Zuventus Healthcare Limited

January 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	60.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Short Term Bank Facilities	15.00	CARE A1 (A One)	Reaffirmed
Total Bank Facilities	**95.00 (Rs. Ninety-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Zuventus Healthcare Limited (ZHL) continues 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 moderation in scale of operation, 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"
- Improvement in 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.
- PBILDT margin falling below 13% on a sustained basis.
- Extension of funding support to related parties substantially deteriorating the credit profile of the company
- 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 "Emcure Pharmaceuticals Limited"

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 Emure Group, one of the leading pharmaceutical company based out of Pune. The group is engaged in the manufacturing of APIs (Active Pharmaceutical Ingredients), fourmulations as well as Research & Development (R & D). The group has presence in domestic as well as regulated and other emerging markets. Emcure Pharmaceuticals Limited, (EPL) is the flagship company of the group and holds 79.58% stake in ZHL. The promoters have more than three 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 30 decades in the field of pharmaceuticals.

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.

Financial risk profile marked by improved profitability, comfortable capital structure and debt coverage indicators

The Company witnessed improvement in PBILDT margin from 15.96% during FY20 to 23.93% in FY21. PAT margin improved from 7.38% during FY20 to 12.49% in FY21. Gross cash accruals of the company stands improved at Rs. 124.74 crore in FY21 as against Rs.90.16 crore in FY20. The capital structure and debt coverage metrics of the company continues to remain

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

comfortable represented by Long-term debt to equity ratio and overall gearing at 0.06x and 0.12x respectively as on March 31, 2021 (0.08x and 0.26x respectively as on March 31, 2020). Long-term debt to equity ratio has improved mainly on account of prepayment of term loan in FY20. Albeit, The growth in the net sales of the Company witnessed a marginal moderation of ~1% from Rs. 824.42 crore in FY20 to Rs. 812.73 crore in FY21.

Improvement in the financial risk profile of parent company at a consolidated level– Emcure Pharmaceuticals Limited (EPL)

At a consolidated level, in FY21, EPL 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 EPL 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 EPL improved to 1.48x and 0.72x respectively in FY21 from 1.87x and 0.85x respectively in FY20. Improvement is owing to improved operational performance of EPL leading to increase in networth base.

The NCLT by its order dated June 4, 2021 has sanctioned the scheme of de-merger wherein EPL 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.

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

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).

Scale of operations

The company's scale of operations witnessed a marginal moderation of ~1% from Rs. 824.42 crore in FY20 to Rs. 812.73 crore in FY21. Moreover, the company remains exposed to high product and therapeutic concentration risk, with its top-ten brands having contributed ~40% to FY2020 revenues. While the top therapeutic segments viz. Anti-effective, Vitamins/ Minerals/ Nutrients, Respiratory, Gastro Intestinal and Cardiac contributed ~80% to sales during FY20

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 liquidity position of the company remains comfortable with no debt repayment in FY22. ZHL's liquidity indicator derives comfort from unutilized working capital limits and sufficient internal cash accruals against debt repayments. During FY21, the company has generated healthy cash flows from operations of Rs.126 crore and with no major capex foreseen in medium term, ZHL's internal cash accruals continue to remain sufficient. The cash and bank balance of the company as on March 31, 2021 stood at Rs. 44.15 crore.

Analytical approach:

Standalone factoring linkages with Emcure Pharmaceuticals Limited

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
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 (MD), Mr C. V. Shetty, and Mr S. Balasubramaniam] and Emcure Pharmaceuticals Ltd. (EPL-rated CARE A; Stable/ CARE A1). ZHL is a part of the Emcure Group based out of Pune.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	Q122/ H122/9M22
Total operating income	824.42	812.73	NA
PBILDT	131.55	194.46	NA
PAT	60.88	101.48	NA
Overall gearing (times)	0.26	0.12	NA
Interest coverage (times)	11.67	17.71	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: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	60.00	CARE A; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	10.00	CARE A1
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A1

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/ ST-Cash Credit	LT/ST*	60.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (08-Jan-21)	1)CARE A; Stable / CARE A1 (23-Jan-20)	1)CARE A+; Stable / CARE A1 (05-Dec-18)
2	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	1)CARE A1 (08-Jan-21)	1)CARE A1 (23-Jan-20)	1)CARE A1 (05-Dec-18)
3	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (08-Jan-21)	1)CARE A; Stable (23-Jan-20)	1)CARE A+; Stable (05-Dec-18)
4	Fund-based - LT-Cash Credit	LT	20.00	CARE A; Stable	-	1)CARE A; Stable (08-Jan-21)	1)CARE A; Stable (23-Jan-20)	1)CARE A+; Stable (05-Dec-18)
5	Non-fund-based - ST-BG/LC	ST	5.00	CARE A1	-	1)CARE A1 (08-Jan-21)	1)CARE A1 (23-Jan-20)	1)CARE A1 (05-Dec-18)

* 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	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 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.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Naveen Kumar Dhondy
Contact no.: +91-88860 97382
Email ID: dnaveen.kumar@careedge.in

Relationship Contact
Name: Aakash Jain
Contact no.: +91-81064 00001
Email ID: aakash.jain@careedge.in

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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