Hetero Med Solutions Limited

December 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	89.61 (Reduced from 100.66)	CARE A+ (CE) (CWD) [Single A Plus (Credit Enhancement)] (Under Credit watch with Developing Implications)	Continues to be on Credit watch with Developing Implications
Total Bank Facilities@	**89.61 (Rs. Eighty-Nine Crore and Sixty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1

@ The bank facilities are backed by unconditional and irrevocable corporate guarantee extended by Hetero Labs Limited (HLL, rated 'CARE A+ /CARE A1+ (Under Credit Watch with Developing Implications')).

Un Supported Rating	**CARE BBB (Under Credit watch with Developing Implications)(Triple B) (Under Credit watch with Developing Implications) [Continues to be on Credit watch with Developing Implications]**

Note : Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings assigned to the long term instruments of Hetero Med Solutions Ltd (HMSL) takes into account the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Hetero Labs Limited (HLL, rated 'CARE A+;(Under Credit Watch with Developing Implications) /CARE A1+ (Under Credit Watch with Developing Implications)).

Detailed Rationale & Key Rating Drivers of Hetero Labs Limited

The ratings of Hetero Labs Limited (HLL) continue to remain on 'Credit watch with developing implications' following the various media articles regarding the Income Tax Department (ITD) conducting search operations from 6th to 11th October 2021 across various offices, manufacturing sites and other locations of Hetero Group. The management of Hetero Group has not shared the exact details of income tax search; however, they have confirmed that the ITD has found some cash and seized the same. Further ITD has also carried some of the groups records and documents for verification. The management has also confirmed that the ITD has not stopped their regular operations.

CARE is trying to reach out to management to understand the impact of event and outcome of the ITD raid. CARE Ratings will remove the ratings from watch and take a final rating action once it has clarity on the impact of IT raid on business and financial profile of HLL.

The ratings assigned to the bank facilities of HLL continue to factor in the healthy growth in total operating income, improvement in profitability margins during FY21 (refers to period April 01 to March 31), at consolidated level. The ratings also take into account the healthy growth prospects backed by licensing agreement with Gilead Sciences for manufacture of drugs being used for COVID-19 treatment. Further, the ratings continue to derive strength from strong promoter group with established track record and experienced management team, strong product portfolio spread across multiple therapeutic segments and reputed clientele, comfortable capital structure and moderate debt coverage indicators, deeply backward integrated operations of the group and favorable outlook for the pharmaceutical industry. The ratings, however, continue to remain constrained by elongated operating cycle, and regulatory risk inherent in the pharmaceutical industry.

Key Rating Drivers of Hetero Med Solutions Limited

The ratings assigned to Hetero Med Solutions Limited (HMSL) continue to be on credit watch with developing implications following a similar action on the ratings of Hetero Labs Limited (HLL)- (the credit enhancer). The ratings of HLL were placed on 'Credit watch with developing implications' following the various media articles on the Income Tax Department (ITD) conducting search operations from 6th to 11th October 2021 across various offices, manufacturing sites and other locations of Hetero Group. CARE is trying to reach out to management to understand the impact of event and outcome. CARE will remove the rating from watch and take a final rating action once it has clarity on the impact of IT raid on business and financial profile of HLL.

The rating assigned to the long term instruments of HMSL derive strength from strong parentage being part of the Hetero group, a reputed player in the pharma business, support from Hetero Labs Limited (HLL) in form of unconditional and irrevocable corporate guarantee along with infusion of funds in HMSL as and when required to meet the operational requirements and debt obligations, presence of DSRA for 1 quarterly instalment and 3 months interest, strong track record of

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

the group and capabilities of developing & operating renewable energy assets, long track record of operations and revenue visibility on account of Long-term off-take arrangement through PPA with Maharashtra State Electricity Distribution Company Limited (MSEDCL). The ratings, however, are constrained by stretched receivable position due to delay in receipts of payments, counterparty credit risk and dependence on seasonal wind patterns for power generation.

Rating Sensitivities of Hetero Labs Limited
Positive Factors - Factors that could lead to positive rating action/upgrade
- Improvement in the PBILDT margins on a sustained basis above 17%.
- Maintaining operating cycle days consistently below 180 days

Negative Factors - Factors that could lead to negative rating action/downgrade
- Overall gearing going above 1.30x on sustained basis.
- Substantial increase in exposure towards group companies.
- Undertaking any major capex or acquisition by utilizing the internal accruals which places the company under liquidity pressure

Detailed description of the key rating drivers of HLL
Key Rating Strengths
Healthy growth in total operating income and profitability margins during FY21 buoyed by Covid drugs
At consolidated level, HLL has achieved 41.77% growth in its total operating income which stood at Rs. 11615.09 crore during FY21 as against 8193.01 crore during FY20 buoyed by surge in demand of its Covid product portfolio. Majority of the revenue was from India (about 31%), followed by USA (about 26%). The PBILDT margin at consolidated level expanded from 13.40% during FY20 to 20.06% during FY21 primarily on account of higher growth in turnover, further in line with the PBILDT margins, the PAT margins improved from 4.06% during FY20 to 11.21% during FY21 with reduction in finance charges. Hetero labs on standalone level achieved total operating income of Rs.5678 crore during the 6MFY22 period ended September 30, 2021 while reporting PBILDT% of 19.77% and PAT% of 12.73%.

Established track record and experienced promoter and management
Hetero is one of the major pharmaceutical groups in India. The group is engaged in the development and manufacturing of Active Pharmaceutical Ingredients (APIs), Intermediate Chemicals and Finished Dosage. The group has a portfolio of around more the 300 drugs spread across various therapeutic segments. The group has a presence in over 126 countries and has over 36 manufacturing units for pharmaceuticals products.
The group was established by Dr B Parthasaradhi Reddy in 1993. Dr Reddy has more than three decades of experience in the Indian pharmaceutical industry. The company has been growing over the years, adding numerous API products to its portfolio. The company entered into formulations segment in 2006, and since then, it is focusing more on the finished dosages and has added about 300 products to its portfolio. The overall management of the company is looked after by the promoter himself and is supported by experienced and professional management team with a long track record in the pharmaceutical industry.

Strong product portfolio spread across multiple therapeutic segments and reputed clientele
HLL has a strong product portfolio of over 300 products in APIs and formulations. For FY21, 85% of the total consolidated operating revenue was derived from sale of formulations, 14% from sale of APIs and 1% from sale of power. HLL has a presence across 20 therapeutic segments with majority of revenue contribution from high growth segments such as Antiretroviral (36.91% of total operating revenue during FY21), Antihypertensive (9.24%), Antiviral (19.10%), and Anti-psychotic (5.56%) etc. Further, HLL (standalone) has been supplying APIs and formulation to most of the major pharmaceuticals players. During FY21, Camber Pharmaceuticals Inc (Camber) was the major revenue contributor with 16.26% share in total operating income. Camber is a wholly owned subsidiary of HLL which has been incorporated internationally to provide ease in marketing arrangement. The company supplies to reputed pharma players such as Cipla, Sun Pharmaceuticals, Lupin Limited etc. Further, During FY21 revenue from India contributed to the highest share of the revenue followed by US, South Africa, Netherlands and UAE.

Deeply backward integrated nature of operations with presence across the pharma value chain
HLL procures raw materials i.e. APIs and intermediates from its group companies. The group has established various backward integrated units. During FY21, around 40 percent of the total raw materials were procured from its group companies (subsidiaries/associates and the companies on which key management personnel of HLL can exercise significant influence) out of which, Hetero Drugs Ltd (HDL) and Honour Labs were the major contributors. HLL is primarily engaged in the business of formulations segment, whereas HDL is mainly focusing on the API segment. For procurement of APIs

required for manufacture of finished dosages; HLL would continue to be dependent on its associate concerns particularly HDL, Honour Lab Ltd, Hindys labs, Dasami Labs and Cirex Pharmaceuticals Ltd.

Comfortable capital structure and improvement in debt coverage indicators in FY21
Capital structure of HLL (consolidated) continued to remain comfortable represented by comfortable debt to equity and overall gearing as on March 31, 2021. The overall gearing as on March 31, 2021 stood at 0.82x as against 1.09x as on March 31, 2020. The debt risk metrics such as term debt/GCA improved to 1.47x in FY21 (against 3.87x in FY20) and total debt/GCA improved to 3.45X in FY21 (against 9.16x in FY20) owing to improvement in GCA levels. The interest coverage also improved from 2.68x as on March 31, 2020 to 8.04x as on March 31, 2021.

Key Rating Weaknesses
Elongated operating cycle
During FY21, the operating cycle of the company improved from 221 days during FY20 to 195days mainly due to improved collection days and inventory days. The collection days and inventory days stood at 121 days and 155 days respectively during FY20 as against 150 days and 167 days respectively during FY20. However, the collection period and inventory holding period are relatively higher as majority of the revenue is from exports and in order to have long withstanding relationship with the overseas clients, the company offers credit period to its customers. Further, HLL has to maintain inventory at Camber as the company caters to the top 3 wholesalers in the US market. HLL has to supply the products at Just in time basis and any delay in supply attracts penalties. To overcome penalties the company maintains buffer stock. However, the same is offset to some extent by credit period from suppliers and balance is met through working capital limits. Despite receivables being on the higher side, the receipt of the same is assured as majority of the receivables are from well-known wholesalers.

Exposure towards regulatory risk
The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for business activities. Each authority has its own requirements and they could delay or refuse to grant approval, even when a product has already been approved in another country. HLL (standalone) has received about 12 ANDA approvals during FY2021 taking the total ANDA approvals to 89. The company’s manufacturing unit- Unit V located at Jadcherla was inspected by USFDA during December 2016 and subsequently a warning letter was issued. The warning letter cited significant violations of current good manufacturing practice (CGMP) regulations for finished pharmaceuticals. The company had appointed a consultant and has addressed the issue. Further, USFDA inspection of the same took place during Q2FY20 and the company is yet to receive revert from USFDA. The company can file for ANDA approvals from the Unit V once the USFDA issues closeout letter. Apart from above there are two other API plants that have pending official action indicated classification. CARE Ratings understands that there is no material impact on the existing business but obtaining new drug master file approvals may be impacted. Nonetheless, HLL continues to file ANDAs from other units.

Liquidity : Strong
Liquidity is marked by strong accruals of Rs. 1557.56 crore during FY21 against repayment obligations of around Rs. 240 crore during FY22. The company had cash balance of Rs. 201 crore as on March 31, 2021. Further, out of the total debt obligation of Rs. 240 crore, during FY22 the company had repaid Rs.180 crore till Sep 30, 2021. Average of maximum monthly utilization of fund-based limits during last 12 months ending May 2021 at 74% and average of maximum monthly utilization of non-fund based limited during last 12 months ending March 2021 stood at 54%. On account of moderate utilization of fund based and non-fund based limits, the company has sufficient cushion of about Rs. 1300 crore (Rs. 802 crore of fund based limits and Rs. 575 crore of non-fund based limits) to meet any kind of exigencies. The current ratio of the company stood comfortable at 1.62 during as on March 31st, 2021.

Analytical Approach: Credit Enhanced (CE) Ratings: Assessment of the consolidated financials of the Guarantor (i.e. HLL)
CARE Ratings has based its rating for the Term Loan bank facility to the extent of Rs.89.61 crore on the assessment of the guarantor, Hetero Labs Limited which has provided an unconditional and irrevocable corporate guarantee for the facilities mentioned above.

Unsupported Ratings: Standalone assessment of HMSL along with factoring its parentage of HLL which has also extended need-based financial support to it.

Applicable Criteria
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities

Policy on default recognition
Consolidation
Rating Credit Enhanced Debt
Rating Outlook and Credit Watch
Short Term Instruments

Pharmaceutical
Wind Power Projects

About the Company- Hetero Labs Limited

Incorporated in 1989, Hetero Labs Ltd (HLL) is the flagship company of the Hetero Group. HLL is a pharmaceutical company primarily engaged in manufacturing of active pharmaceutical ingredients (APIs) and finished dosages formulations (FDF). The company is promoted by Dr. B. Partha Saradhi Reddy, Chairman of the company and Hetero Group. HLL is a closely held company with entire 100% shareholding held by promoters and their associates.

HLL(Standalone) has 10 manufacturing facilities located at various places in Andhra Pradesh and Telangana, including one manufacturing facility for formulations in Baddi, Himachal Pradesh. Manufacturing facilities of the company have been approved by the US FDA, WHO, COFEPRIS Mexico, ANVISA-Brazil, NOMA – Norway and MCC South Africa.

Hetero group is one of the leading generic pharmaceutical companies and is one of the world's largest producers of anti-retroviral drugs for the treatment of HIV/ AIDS. With more than two decades of experience in the pharma industry, the group's strategic business areas include APIs, generics and bio-similars. The group has more than 36 state of the art manufacturing facilities, located worldwide. Majority of the facilities have been successfully audited and approved by various regulatory authorities. The product portfolio of the group includes more than 300 products encompassing major therapeutic segments such as HIV/ AIDs, Oncology, Cardiovascular, Neurology and Hepatitis etc. The group has a global presence across 126 countries worldwide.

About the Company-Hetero Med Solutions Limited

Incorporated in October 2007, Hetero Med Solutions Ltd (HMSL) belongs to the Hyderabad based Hetero Group. Hetero group was promoted by Dr. B. Parthasaradhi Reddy, who has about more than three decades of experience in Indian pharmaceutical industry. HMSL started commercial operation with retail distribution of medicines, surgical and wellness products through chain of retail stores under the brand name of 'Hetero Pharmacy' located in Telangana, Andhra Pradesh and Tamil Nadu. Later in September 2014, all the stores operational in these three states were acquired by Apollo Hospitals Enterprise Ltd (AHEL) as per MoU signed between HMSL and AHEL. Later on HMSL undertook a project for setting up 30 MW (20 X 1.5 MW Regen Make V-87 WTGs) capacity wind power plant at an initial project cost of Rs 225.00 crore at Yavatmal, Maharashtra. The project was completed at a total cost of Rs. 228.26 crore funded through debt of Rs. 101.80 crore, equity of Rs. 64.45 crore and Rs. 62.00 crore advance from Regen. As on October 31, 2015, the project was commissioned with 10.50 MW capacity and operational and remaining two phases were synchronized in March 2017. The first phase of 10.50MW and 2nd phase PPA with Maharashtra State was entered into in March 2017. HLL has provided Corporate Guarantee of Rs 157.50 crore for the term loan availed by HMSL. The project is located at Yavatmal district of Maharashtra. The company has signed a PPA with Maharashtra state Electricity Distribution Company Limited for 30.00 MW for 13 years Rs. 5.70 per kwh for 10.5 MW and Rs.5.56 per kwh for 19.05 MW.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22
Total operating income	30.69	24.61	Not Available
PBILDT	28.42	19.95	
PAT	6.01	-0.01	
Overall gearing (times)	1.20	1.17	
Interest coverage (times)	1.97	1.63	

A: Audited

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-Term Loan		-	-	Sept 2029	89.61	CARE A+ (CE) (CWD)
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB (CWD)

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	89.61	CARE A+ (CE) (CWD)	1)CARE A+ (CE) (CWD) (19-Oct-21)	1)CARE A+ (CE); Stable (08-Jan-21)	1)CARE A (CE); Stable (13-Feb-20) 2)CARE A (SO); Stable (04-Apr-19)	1)CARE A+ (SO); Negative (15-May-18)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB (CWD)	1)CARE BBB (CWD) (19-Oct-21)	1)CARE BBB (08-Jan-21)	1)CARE BBB (13-Feb-20)	-

** 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-Term Loan	Simple
2	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-5: List of subsidiaries / joint ventures / associates of HLL getting consolidated

Sr. No.	Name of the Entity	Subsidiary / Joint Venture / Associate	% Shareholding by HLL as on March 31, 2021
1.	Annora Pharma Private Limited	subsidiary	100.00
2.	Aspiro Pharma Limited	subsidiary	92.00
3.	Strivo Pharma Private Limited#	subsidiary	100.00
4.	Evaric Pharma Limited	subsidiary	100.00
5.	Hetero Biotech Limited	subsidiary	100.00
6.	Hetero Med Solutions Limited	subsidiary	51.00
7.	Hetero Wind Power(Ananta)Private Limited	subsidiary	100.00
8.	Hetero Wind Power(Pennar)Private Limited	subsidiary	100.00
9.	Hetero Wind Power(Rayala)Private Limited	subsidiary	100.00
10.	Hetero Wind Power Limited	subsidiary	51.38
11.	Wallet Pharma Private Limited	subsidiary	100.00
12.	Actero Pharma Private Limited	subsidiary	100.00
13.	Abhiru Industries Limited	subsidiary	100.00
14.	Yatnam Lab Limited	subsidiary	100.00
15.	Hetero Biopharma Limited	subsidiary	100.00
16.	Akar colombia SAS	subsidiary	100.00
17.	Camber Consumer Care Inc.	subsidiary	100.00
18.	Camber Pharmaceuticals Inc	subsidiary	100.00
19.	Amarox Pharmaceuticals,S.A.	subsidiary	100.00
20.	Camber Pharmaceuticals S.A	subsidiary	100.00

Sr. No.	Name of the Entity	Subsidiary / Joint Venture / Associate	% Shareholding by HLL as on March 31, 2021
21.	DMN Invest LLC	subsidiary	99.99
22.	Excellen Peru S.A.C	subsidiary	99.90
23.	Hetero Australia pty Limited	subsidiary	90.00
24.	Hetero FZCO U.A.E	subsidiary	95.00
25.	Hetero Kenya Limited	Subsidiary	90.00
26.	Hetero Labs Nigeria Limited	subsidiary	90.00
27.	Hetero Malta Limited	subsidiary	99.95
28.	Camber Pharmaceuticals Inc (formerly Hetero Philppines Inc.)	subsidiary	100.00
29.	Hetero Singapore Pte Ltd.	subsidiary	100.00
30.	Camber Pharmaceutical Co. Ltd. Thailand(formerly Hetero Thailand Limited)	subsidiary	100.00
31.	Makiz Pharma LLC.	subsidiary	100.00
32.	Pharmed Healthcare Company SAE	Joint venture	25.50
33.	Furen Hetero Onco Therapeutics Limited	Joint venture	49.00
34.	Mintz Pharmaceuticals Inc.	Joint venture	46.80
35.	Nexgen Pharma FZ (L.L.C.)	Joint venture	50.00
36.	Camber Farmaceutical Ltda	subsidiary	100.00
37.	Ascent Pharma Inc	Joint venture	51.00
38.	Hetero Pharma Russia LLC, Russia	subsidiary	100.00
39.	Secura Pharma GMBH	subsidiary	100.00
40.	Hetero Saudi Labs Limited, U.A.E.	Joint venture	50.00
41.	Hetero Infrastructure SEZ Limited	Associate	50.00
42.	Sri Sai Ashirwaad Logistic Limited	Associate	50.00
43.	Dialog Pharma LLC	Associate	50.00
44.	Hetero Europe S.L	Associate	50.00
45.	Hetero USA Inc.	Associate	50.00
46.	Novaxa Pharmacueticals AG	Joint venture	40.00
47.	PT Amarox global	subsidiary	81.00
48.	Anaika Industries Limited	subsidiary	100.00
49.	Evaric Pharmaceuticals Inc.	subsidiary	100.00
50.	Amarox UK	subsidiary	100.00
51.	Hetero Labs South Africa PTY	Subsidiary	100.00
52.	Camber Pharma LLP	subsidiary	100.00
53.	Tarbis Farma SLU	subsidiary	100.00
54.	AK Sintvita LLC	subsidiary	100.00
55.	Camber Laboratories SDN BHD	subsidiary	100.00
56.	Hetero Pharma Beijing Co Ltd	Subsidiary	100.00
57.	Camber Pharmaceuticals HongKong Limited	Subsidiary	100.00
58.	Amarox Pharma B.V	Subsidiary	100.00
59.	Camber Pharmaceuticals Co. Ltd	Subsidiary	100.00

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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