

## Hetero Labs Limited

January 10, 2023

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3,118.49	CARE A+; Stable (Single A Plus; Outlook: Stable )	Reaffirmed and removed from Rating Watch with Developing Implications ; Stable outlook assigned
Long Term / Short Term Bank Facilities	1,250.00	CARE A+; Stable / CARE A1+ (Single A Plus ; Outlook: Stable/ A One Plus )	Reaffirmed and removed from Rating Watch with Developing Implications ; Stable outlook assigned
<b>Total Bank Facilities</b>	<b>4,368.49</b> <b>(₹ Four Thousand Three Hundred Sixty-Eight Crore and Forty-Nine Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Hetero Labs Limited (hereinafter known as HLL) have been reaffirmed and removed from 'Rating Watch with Developing implications (RWD)'. The ratings earlier were placed on RWD subsequent to Income Tax search operations carried out in the company during October 2021 and the probable impact of the same on business and operations of the company. During the period under credit watch, CARE Ratings Limited (CARE Ratings) had been engaging in dialogue with the company's management to understand developments pertaining to the event. As per the company it has not received any demand from Income Tax department and the company has offered additional income during FY22 (refers to period April 01 to March 31) post Income tax search and has provided for the tax on the same. During FY22 the company reported Total operating income of Rs. 11930.82 crore (as against Rs. 11517.95 crore during FY21) with PBILDT margin of 14.81% (as against 20.37% during FY21). Overall gearing remained comfortable at 0.62x as on March 31, 2022. However, CARE Ratings would continue to monitor development with regard to the above event.

The bank facilities of HLL continue to factor in the moderate growth in total operating income during FY22, resolution of regulatory issues by USFDA at its Jedcherla unit in December 2022, wherein the company has filed 50 Abbreviated New Drug Application (ANDAs), of which 22 are already approved and these molecules are expected to be launched during next 6 months to 12 months. Further, the ratings continue to derive strength from strong promoter group with established track record and experienced management team, diversified product portfolio spread across multiple therapeutic segments and reputed clientele, significant presence in US market by way of building healthy portfolio of filed and approved ANDAs Y-o-Y, comfortable capital structure and moderate debt coverage indicators, integrated operations and favourable outlook for the pharmaceutical industry. The ratings, however, continue to remain constrained by moderation in operating margin during FY22, uncertainty associated with the Income Tax search operations, elongated operating cycle, foreign exchange fluctuation risk and regulatory risk inherent in the pharmaceutical industry.

### Rating sensitivities

#### 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 0.80x 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
- Any adverse assessment proceeding from income tax department resulting negatively on the operation or liquidity of the company.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers

### Key rating strengths

#### **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 than 900 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 500 products to its portfolio. The overall management of the company is looked after by the promoters 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 about 500 products in APIs and formulations. For FY22, 75% of the total consolidated operating revenue was derived from sale of formulations, 24% from sale of APIs and 1% from sale of power. HLL has a presence across 20 major therapeutic segments with majority of revenue contribution from high growth segments such as Antiretroviral (33.65% of total operating revenue during FY22), Antihypertensive (8.68%), Antiviral (17.95%), and Anti-psychotic (4.36%) etc. Further, HLL (standalone) has been supplying APIs and formulation to most of the major pharmaceuticals players. During FY22, Camber Pharmaceuticals Inc (Camber) was the major revenue contributor with 15.49% share in total operating income. Camber is a subsidiary of HLL which has been incorporated internationally to provide ease in marketing arrangement. The shareholding of HLL in Camber stands at 100% as on March 31, 2022. The company also supplies to other reputed pharma players such as Chemonics International Inc., Pfizer Inc., Sun Pharmaceutical Industries Limited, Alkem Laboratories, Cipla Limited, Lupin Limited, Dr. Reddy's Laboratories Limited etc. Further, during FY22, revenue contribution from India was highest (33.24%) followed by US (24.49%), South Africa (3.61%) and UAE (2.60%).

#### **Moderate growth in total operating income with moderation in margins during FY22**

At consolidated level, HLL has achieved 3.58% growth in its total operating income which stood at Rs. 11930.82 crore during FY22 as against Rs 11517.95 crore during FY21. The moderation in growth in FY22 over FY21 appears on account of high base effect of FY21 where due to Covid the total revenue of the company improved by ~40%. From FY20 to FY22 company's revenue grew by CAGR 21% from Rs 8223.11 crore in FY20 to Rs 11930.82 crore in FY22. The PBILDT margin at consolidated level moderated to 14.81% in FY22 from 20.37% in FY21. The moderation in the margin is on account of change in the product mix and increase in raw material cost coupled with pricing pressure across the global pharmaceutical industry during FY22.

#### **Integrated 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 FY22, at consolidated level, around 36.0 percent of the total raw materials (Rs 2500 crore) were procured from its group companies (associates and the companies on which key management personnel of HLL can exercise significant influence) out of which, Hetero Drugs Limited (HDL) and Honour Lab Limited were the major contributors. HLL is primarily engaged in the business of formulations segment, whereas HDL is mainly focusing on the API segment. HLL would continue to depend on, its associate concerns particularly HDL, Honour Lab Ltd, Hindys Lab Private Limited, Dasami Lab Private Limited and Cirex Pharmaceuticals Ltd, to procure APIs required for manufacture of finished.

#### **Strong presence in the US market through ANDA filing**

HLL has its presence multiple geographies such as USA, UAE, South Africa, Thailand etc. It derives about 25% of its revenue from US market. The company has a rich history of filing Abbreviated New Drug Application (ANDAs) for new drugs. Till now (December 2023) company has filed about 226 ANDAs out of which 129 have received approval while 67 are under review. At a group level company has filed 301 ANDAs with USFDA out of which 168 have received approval and 101 are under review.

#### **Resolution of regulatory issues by USFDA at Jedcherla unit**

The USFDA has earlier issued warning letter to Jadcherla Unit of HLL in December 2016. Recently in December 2022, USFDA has reinspected the facility and issued close out letter for warning letter. The company has filed total 50 ANDAs from this unit and out of the same 22 are approved and remaining 28 are under review with USFDA. CARE Ratings believes that closure of warning letter provides significant opportunities for the company to launch new products in the US market in next 6 months to 12 months and reap benefits therefrom.

#### **Comfortable capital structure**

Capital structure of HLL continues to remain comfortable represented by comfortable debt to equity and overall gearing as on March 31, 2022. The overall gearing as on March 31, 2022 stood at 0.62x as against .80x as on March 31, 2021. The debt risk metrics such as term debt/GCA improved to 0.99x in FY22 (against 1.47x in FY21) and total debt/GCA and Interest coverage stood at 3.61x and 7.60x in FY22 (against 3.39x and 8.09x in FY21) respectively.

**Key rating weaknesses****Elongated operating cycle**

During FY22, the operating cycle of the company deteriorated from 193 days during FY21 to 213 days mainly due to increase in both average collection period as well as in average inventory days. The collection days and inventory days stood at 127 days and 167 days respectively during FY22 as against 119 days and 157 days respectively during FY21. 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 is offering 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 has to maintain buffer stock. However, the same is offset to some extent by credit period from suppliers and balance is met through working capital limits.

**Regulatory Risk**

HLL has its presence in multiple countries across the world. Considering the nature of the product usage and application, and consequent impacts, HLL is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have an impact on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks. Further, almost after six years one of its plant located at jadcherla received close out letter from USFDA.

**Liquidity: Strong**

Liquidity is marked by strong accruals of Rs. 1308 crore during FY22 against repayment obligations of Rs. 192.47 crore during FY23. The company had cash balance of Rs. 257.72 crore as on March 31, 2022. Further, out of the total debt obligation during FY23, the company had repaid Rs.148.67 crore till Sep 30, 2022. Average of maximum monthly utilization of fund-based limits during last 12 months stood at ~90% and average monthly utilization of non-fund based limited during last 12 months ending March 2022 stood at ~38%. The current ratio of the company stood comfortable at 1.60 during as on March 31, 2022. CARE Ratings expects HLL to generate gross cash accruals in the range of Rs 1500 crore -Rs 1600 crore every year. The company is expected to incur regular maintenance capex and capacity enhancement capex in the range of Rs 400 crore -Rs 500 crore every year and the debt repayment obligation during FY23 and FY24 is expected to be about Rs 230 crore to Rs. 260 crore. Considering the cash accruals generated by the company in the recent past and estimated accruals, it is expected that the company would be able to meet its debt obligations comfortably after meeting its capex and increased working capital requirements.

**Analytical approach**

Consolidated - CARE in its analysis has considered the consolidated business and financial risk profiles of Hetero Labs Limited and its subsidiaries/associates/Joint Ventures as these entities are linked through a parent-subsidiary relationship and collectively have common management, business & financial linkages. The subsidiaries/associate/joint ventures of HLL which have been consolidated are mentioned in Annexure 6.

**Applicable criteria**

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Pharmaceutical](#)

[Policy on Withdrawal of Ratings](#)

[Manufacturing Companies](#)

[Factoring Linkages Parent Sub JV Group](#)

**About the company**

Incorporated in 1989, 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 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (P)*
Total operating income	11517.95	11930.82	5930.93
PBILDT	2345.75	1766.37	1001.12
PAT	1302.69	1011.75	620.04
Overall gearing (times)	0.80	0.62	-
Interest coverage (times)	8.09	7.60	9.79

A: Audited, P: Provisional

\*standalone numbers

**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 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 (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	-	-	-	31/03/2026	200.86	CARE A+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	2917.63	CARE A+; Stable
Non-fund-based - LT/ST-BG/LC	-	-	-	-	1250.00	CARE A+; Stable / CARE A1+

**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-Working Capital Limits	LT	2917.63	CARE A+; Stable	1)CARE A+ (RWD) (27-Dec-22)	1)CARE A+ (CW with Developing Implications) (07-Dec-21) 2)CARE A+ (CW with Developing Implications) (19-Oct-21)	1)CARE A+; Positive (08-Jan-21)	1)CARE A; Stable (13-Feb-20) 2)CARE A; Stable (04-Apr-19)
2	Fund-based - LT-Term Loan	LT	200.86	CARE A+; Stable	1)CARE A+ (RWD) (27-Dec-22)	1)CARE A+ (CW with Developing Implications)	1)CARE A+; Positive (08-Jan-21)	1)CARE A; Stable (13-Feb-20)

						(07-Dec-21)		2)CARE A; Stable (04-Apr-19)
						2)CARE A+ (CW with Developing Implications) (19-Oct-21)		
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1250.00	CARE A+; Stable / CARE A1+	1)CARE A+ / CARE A1+ (RWD) (27-Dec-22)	1)CARE A+ / CARE A1+ (CW with Developing Implications) (07-Dec-21)  2)CARE A+ / CARE A1+ (CW with Developing Implications) (19-Oct-21)	1)CARE A+; Positive / CARE A1+ (08-Jan-21)	1)CARE A; Stable / CARE A1 (13-Feb-20)  2)CARE A; Stable / CARE A1 (04-Apr-19)

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/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	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Annexure-6: List of subsidiaries, associates and joint ventures**

Entity Name	Relation	% of holding as on March 31, 2022
Annora Pharma Private Limited	Subsidiary	100.00
Aspiro Pharma Limited	Subsidiary	99.86
Strivo Pharma Private Limited	Subsidiary	99.86
Evaric Pharma Limited	Subsidiary	100.00
Hetero Med Solutions Limited	Subsidiary	51.00
Hetero Wind Power(Ananta)Private Limited	Subsidiary	100.00
Hetero Wind Power(Pennar)Private Limited	Subsidiary	100.00
Hetero Wind Power(Rayala)Private Limited	Subsidiary	100.00
Hetero Wind Power Limited	Subsidiary	51.38
Amarox Ukraine Limited	Subsidiary	95.00
Actero Pharma Private Limited	Subsidiary	100.00
Abhiru Industries Limited	Subsidiary	100.00
Yatnam Lab Limited	Subsidiary	100.00
Hetero Biopharma Limited	Subsidiary	100.00
Camber Consumer Care Inc.	Subsidiary	100.00
Camber Pharmaceuticals Inc	Subsidiary	100.00
Amarox Pharmaceuticals,S.A.	Subsidiary	100.00
Camber Pharmaceuticals S.A	Subsidiary	100.00
DMN Invest LLC	Subsidiary	99.99
Excellen Peru S.A.C	Subsidiary	99.90
Hetero Australia pty Limited	Subsidiary	90.00

Entity Name	Relation	% of holding as on March 31, 2022
Hetero FZCO U.A.E	Subsidiary	95.00
Hetero Kenya Limited	Subsidiary	90.00
Hetero Labs Nigeria Limited	Subsidiary	90.00
Agrata Lab Private Limited	Subsidiary	100.00
Camber Pharmaceuticals Inc (formerly Hetero Philippines Inc.)	Subsidiary	100.00
Hetero Singapore Pte Ltd.	Subsidiary	100.00
Camber Pharmaceutical Co. Ltd. Thailand( formerly Hetero Thailand Limited)	Subsidiary	100.00
Makiz Pharma LLC.	Subsidiary	100.00
Pharmed Healthcare Company SAE	Joint venture	25.50
Renhe Hetero Pharmaceuticals Ltd, China	Joint venture	49.00
Mintz Pharmaceuticals Inc.	Joint venture	46.80
Nexgen Pharma FZ (L.L.C.)	Joint venture	50.00
Camber Farmaceutical Ltda	Subsidiary	100.00
Ascent Pharmaceuticals Inc	Joint venture	51.00
Hetero Pharma Russia LLC, Russia	Subsidiary	100.00
Secura Pharma GMBH	Subsidiary	100.00
Hetero Saudi Labs Limited, U.A.E.	Joint venture	50.00
Hetero Labs South Africa Pty	Subsidiary	100.00
Hetero Infrastructure SEZ Limited	Subsidiary	58.97
Sri Sai Ashirwaad Logistic Limited	Associate	50.00
Dialog Pharma LLC	Associate	50.00
Hetero Europe S.L	Associate	50.00
Hetero USA Inc.	Associate	50.00
Veer West Realty India Private Limited	Subsidiary	100.00
PT AmaroX global	Subsidiary	81.00
Anaika Industries Limited	Subsidiary	100.00
Evaric Pharmaceuticals Inc.	Subsidiary	100.00
Amarox UK	Subsidiary	100.00
Camber Pharma LLP	Subsidiary	100.00
Tarbis Farma SLU	Subsidiary	100.00
AK Sintvita LLC	Subsidiary	100.00
Camber Laboratories SDN BHD	Subsidiary	100.00
Hetero Pharma Beijing Co Ltd	Subsidiary	100.00
Camber Pharmaceuticals HongKong Limited	Subsidiary	100.00
Amarox Pharma B.V	Subsidiary	100.00
Camber Pharmaceuticals Co. Ltd	Subsidiary	100.00
Annora Pharma FZ LLC	Subsidiary	100.00
Amarox (Canada) Limited	Subsidiary	100.00

**Note on 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](mailto:care@careedge.in) for any clarifications.

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### About us:

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