Zuventus Healthcare Limited

January 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	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
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**95.00 (Rs. Ninety-Five Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

The rating reaffirmation of 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, comfortable capital structure. The above rating strengths continue to remain constrained by moderate albeit improving scale of operation, intense competition in the generic formulations industry along with regulatory risk inherent in the pharmaceutical industry.

Rating Sensitivities (ZHL)

Positive Factors that could lead to positive credit action/upgrade

- Improvement in the overall financial risk profile of the parent company "Emcure Pharmaceuticals Limited"
- Significant improvement in the free liquidity buffer of the company.
- Improvement in PBILDT margin to 20% and above on sustained basis.

Negative Factors that could lead to negative credit 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. Top 10 products account for ~47% of total sales in FY20.

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 growing scale of operations in FY20, improved profitability, comfortable capital structure and debt coverage indicators

The company witnessed robust growth in net sales, total operating income, PBILDT and PAT by 9.68%, 8.92%, 31.75%, and 17.69% respectively. Further, company witnessed improvement in PBILDT margin by ~276 bps to 15.96% during FY20 as against 13.19% during FY19. The PBILDT margin has further improved significantly to 24.27% in H1FY21. Improvement is mainly attributable to shifting of contract manufacturing to in-house production in the Sikkim plant as well as curtailment of travelling cost during the current financial year. Gross cash accruals of the company stands improved at Rs.90.16 crore in FY20 as against 73.29 crore in FY19. The company registered gross cash accrual of Rs.66.26 crore in H1FY21 as against Rs.53.30 crore in H1FY20. 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 0.08x and 0.26x respectively as on March 31, 2020 (0.21x and 0.24x respectively as on March 31, 2019). Long-term debt to equity ratio has improved mainly on account of prepayment of term loan in FY20.

Improvement in the financial risk profile of parent company

The parent company-EPL was witnessing consistent moderation in its financial profile in the past few years with reducing profitability and moderately high debt levels. However, during 8MFY21, it has witnessed strong rebound in its overall operational and financial performance by generating revenue at a growth of 20% to Rs.3877.90 crore as against Rs.3233.20 crore in 8MFY20. This was mainly driven by robust revenue growth in Emerging, Canada and regulated markets. This apart, the profitability margins and GCA of EPL during 7MFY21 has also improved substantially with PBILDT margin, PBT margin and GCA improved from 12.8%, 0.7% and Rs.174.89 crore to 20.1%, 9.7% and Rs.415.73 crore respectively.

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).

Moderate albeit improving scale of operation

The company's scale of operations witnessed a moderate y-o-y growth of 8.93% to Rs.824.42 crore in FY20 from Rs.748.16 crore in FY2019. Though the revenues have been consistently increasing, the company is expected to register a modest growth in FY21 as well and its scale of operations has remained relatively moderate in the pharmaceutical industry. 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

Liquidity: Adequate

The liquidity position of the company remains comfortable with no debt repayment in FY21. 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, 2020 was low at around 57% thereby maintaining cushion of more than Rs.30 crore in the form of unutilized working capital limits. During FY20, the company has generated healthy cash flows from operations of Rs.125.81 crore which improved substantially from Rs.86.99 crore in FY19, thus reducing dependence on working capital bank borrowings. As 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, 2020 stood at Rs.0.55 crore.

Impact of COVID 19

The operations of the industries was disrupted due to impact of COVID 19 as the government of India had imposed lock down to curb the spread of COVID -19 pandemic from March 22, 2020 to June 08, 2020, however the operations of the company was not affected as the products manufactured by the company falls under essential services. The company was marginally affected due to logistics issues which were resolved by April, 2020.

Stable industry outlook

The operations of pharma industry being considered necessary came under the ambit of essential manufacturing during the lockdown induced by Covid-19. This had kept production activities at many pharmaceutical companies largely unaffected. Also easing of restrictions in different phases of lockdown is believed to have supported the operations of pharmaceutical companies. During this period, while the domestic market for antibiotics, cold and cough gained traction. Inbound logistics constraints restricted the movement in exports to an extent during lockdown. With relief in various restrictions, the industry is expected to see pent up demand for treatments that were postponed which will support the demand for drugs. Moreover, the demand for medicines will increase during the monsoon season as the distributors and retailers normally stock drugs for the season. These parameters will augur well for pharmaceutical industry. In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, anti-malarials and antibiotics given the spread of Covid-19.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for short term Instruments]
[CARE's methodology for manufacturing companies]
[CARE's methodology for Pharmaceutical sector]
[Rating methodology: Notching by factoring linkages in rating]
[Financial ratios – Non-Financial Sector]
[Liquidity Analysis of Non-Financial Sector Entities]

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 EmcurePharmaceuticals Ltd. (EPL-rated CARE A-; Stable/ CARE A2+). ZHL is a part of the Emcure Group based out of Pune.

Brief Financials (Consolidated) (Rs. crore)#	FY19 (A)	FY20 (A)	H1FY20(UA)
Total operating income	756.84	824.42	409.53
PBILDT	99.85	131.55	99.41
PBT	74.55	93.29	81.49
PAT	51.72	60.88	[redacted]
Overall gearing (times)	0.24	0.26	
Interest coverage (times)	10.80	11.92	23.95

A: Audited, UA: Unaudited
#Based on IND-AS

Status of non-cooperation with previous CRA – Not Applicable
Any other information- Not Applicable
Rating History (Last three years): Please refer Annexure II

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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-Term Loan	-	-	-	0.00	Withdrawn
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (28-Apr-17)
2.	Fund-based - LT/ ST-Cash Credit	LT/ST	60.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (23-Jan-20)	1)CARE A+; Stable / CARE A1 (05-Dec-18)	1)CARE A+; Stable / CARE A1 (09-Oct-17) 2)CARE A+; Stable / CARE A1 (12-Jul-17) 3)CARE A+; Stable / CARE A1 (28-Apr-17)
3.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (12-Jul-17) 2)CARE A+; Stable (28-Apr-17)
4.	Non-fund-based - ST-BG/LC	ST	10.00	CARE A1	-	1)CARE A1 (23-Jan-20)	1)CARE A1 (05-Dec-18)	1)CARE A1 (09-Oct-17) 2)CARE A1 (12-Jul-17) 3)CARE A1 (28-Apr-17)
5.	Fund-based - LT-	LT	-	-	-	1)CARE A;	1)CARE	1)CARE A+;

	Term Loan					Stable (23-Jan-20)	A+; Stable (05-Dec-18)	Stable (09-Oct-17) 2)CARE A+; Stable (12-Jul-17)
6.	Fund-based - LT-Cash Credit	LT	20.00	CARE A; Stable	-	1)CARE A; Stable (23-Jan-20)	1)CARE A+; Stable (05-Dec-18)	-
7.	Non-fund-based - ST-BG/LC	ST	5.00	CARE A1	-	1)CARE A1 (23-Jan-20)	1)CARE A1 (05-Dec-18)	-

Annexure 3: Detailed explanation of covenants of rated instrument: NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Cash Credit	Simple
4.	Non-fund-based - ST-BG/LC	Simple

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

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