group has completed the construction of phase I of sanand plant and has received approval from USFDA. Post receiving the approval, the facility became operational and has initiated carrying out its commercial shipment to Europe and Canada during FY20. During FY21, the company has invested around Rs. 25 crore to acquire a plant at Surendranagar, Gujarat. The plant will cater to growing demand from emerging/regulated markets. The company has no near term plan to undertake major debt funded capex.

Significant improvement in operational performance during FY21
In FY21, the company has witnessed strong growth of around 20% by clocking income from operations of around Rs. 6079 crore as against Rs. 5097 crore during FY20. This is majorly driven by strong growth of 98%, 29% and 22% in Emerging, Canada and European markets. PBILDT and PAT margin of the company during FY21 also improved significantly at 21% and 7% respectively as against PBILDT and PAT margin of around 15% and 2% respectively during FY20. Overall gearing and debt to equity ratio of the Company improved to 1.48 and 0.72 respectively in FY21 from 1.87 and 0.85 respectively in FY20. Improvement is owing to improved operational performance of the Company leading to increase in networth base.

Expected 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 Limited (Avet), which is effective from April 1, 2021. US business has witnessed a considerable dip in its margins over the last few years. Avet had garnered EBITDA margin of 10% in FY20 which dipped to 2% in FY21. Avet posted losses of around Rs. 188 crore and Rs. 62 crore from its US business in FY21 and FY20 respectively.

For FY21, excluding Avet, the income from operations for EPL at consolidated level was Rs. 5067.35 crore, PBILDT margin improved to 25% from 21% and PAT margin improved to 12% from 7%. Without considering Avet's current and non-current liabilities and networth contribution to the consolidated financials of EPL for the FY 21, overall gearing stands at 1.70x as on March 31, 2021.

Key Rating Weaknesses

Moderately high albeit reducing debt level due to acquisition of various companies

The Capital structure as on March 31, 2021 improved with overall gearing coming down to 1.48x as on March 31,2021 as against 1.87x as on March 31, 2020. 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 steady operational performance during FY21, 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 overall revenues in foreign currency mainly denominated in USD, Euro and GBP. Any fluctuation in foreign currency rates may have an impact on the financials of the Company. However, trade payables in foreign currency are hedged naturally against the foreign currency receivables. As on March 31, 2021, foreign currency receivables stood at Rs. 226.20 crore as against foreign currency trade payables of Rs. 115.56 crore.

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 42 billion in 2020 with domestic and export segment each holding a share of around 50% in industry's revenues. 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: Adequate

The current ratio of the group improved to 1.07x as on March 31, 2021 as against 0.91x as on March 31, 2020. Group's liquidity indicator derives comfort from improvement in free liquid balances of Rs. 468.75 crore as on March 31, 2021 against the cash reserves of 128 crore as on March 31, 2020. The average working capital utilization remained at around 68.50% for past 12 months ending September 2021 which is considerably less than previous 12 months utilisation of 83.52%. 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.

As on March 31, 2021, for EPL at a consolidated level excluding Avet's current assets and current liabilities, current ratio stands at 1.01x and cash and bank balances stands at Rs. 230 crore.

Analytical approach:

CARE Ratings has considered consolidated financials of the Emcure Group including EPL and its 15 direct and 11 indirect subsidiaries as on March 31, 2021 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. Further, it is to be noted that the demerger of its US business has been affected from Apr 01, 2021 and as on the date of filing of DRHP i.e. Aug 18, 2021 the Company has 13 direct subsidiaries and 8 step down subsidiaries owing to demerger of its US business.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Short Term Instruments
Manufacturing Companies
Pharmaceutical

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) either on Loan License or Principal to Principal basis. Subsequently, in August 2001, the company was converted to public limited company (unlisted). EPL is managed by a twelve member Board of Directors comprising four promoter/executive members and eight non-executive and independent directors.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	Q122/ H122/9M22
Total operating income	5097.17	6078.56	NA
PBILDT	760.70	1254.12	NA
PAT	100.61	418.59	NA
Overall gearing (times)	1.87	1.48	NA
Interest coverage (times)	3.01	6.51	NA

A: Audited
NA: Not Available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Not applicable

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	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Rating assigned along with Rating Outlook
Fund-based – LT-Term Loan		-	-	November 2026	972.84	CARE A; Positive
Non-fund-based – ST-BG/LC		-	-	-	676.50	CARE A1
Fund-based – LT/ ST-Working Capital Demand loan		-	-	-	832.45	CARE A; Positive / CARE A1
Fund-based/Non-fund-based-LT/ST		-	-	-	132.00	CARE A; Positive / CARE A1
Fund-based – LT/ ST-Working Capital Demand loan		-	-	-	100.00	CARE A; Positive / CARE A1
Debentures-Non Convertible Debentures		-	-	-	200.00	CARE A; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based – LT-Term Loan	LT	972.84	CARE A; Positive	-	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (23-Jan-20) 2)CARE A; Negative (16-Sep-19)	1)CARE A+; Stable (05-Dec-18)
2	Non-fund-based – ST-BG/LC	ST	676.50	CARE A1	-	1)CARE A1 (08-Jan-21)	1)CARE A2+ (23-Jan-20) 2)CARE A2+ (16-Sep-19)	1)CARE A1 (05-Dec-18)
3	Fund-based – LT/ ST-Working Capital Demand loan	LT/ST*	832.45	CARE A; Positive / CARE A1	-	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)	1)CARE A+; Stable / CARE A1 (05-Dec-18)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	132.00	CARE A; Positive / CARE A1	-	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)	1)CARE A+; Stable / CARE A1 (05-Dec-18)
5	Non-fund-based – LT-Letter of credit	LT	-	-	-	-	-	1)Withdrawn (05-Dec-18)
6	Fund-based – LT/ ST-Working Capital Demand loan	LT/ST*	100.00	CARE A; Positive / CARE A1	-	1)CARE A; Stable (08-Jan-21)	1)CARE A-; Stable (23-Jan-20) 2)CARE A; Negative (16-Sep-19)	1)CARE A+; Stable (05-Dec-18)
7	Debentures-Non Convertible Debentures	LT	200.00	CARE A; Positive	-	1)CARE A; Stable (08-Jan-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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 considered for consolidation
The 15 direct subsidiaries and 11 indirect subsidiaries as on March 31, 2021 are as given below:

Direct Subsidiaries	
1	Gennova Biopharmaeuticals Ltd
2	Zuventus Healthcare Ltd
3	Emcure Nigeria Ltd
4	Emcure Pharmaceuticals Mena FZ LLC
5	Emcure Pharmaceuticals South Africa Pty Ltd
6	Emcure Brasil Farmaceutical Ltd
7	Heritage Pharma Holdings Inc
8	Emcure Pharma UK Ltd
9	Emcure Pharma Peru SAC
10	Emcure Pharma Mexico S.A DE C.V
11	Emcure Pharmaceuticals Pty Ltd
12	Marcan Pharmaceuticals Inc
13	Avet Lifesciences Limited
14	Emcure Pharma Chile SpA
15	Lazor Pharmaceuticals Limited
Indirect Subsidiaries	
16	Heritage Pharma Labs Inc
17	Heritage Pharmaceuticals Inc
18	Tillomed Laboratories Ltd
19	Tilomed Pharma GmbH
20	Laboratorios Tilomed Spain SLU
21	Tillomed Italia SRL
22	Emcure NZ Limited
23	Tillomed France SAS
24	HACCO Pharma Inc
25	Tillomed Holdings Ltd**
26	Tilomed Laboratories BV

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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