Emcure Pharmaceuticals Limited

January 08, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,133.01 (Enhanced from 1,000.08)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	608.00 (Reduced from 661.00)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus)
Short Term Bank Facilities	743.00 (Enhanced from 98.00)	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Non-convertible debentures	200.00	CARE A; Stable (Single A; Outlook: Stable)	Assigned
Total Bank Facilities	**2,684.01 (Rs. Two Thousand Six Hundred Eighty-Four Crore and One Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings to the bank facilities of Emcure Pharmaceuticals Limited (Consolidated, hereafter referred to as EPL/ Group) takes into cognizance the strong turnaround in operational performance during 7MFY21 (provisional, refers to April 1 to October 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. This apart, as at the end of current financial year, the capital structure of the group is also expected to improve significantly on account of prepayment of various term loans and expected paring down of working capital utilization levels to be backed by realization of healthy sales made in emerging markets in Q2FY21 with collection period of 90-100 days in such market. The rating also factors in the proposed 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.

The rating continues 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, successful commissioning of first phase of Sanand Unit, consistent growth in sales in the Domestic, Emerging, Canada and European markets.

The rating strengths are however tempered by restricted growth potential 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-that could lead to upgrade/positive rating action

- Resolution of pending regulatory issues and realization of envisaged benefits out of expenditure incurred on Research and Development activities and capex across group companies.
- Significant improvement in the free liquidity buffer of the company as well as decline in working capital utilization (of currently sanctioned limits) levels to 50% or less on sustained basis.
- Maintenance of overall PBILDT margin above 20% on sustained basis.

- Significant Improvement in financial risk profile with overall gearing ratio falling below 0.50x and maintenance of debt service coverage ratio above 1.60x (FY22 onwards) on consistent basis.

Negative Factors- that could lead to downgrade/negative rating action

- Any deterioration in the capital structure as a result of incremental debt constraining debt service coverage ratio below 1.2x and overall gearing ratio increasing to 1.20x on sustained basis at consolidated level.
- PBILDT margin falling below 18% on a sustained basis.
- Any regulatory action other than ongoing, against EPL, significantly impairing the credit profile of the group.

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), is the Executive Director and Chief Financial Officer of Emcure, besides being involved in the marketing and distribution. Mr Vikas Thapar (MBA from University of South California, US), is President – Corporate Development and Strategy, Mr Samit Satish Mehta (MBA from the Wharton School, University of Pennsylvania, US) is President- Operations and R&D function, Mr. William S Marth is President & CEO, North America & Europe region and board member for HPI, and Emcure Pharma UK Ltd. The group has team of highly qualified and experienced professionals in the field of pharmaceuticals.

Diversified product portfolio with the new launches, operations in India, USA 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 39 new products each in FY20 & H1FY21 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
In the group, EPL, Heritage Pharma Labs Inc (HPL), Gennova Biopharmaceutical 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.
EPL has seven manufacturing facilities (five in Pune, one in Gujarat, and one located at Jammu), which are approved by various regulatory agencies. Furthermore, the group has six state of art R&D centres in India, all recognized by the Department of Scientific & Industrial Research (DSIR) and one in USA under HPL.
GBL's manufacturing facility is located at Pune while those of ZHL are located at Jammu, Sikkim and Bengaluru. HPL has a manufacturing facility along with R&D centre located at New Jersey, USA. Post demerger, the existing company will continue to have all the manufacturing facilities apart from facilities under HPL.

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 primarily to regulated markets like USA and UK, 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, emerging and Canadian market over the past few years.

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 US 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 markets. The company has no near term plan to undertake major debt funded capex.

Significant turnaround in operational performance during FY21 after sluggish previous year
During 8MFY21, the company clocked revenue at a steady growth of 20% to Rs.3877.90 crore as against Rs.3233.20 crore in 8MFY20. This was majorly driven by steady revenue growth of 126.2%, 17.9% and 15.3% in emerging markets, Canada and Europe respectively in corresponding period. During 8MFY21, the PBILDT margins (consolidated) of the company have also improved significantly to ~20% as against ~13% in 8MFY20. Such improvement was backed by significant upsurge in PBILDT margins in emerging and domestic markets from ~32% and ~22% during FY20 to ~41% and ~29% during 8MFY21, respectively mainly due to change in product mix, increasing market share in emerging markets leading to absorption of costs and better expense management as well as reduction in travelling and marketing cost due to pandemic. Albeit, the company has witnessed considerable moderation in PBILDT margins by 7.7% and 3.80% (8MFY21 vs FY20) in Europe and Canada due to stiff competition and change in product mix, the margins remained healthy at ~19% and ~29% respectively. PBILDT margin in US market continues to remain subdued and further moderated by 4% during the corresponding period. Earlier, during FY20, consolidated net sales remained stagnant at Rs.5004.83 crore (Growth of ~7%) as against Rs.4669.26 crore in FY19. PBILDT margin declined ~199 bps to 14.92% during FY20 as against 16.91% during FY19. PAT margin also declined from 4.20% to 3.38% during such period.

Proposed demerger to further improve the financial profile and de-risk the demerged entity
The group has proposed to split off its subsidiary viz. Heritage Pharma Holdings Inc. and its subsidiaries along with the overall US business (currently being catered by EPL). Post demerger, the facilities under EPL will continue to manufacture the products for US market as contract manufacturer and the resulting company will market such products. Such demerger would enable group to re-focus on overall business with market specific approach while de-risking the existing company against any potential litigations in US market. The overall profitability margins of the demerged company are expected to improve significantly as a result of demerger with low profitability business moving out. In near term, gearing level of demerged entity is expected to remain marginally high as compared to consolidated gearing level (including resulting company) with group's focus to initially deleverage the resulting entity, though EPL is gradually expected to deleverage going forward with expected improvement in operational profile of the company post demerger. However, the company will continue to remain responsible for ongoing and future USFDA import alerts for facilities under EPL.

Key Rating Weaknesses

Moderately high albeit reducing debt level due to acquisition of various companies
The capital structure as on March 31, 2020 slightly deteriorated with overall gearing rising to 1.29x as on March 31,2020 as against 1.24x as on March 31, 2019. The gearing level remained moderately high due to debt funded capex and acquisition of brands over the recent years as well as higher reliance on external debt to fund working capital requirements. The working capital utilization continues to remain moderately high at 83.52% (during the past 12 months ended Sep, 20).
Interest coverage, though satisfactory, deteriorated to 3x during FY20 (PY:3.65x), while TDGCA for FY20 deteriorated to 5.89x (PY: 5.52x). During FY20, the group paid off its liability with DOJ pertaining to drug fixing matter. Similar to cooperation and non-prosecution agreement with DOJ, the company may need to enter into another settlement with US states, the timing and amount of potential liability is uncertain. This apart, the group has committed payment of ~CAD 20.1 Million and ~CAD 48 Million (linked with 3x of EBITDA of FY22 subject to maximum of CAD 48 Million) to the shareholders of Marcan Pharmaceuticals Inc. payable in FY21 and FY23 respectively. Debt service coverage ratio is expected to remain moderate in FY21 due to higher quantum of repayments and committed payments.
Nevertheless, with steady operational performance during FY21, prepayments of loans and company gradually realizing synergy from various acquisitions made during past few years, the gearing levels are expected to reduce significantly below unity while TDGCA and Interest coverage are also expected to improve significantly to below 2x and over 7x respectively as at the end of current financial year.

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.

Indian pharmaceutical companies are expected to continue to experience growth from US markets over medium term backed by sizeable generic opportunities over next two years, strong product pipeline of ANDAs with increasing proportion of complex generic. However, US markets are facing multiple challenges such as increased scrutiny by USFDA, consolidation of supply-chain and need for higher investments in R&D to tap complex segments. Companies with growing portfolio comprising niche or complex products and high levels of backward integration are likely to be better positioned considering above challenges.

Foreign exchange fluctuation risk

The group generates majority of its overall revenues in foreign currency mainly denominated in USD, Euro and GBP. Large portion of outflows in foreign currency is hedged naturally against the foreign currency receivables. As on March 31, 2019, the aggregate of foreign currency receivables and cash and cash equivalents stood at ~Rs.313 crore against which the group had debt in the form of ECB (External Commercial Borrowings) and other payables denominated in USD/EUR/GBP amounting to ~Rs. 275.61 crore as on March 31, 2020 thus offsetting the movement in foreign exchange rate to much extent.

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 pharmaceutical 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.

Liquidity - Adequate

The Group's liquidity remains adequate with the cash and bank balance of Rs.128.74 crore as on March 31, 2020 and Rs.179.63 crore as on November 30, 2020 with average unutilized fund based working capital limits of more than Rs.200 crore. With healthy performance during current financial year, average working capital utilization has improved to 83.52% (for past 12 months ended Sep 30, 2020) as against 93.50% during last review (for past 12 months ended Nov 30, 2020). HPI's average working capital utilization on standalone level was seen high at around 92.28% for the past 12 months ended Oct 31, 2020. While the working capital utilization for GBL, MPI, and ZHL remained comfortable in the range of 7%-60% during the past 12 months ended Oct 31, 2020. Nevertheless, 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. Against such liquidity, the group has debt repayments of Rs. 312.90 crore aggregately in Q3FY21 and next three quarters. The group had availed moratorium for most of its bank facilities during Q1FY21 and Q2FY21.

Analytical Approach – Consolidated

CARE Ratings has considered consolidated financials of the Emcure Group including EPL and its 12 direct and 11 indirect subsidiaries as on March 31, 2020 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, since the demerger has not been effected yet, HPI and US business under EPL is considered for consolidation.

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: Consolidation
Rating methodology: Notching by factoring linkages in rating
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

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 Eight member Board of Directors comprising four promoter/executive members and four non-executive and independent directors.

Brief Financials (Consolidated) (Rs. crore)#	FY19 (A)	FY20 (A)	7MFY21 (UA)
Total operating income	4775.04	5097.17	3308.20
PBILDT	807.56	760.70	664.28
PBT	332.85	108.89	319.69
PAT	209.19	100.61	[redacted]
Overall gearing (times)	1.23	1.29*	[redacted]
Interest coverage (times)	3.65	3.01	6.13

A: Audited

 # Based on IND-AS

*Not comparable with earlier years as this pertains to the change in accounting policies on financial lease obligations with reference to Ind AS 116, Leases adopted w.e.f April 01, 2019. For computation of overall gearing as on March 31, 2020, CARE has included lease liabilities in total debt. The ratio works out at 1.20x, if lease liability is excluded from total debt.

Brief Financials (Standalone) (Rs. crore)#	FY19 (A)	FY20 (A)
Total operating income	2505.23	2480.83
PBILDT	622.71	532.69
PBT	370.75	224.68
PAT	283.65	175.21
Overall gearing (times)	0.72	0.67
Interest coverage (times)	4.95	3.88

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-Term Loan	-	-	Jun-25	1073.01	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	743.00	CARE A1
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	536.00	CARE A; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	72.00	CARE A; Stable / CARE A1
Fund-based - LT-Proposed fund based limits	-	-	-	60.00	CARE A; Stable
Proposed Non-Convertible Debentures	-	-	-	200.00	CARE A; Stable

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	1073.01	CARE A; Stable	-	1)CARE A-; Stable (23-Jan-20) 2)CARE A; Negative (16-Sep-19)	1)CARE A+; Stable (05-Dec-18)	1)CARE A+; Stable (09-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	743.00	CARE A1	-	1)CARE A2+ (23-Jan-20) 2)CARE A2+ (16-Sep-19)	1)CARE A1 (05-Dec-18)	1)CARE A1 (09-Oct-17)
3.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	536.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (23-Jan-20) 2)CARE A; Negative / CARE A2+ (16-Sep-	1)CARE A+; Stable / CARE A1 (05-Dec-18)	1)CARE A+; Stable / CARE A1 (09-Oct-17)

						19)		
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	72.00	CARE A; Stable / CARE A1	-	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)	1)CARE A+; Stable / CARE A1 (09-Oct-17)
5.	Non-fund-based - LT-Letter of credit	LT	-	-	-	-	1)Withdrawn (05-Dec-18)	1)CARE A+; Stable (09-Oct-17)
6.	Fund-based - LT-Proposed fund based limits	LT	60.00	CARE A; Stable	-	1)CARE A-; Stable (23-Jan-20) 2)CARE A; Negative (16-Sep-19)	1)CARE A+; Stable (05-Dec-18)	-
7.	Non-Convertible Debentures-Proposed	LT	200.00	CARE A; Stable	-			

Annexure-3: List of Subsidiaries considered for consolidation

The 12 direct subsidiaries and 11 indirect subsidiaries as on March 31, 2020 (11 indirect subsidiaries as on March 31, 2020) are as given below:

Direct Subsidiaries	
1	Gennova Biopharmaecuticals 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	EmcurePharma UK Ltd
9	EmcurePharma Peru SAC
10	EmcurePharma Mexico S.A DE C.V
11	Emcure Pharmaceuticals Pty Ltd
12	Marcan Pharmaceuticals Inc
Indirect Subsidiaries	
13	Heritage Pharma Labs Inc
14	Heritage Pharmaceuticals Inc
15	Tillomed Laboratories Ltd
16	TilomedPharma Gm
17	LaboratoriosTilomed Spain SLU
18	Tillomed Italia SRL
19	Emcure NZ Limited
20	Tillomed France SAS

21	HACCO Pharma Inc
22	Tillomed Holdings Ltd**
23	Tilomed Laboratories BV

***Tillomed Holdings Ltd. UK has been dissolved on April 16, 2019
**The group has invested in Tilomed Laboratories BV, a direct subsidiary of Emcure UK on April, 2019

Annexure 4: Detailed explanation of covenants of rated instrument: NA
Annexure 5: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Proposed fund based limits	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

***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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