Corona Remedies Private Limited

March 08, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	50.00 (Enhanced from 25.00)	CARE A; Stable / CARE A1	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn*

Details of instruments/facilities in Annexure-1; *the rating assigned to the term loan facility has been withdrawn as it has been fully repaid.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Corona Remedies Private Limited (CRPL) continue to derive strength from its qualified and experienced management with established presence in the domestic pharmaceutical formulation market, diversified product portfolio spanning multiple therapeutic segments, wide marketing and distribution network and various strategic tie-ups. The ratings continue to factor its growing scale of operations and healthy profitability, comfortable capital structure, strong debt coverage indicators as well as liquidity and stable industry outlook.

The above rating strengths are, however, constrained by the on-going capital expenditure and the risk associated with the receipt of necessary regulatory approval for its manufacturing facility at Ahmedabad in time-bound manner and realisation of envisaged benefits thereon. The ratings are also constrained due to its high dependency on the contract manufacturing, presence in the price controlled and competitive domestic pharmaceutical formulation business and exposure to the inherent regulatory risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Healthy growth of more than 20% in revenue with profit before interest, lease, depreciation and tax (PBILDT) margin of around 20% and return on capital employed (ROCE) of around 25% on a sustained basis.
- Gross operating cycle not exceeding 120 days.
- Maintaining current level of leverage and strong liquidity on a sustained basis.

Negative factors

- Significant increase in the working capital intensity with gross operating cycle exceeding 180 days.
- Large size acquisition/capex or any other event resulting in significant adverse impact on its capital structure and debt coverage indicators.

Analytical approach: Standalone.

Outlook: Stable

The outlook on the long-term rating of CRPL is "Stable" considering the inherent strength of its sales and distribution network coupled with its strong portfolio of the branded generic formulation having major focus on the chromic segment, would enable it to sustain the healthy operating performance over the medium term.

Key strengths

Qualified and experienced management

CRPL is promoted by Dr Kirtikumar L. Mehta (Chairman) who has more than four decades of experience in the medicine practice and looks after general administration and export operations. He is assisted by his two sons, Nirav Mehta and Ankur Mehta, in the capacity of director, for the overall functioning of the company. The promoters are supported by qualified second-tier management with well-defined organisational structure and adequate information management system. During March-April 2021, Sepia Investment Limited, Anchor Partners and Sage Investment Trust (an affiliate of renowned Pharma Private Equity player, ChrysCapital) acquired equity stake along with 0.01% compulsory convertible non-cumulative preference shares (CCNCPS) from Cydista Limited and thereafter also purchased 8% stake from the promoters of CRPL. ChrysCapital has converted its entire CCNCPS into equity in July 2022. Post conversion, Chryscapital holds 27.50% stake in CRPL. Furthermore, Kshitij Sheth of Chryscapital is also a nominee director on the board of CRPL, benefiting the company for its overall growth and market intelligence.

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

Diversified product portfolio and established brands spanning multiple therapeutic segments
CRPL has a wide portfolio of more than 300 products under more than 70 brands across various therapeutic segments like vitamins/nutrients, hormones, gastroenterology, cardiovascular system, diabetology, anti-infective, gynaecology, respiratory system, etc. Top five therapeutic segments contributed around 79% of CRPL's total net sales during FY22 (FY21: 83%). Overall, CRPL derives nearly 70% of the revenue from the chronic segment with balance from the acute segment. Higher share of chronic therapeutics in overall revenue generally provides better revenue stability and profitability margins to CRPL. Furthermore, top 10 brands of CRPL contributed nearly 44% of its total net sales during FY22 (FY21: 49%) depicting moderately diversified product portfolio.

Wide marketing and distribution network and various strategic tie-up
CRPL has PAN-India marketing and distribution network with strong team of around 3,100 field force as on December 31, 2022. This large marketing team is spread across India, covering more than 150,000 unique doctors, more than 100,000 pharmacies across India. Furthermore, CRPL has two warehousing facilities, one located at Ahmedabad and other located at Solan, Himachal Pradesh, enabling faster movement of its products across India. In past 15 years of its operational track record, CRPL has grew significantly and currently ranked 34th (Source: IQVAI) in the Indian pharmaceuticals market. CRPL had acquired three formulation brands (Dilo, Stelbid and Vitneurin) from Glaxosmithkline (GSK) and two formulation brands (Obimet and Thyrocab) from Abbott India during FY17 and FY18, respectively, for a sum of around ₹55 crore. CRPL has been able to register healthy growth in the sales of these acquired brands along with improvement in gross margin, which demonstrates CRPL's strong marketing and distribution capabilities. With its gradual foray into various parts of the country, the share of western India in CRPL's overall sales mix has reduced from 61% in FY18 to 48% in FY22 resulting greater geographical diversification.
CRPL had invested ₹7 crore in La Chandra Pharmalab Private Limited (LCPL) in FY21 for 10.61% stake by way of compulsory convertible preference shares (CCPS). CRPL has further purchased the equity stake of 23.90%, resulted into equity holding of 23.90% and preference share holding of 9.60%, aggregating to total stake of 33.50% in LCPL as on December 31, 2022. LCPL is the manufacturers of the female hormone active pharmaceutical ingredient (API) from its EU-GMP-certified plant located at Palanpur, Gujarat. CRPL benefits from the assured supply of the key raw materials for its female hormone formulations considering its current as well as future requirements. During FY22, CRPL has entered in the co-marketing agreements with the Albert David Limited for its human placental extract for PAN-India level. CRPL has also entered in-licensing tie-ups and co-marketing as well as solo-marketing agreements with Ferring Pharmaceuticals for its certain products for the India market. Going forward, with various initiatives undertaken by the company, CARE Ratings Limited (CARE Ratings) expects, CRPL to further strengthen its distribution network and thereby its presence in the domestic market.

Operationalisation of new facility at Ahmedabad
In March 2021, CRPL had completed setting-up of its new formulation manufacturing facilities at Bhayla, Ahmedabad (Gujarat) with total project cost of ₹106 crore, which was funded with D:E mix of 0.47:1. CRPL had applied for EU-GMP certification through Hungary. In February 2023, CRPL has completed the EU-GMP audit for the said plant and as articulated by the management, there were no critical and major observations from the concerned authority, barring some minor observations, and company expects the EU-GMP certification by Q1FY24. Also, CRPL has already started the production from this plant from FY22 as per EU-GMP standards, and currently it caters the domestic market. This plant manufactures oral solid drugs (OSD) formulations (tablets, capsule and powder). The commencement of the export sales for the European market may take around 2 years' time, as the company needs to file for the approval with competent authority post receipt of the EU-GMP certificate.

Growing scale of operation with healthy profitability
The total operating income (TOI) of CRPL grew by 7% from ₹576.35 crore during FY21 to ₹617.75 crore during FY22 with gynaecology and respiratory segment exhibiting strong growth on y-o-y basis apart from other therapeutic segments. CRPL moved from super distributor (SD) model to carrying and forwarding (C&F) model w.e.f. from January 01, 2022, due to which its TOI remained moderate and was not comparable to FY21 level. Considering the SD model, CRPL would have reported TOI of around ₹750 crore for FY22.
CRPL has healthy gross margin of around 74-76%. Its profitability remained healthy marked by PBILDT margin of 18.32% during FY21. The PBILDT margin declined to 2.97% during FY22 due to change in the distribution model and as a result of the said changes, CRPL purchased back the entire stock lying with various SDs as on December 31, 2021, resulting in the decrease in the sales by around ₹133.27 crore and PBT by around ₹106.42 crore for FY22. However, considering the SD model, CRPL would have reported (adjusted) PBILDT margin of 17.44% for FY22. Furthermore, over the years, CRPL has consistently added new brands to its portfolio leading to consistent growth in scale of operation over the years. Also, during FY22 (January 2022) it has launched two new divisions, namely, Radiance for Cardiology and Diabetology segment (CVD) and SOLARIS for Gynaecology.

With decline at the PBILDT level due to the afore-mentioned reason, CRPL reported minor losses at profit after tax (PAT) level during FY22. The gross cash accruals (GCA) declined from ₹82.34 crore during FY21 to ₹20.63 crore during FY22. During 9MFY23, CRPL has expanded its sales force (MR) by around 20% to further strengthen its position in the Gynaecology and CVD segment. For 9MFY23, CRPL reported TOI of ₹657.50 crore and PBILDT margin of 15.73%. Going forward, CARE Ratings expects CRPL's PBILDT margin to improve to around 16-18% with scale-up of the operation from its new plant.

Comfortable capital structure and healthy debt coverage indicators

CRPL has comfortable capital structure which further improved marked by overall gearing 0.14x as on March 31, 2022, as compared with 0.18x as on March 31, 2021. Over the years, CRPL has exhibited low reliance on external debt and funded majority of its working capital requirement through internal accruals. It had availed term debt of ₹50 crore during FY21 for the green-field capex of the Ahmedabad plant, which was pre-paid during Q1FY23. The total debt of the company remained low at ₹40.52 crore (excluding lease liability) as on December 31, 2022 [₹49.87 crore (excluding lease liability) as on March 31, 2021]. Tangible net worth (TNW) remained healthy at ₹330.34 crore as on March 31, 2022. The debt coverage indicators of the CRPL moderated during FY22 due to change in the business model leading to decline in the profitability during FY22. For 9MFY23, the debt coverage indicators remained strong marked by PBILDT interest coverage of 47.88x and TDGCA of 0.38x. Going forward, with no major debt-funded capex in pipeline, CARE ratings expects CRPL to maintain its comfortable capital structure and strong debt coverage indicators.

Stable industry outlook

The Indian Pharmaceutical Industry (IPI) is ranked third globally in terms of volume and thirteenth in terms of value. The lower market share in terms of value can be attributed to the predominance of IPI in generic medicines which command lower prices. The size of the Indian pharmaceutical market (IPM) was estimated at around USD 50 billion in FY22, and the same is expected to grow at a compounded annual growth rate (CAGR) of around 8% over FY22-FY25 to reach a size of over USD 65 billion. Growth in the domestic pharmaceuticals market is expected to be driven by increase in the health insurance penetration, improving access to healthcare facilities, lifestyle changes, rising prevalence of chronic diseases and rising per capita income.

Key weaknesses

High dependence on contract manufacturing

CRPL follows asset light approach and outsource part of its manufacturing requirements which lead to low overhead, high asset turnover and the improvement in the profitability over the years. During FY22, share of the in-house manufacturing was around 57% (FY21: 50%), and the balance was contract manufactured in the overall sales mix. Although the contract manufacturing keeps business model asset light, it possesses the supply chain-related issues regarding the quality control and resultant reputation risk. However, the company largely gets low value-added formulation products manufactured through contract manufacturers. Also, with the commercialisation of the new plant at Ahmedabad, CARE Ratings expects that the sales proportion of the in-house manufacturing to contract manufacturing would remain at around 70:30 in the medium-term.

Exposure to inherent regulatory risk along with presence in the competitive industry

CRPL is exposed to the regulatory risk which is inherent to the pharmaceuticals industry. The players in the pharmaceutical industry need to adhere to the stringent quality standards. Good manufacturing practice (GMP) must be followed for the control and management of manufacturing and quality control of drugs. The government also controls the prices of pharmaceutical products through the Drug Price Control Order (DPCO) under price control mechanism. However, as articulated by the company, currently CRPL derives less than 10% of its revenue from products covered under DPCO thus reduces the risk to a certain extent. In February 2023, CRPL completed the EU-GMP audit for its Ahmedabad plant. As articulated by the management, there were no critical or major observations from the concerned authority, barring some minor observations; and EU-GMP certification is expected by Q1FY24. The process of the plant approval for the regulated market is lengthy and any delay in receiving the approval can impact its expansion plan in the export market and may adversely impact the envisaged returns on the capital invested. However, CARE Ratings note that CRPL has already started the production from the same plant from FY22 as per EU-GMP compliances and currently caters the domestic market.
The Indian Pharmaceutical Industry (IPI) is ranked third globally in terms of volume and thirteenth in terms of value. The lower market share in terms of value can be attributed to the predominance of IPI in generic medicines which command lower prices. CRPL is primarily engaged in the marketing of branded generic formulations in the domestic market, which exposes it to intense competition and pressure on selling price.

On-going green-field capex for hormone formulations

CRPL is currently undertaking the new green-field capital expenditure to manufacture the female hormone formulations. This plant is adjacent to its existing plant at Ahmedabad. The total cost of the project is estimated at around ₹85 crore, which will be

entirely funded from the internal accruals. As on February 20, 2023, CRPL has incurred total cost of ₹42, and the project is expected to be complete by December 2023, while the commercial production is expected to commence from April 2024. Notably, CRPL currently manufactures the hormones formulations from its Solan plant with key raw material being procured from the LCPL. Completion of this plant will lead to further increase in its production capacities along with addition of new product offerings.
Completion of the project in the envisaged time and cost parameter remains crucial for the growth of CRPL. Any major delays in the completion of the project or any significant cost overrun impacting its liquidity remains the key rating monitorable.

Liquidity: Strong
CRPL has strong liquidity characterised by healthy cash accruals vis-à-vis its nil term debt repayment obligations, healthy liquid investment and cash & bank balance and very low working capital utilisation. Average fund-based working capital utilisation remained very low at around 4% for past 12-months ended January 31, 2023, providing sufficient cashflow cushion. CRPL is expected to earn GCA of over ₹100 crore in FY23, whereas it has pre-paid its entire term debt repayment obligation during Q1FY23. Expected cash accruals along with availability of free cash and bank balance and liquid investments (majorly in the fixed deposits) to the tune of ₹78.30 crore as on December 31, 2022, would be sufficient to cater its capex requirement over near to medium term. Cash flow from operation remained at healthy ₹100.55 crore during FY22 (FY21: ₹85.44 crore) and its current and quick ratio remained comfortable at 1.69x and 1.31x, respectively, as on March 31, 2022.
With change in the distribution model from SD to C&F, the debtor days reduced from 119 days during FY21 to 82 days during FY22, whereas inventory holding days increase from 24 days during FY21 to 37 days during FY22. However, the overall operating cycle moderated from 97 days during FY21 to 72 days during FY22.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in August 2004 and based out of Ahmedabad, CRPL (CIN: U24231GJ2004PTC044656) is engaged in the manufacturing and marketing of branded generic formulations. Promoted and controlled by the Mehta family, CRPL started its operations by marketing of formulations. CRPL operates two manufacturing units one in Solan (Himachal Pradesh, WHO-CGMP certified which started operations in 2007) and other at Bavla, Ahmedabad (which commenced operations in March 2021 and has applied of EU-GMP certification). Over the years, CRPL has expanded its brand portfolio to more than 70 brands spanning over several therapeutic segments.
During July 2016, Cydista Limited (an affiliate of PE firm Creador III LLP) acquired minority stake and subscribed to CCPS of CRPL for ₹100 crore, which were to be converted into equity capital within 3 years, which was later extended as per mutual agreement. During March-April 2021, Sepia Investment Limited, Anchor Partners and Sage Investment Trust (an affiliate of renowned Pharma Private Equity player, ChrysCapital) acquired equity stake along with 0.01% compulsory convertible non-cumulative preference shares (CCNCPS) from Cydista Limited and thereafter also purchased 8% stake from the promoters of CRPL. ChrysCapital has converted its entire CCNCPS into equity in July 2022. Post conversion, Chryscapital holds 27.50% stake in CRPL, and balance is being held by the promoters.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	576.35	617.75	657.50
PBILDT	105.58	18.32	103.42
PAT	69.95	-0.40	66.10
Overall gearing (times)	0.18	0.14	N.A.
Interest coverage (times)	52.58	3.87	47.88

A: Audited; Prov.: Provisional; N.A.: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	April 2024*	0.00	Withdrawn
Fund-based-LT/ST	-	-	-	-	50.00	CARE A; Stable / CARE A1

*fully pre-paid during Q1FY24

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-LT/ST	LT/ST*	50.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (20-Dec-21)	1)CARE A-; Positive / CARE A2+ (20-Oct-20)	1)CARE A-; Stable / CARE A2+ (24-Sep-19)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A; Stable (20-Dec-21)	1)CARE A-; Positive (20-Oct-20)	1)CARE A-; Stable (24-Sep-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based-LT/ST	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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