

Corona Remedies Private Limited

December 20, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	38.61 (Reduced from 50.00)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Long Term / Short Term Bank Facilities	25.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Revised from CARE A-; Positive / CARE A2+ (Single A Minus; Outlook: Positive / A Two Plus)
Total Bank Facilities	63.61 (Rs. Sixty-Three Crore and Sixty-One Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Corona Remedies Private Limited (CRPL) takes into account its steady growth in its scale of operations and improvement in its profitability during FY21 (FY refers to the period from April 01 to March 31) and H1FY22 resulting in strong cash accruals and its strong liquidity on the back of build-up of healthy liquid investment and cash and bank balance. The rating also factors in successful completion of its debt funded capex of setting up new manufacturing plant at Bavla, Gujarat which is expected to support its growth and increase proportion of in-house manufactured products going forward.

The ratings continue to derive strength from its qualified and experienced management, established presence in the domestic pharmaceutical formulation market along with diversified product portfolio spanning multiple therapeutic segments and its wide marketing and distribution set-up. The ratings also continue to derive strength from its low leverage, comfortable debt coverage indicators and healthy return ratios. CARE also takes cognizance of the exit of earlier Private Equity (PE) firm through acquisition of the equity stake as well as compulsorily convertible non-cumulative preference shares by another PE player (Chrys Capital).

The above rating strengths are, however, constrained by CRPL's increasing working capital intensity with elongated debtor's days, its high dependency upon contract manufacturing, presence in price controlled and competitive domestic pharmaceutical formulation business, inherent regulatory risk associated with the pharmaceutical industry and risk associated with the receipt of necessary regulatory approval from concerned authority for its new manufacturing facility in timebound manner and realizing envisaged benefit thereon.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Healthy growth of more than 20% in revenue with PBILDT margin around 20% and ROCE around 25% on a sustained basis
- Gross operating cycle not exceeding 120 days
- Maintaining current low leverage and strong liquidity

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

- Significant increase in 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

Detailed description of the key rating drivers

Key Rating Strengths

Growing scale of operation with significant improvement in the profitability during FY21 and H1FY22

CRPL is one of the fastest growing Pharma company in domestic market. TOI of CRPL's grew at a compounded annual growth rate (CAGR) of ~18% from Rs.292.12 crore during FY17 to Rs.580.56 crore during FY21. CRPL derives majority of its revenue from the domestic market (FY21: 96%) with majority of its sales being prescription driven. Its TOI remained stable during FY21 as compared to FY20 due to lower prescription-based sales during H1FY21 due to Covid 19 pandemic and resultant nationwide lockdown leading to low outpatient turnout. However, with easing of the movement restrictions and opening-up of the economy, CRPL witnessed strong recovery and achieved net sales of Rs.388.28 crore during H1FY22 as compared with Rs.272.69 crore during H1FY21; exhibiting a strong growth of 42% on y-o-y basis. Strong marketing and distribution network,

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

deepening geographical presence, growing contribution from the top brands and expansion in the manufacturing capacity with completion of the new manufacturing plant is expected to support its growth in scale of operations in the near to mid-term. CRPL's PBILDT margin improved by 327 bps on account of lower selling expenses, better product mix and expansion in gross margin (from 73% during FY20 to 75% during FY21). With increase at the PBILDT level and low interest and finance cost, GCA grew from Rs.70.59 crore during FY20 to Rs.82.34 crore during FY21. PBILDT and PAT margin further improved to 24.33% and 16.05% respectively during H1FY22. However, with expected increase in the marketing and selling expenses and travelling cost during H2FY22, PBILDT margin are likely to remain in the range of 18%-20% during FY22.

Completion of new greenfield manufacturing plant with commencement of commercial operation

In March 2021, CRPL has completed setting-up of its new formulation manufacturing facilities at Bavla, Ahmedabad (Gujarat). Total cost of the project was envisaged Rs.85 crore however, the same increased to Rs.106 crore due to change in some specifications of the project. The same was funded by term loan of Rs.50 crore (as envisaged earlier) and remaining through internal accruals resulting in low project D:E ratio of 0.89:1. The completion of the project led to significant increase (doubling the capacity) in the capacity of the CRPL. CRPL has also applied for the EU-GMP approval and has already started the commercial operation for the domestic market at the plant. This plant would support its growing scale of operation as well as is expected to result in lower dependence on contract manufacturing going forward.

Comfortable capital structure and healthy debt coverage indicators

Despite debt funded capex, CRPL continues to have comfortable capital structure which further improved marked by overall gearing 0.18x as on March 31, 2021 as compared with 0.22x as on March 31, 2020. CARE has treated compulsory convertible non-cumulative preference shares (CCNCPS) held by PE investors in CRPL as quasi equity. T. net-worth remained healthy at Rs.337.84 crore as on March 31, 2021. Furthermore, CRPL funds majority of its incremental working capital requirement through internal accruals which also bodes well for the stability of the capital structure below 0.50x going forward. With low debt level and strong cash accruals, CRPL's debt coverage indicators remained healthy marked by PBILDT interest coverage and TDGCA of 54.67x and 0.74x respectively during FY21 as compared with 41.74x and 0.83x respectively during FY20. CRPL operates on an asset light business model which along with improvement in profitability margins over the years resulted in strong return indicators marked by return on capital employed (ROCE) of above 25x during FY19-FY21 period.

Qualified and experienced management

CRPL is promoted by Dr. Kirtikumar L. Mehta (Chairman) who has more than four decades experience in medicine practice and looks after general administration and export operations of CRPL. He is assisted by his two sons Mr. Nirav Mehta and Mr. Ankur Mehta in the overall functioning of the company in the capacity of the Director. Mr. Nirav Mehta (B.Pharm, MBA) has marketing experience of more than two decades of experience in the domestic pharmaceutical formulation industry. Mr. Ankur Mehta (B.Sc, MBA) looks after purchase, production and finance functions of CRPL for more than a fifteen years. Further CRPL has well-qualified and experienced second tier management with well-defined organisational structure and adequate management information system.

Diversified product portfolio and established brands spanning multiple therapeutic segments

CRPL has a wide portfolio of more than 300 products under its 73 brands across various therapeutic segments like Vitamins/Nutrients, Hormones, Gastroenterology, Cardiovascular System, Anti-Infective, Gynaecology, Respiratory System, etc. Top 5 therapeutic segments contributed around 79% of CRPL's total net sales during FY21 (FY20: 83%). Share of chronic therapeutic segments in its total net sales has also gradually with ratio of 62:38 respectively during FY19 to 72:28 respectively during FY21. Higher share of chronic therapeutics in overall revenue generally provides better revenue stability and profitability margins for a pharmaceutical company. Furthermore, top 10 brands of CRPL contributed nearly 52% of its total net sales during FY21 (FY20: 48%) depicting moderately diversified product portfolio.

Wide marketing and distribution network

CRPL has pan India marketing and distribution network with strong team of around 1,976 field medical representatives (MR). This large marketing team is spread across India, covering more than 1,50,000 unique doctors, more than 1,00,000 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 north and west India. In 15 years of operational track record, CRPL has become one of the top 50 companies in the Indian branded formulation 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 Rs.55 crore. CRPL has been able to register healthy growth in the sales of these acquired brands along with improvement in gross margin, which also demonstrates CRPL's 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 71% in FY17 to 56% in FY21 resulting greater geographical diversification.

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. IPI has exhibited compound annual growth rate (CAGR) of about 7.20% during FY17-FY21 and registered a growth of about 12% during FY21. With the wide opportunity that exists ahead for Indian pharma due to increase in penetration of health insurance, growing chronic diseases, pharma companies endeavoring to move up in value chain towards New Chemical Entity (NCE), biosimilars and specialty drugs combined with support from government, increase in interest expressed by PE players in the industry provides bodes well for the growth prospect of the sector.

Liquidity: Strong

CRPL has strong liquidity characterized by strong cash accruals vis-à-vis its low debt repayment obligations, healthy liquid investment and cash & bank balance and cushion available from unutilized fund based working capital facilities. CRPL is expected to earn GCA of Rs.90-110 crore in FY22 as against low debt repayment obligation of ~Rs.18 crore. Cash flow from operation remained at healthy Rs.89.66 crore during FY21. Its liquidity is also supported by liquid investment and free cash and bank balance of Rs.72.48 crore as on March 31, 2021 and Rs.111.04 crore as on September 30, 2021. Average fund based working capital utilization remained very low at 9% for past twelve months ended September 30, 2021. Current ratio and quick ratio remained strong at 1.99x and 1.83x respectively as on March 31, 2021.

Key Rating Weaknesses

Increasing working capital intensity with elongated debtor's days

Operations of CRPL continue to remain working capital intensive marked by gross operating cycle days of 144 during FY21 which increased from 115 days in FY20 due to elongated debtors days of CRPL at 119 days during FY21 as compared with 92 days during FY20. After implementation of GST the company switched to super distributor model (as compared with C&F model before implementation of GST) which led to increase in its average collection period while led to decline in the average inventory days. However, as the company operates at a gross margin of around 70-75% and inventories are recorded at cost, increase in its average collection period was more pronounced than decline in its average inventory holding period. Apart from this, CRPL also needs to extend higher credit period for expansion into newer geographies. Operating cycle remains elongated at 98 days during FY21 as compared with 80 days during FY20.

As articulated by the company management, there would not be any further elongation in debtors' days with optimization of stock to be maintained at super distributor level which are also reflected in H1FY22. However, same is key credit monitorable.

High dependence on contract manufacturing

CRPL follows asset light approach and outsource part of its manufacturing requirements which lead to low overhead and the improvement in the profitability over the years. The share of formulations acquired through contract manufacturing remains at around 50% of the total sales during FY21 which was at similar level during FY20. Although the contract manufacturing keeps business model asset light and reduces the operational leverage, it also poses a supply chain risk, issues related to quality control and resultant reputation risk. However, company largely gets low value-added formulation products through contract manufacturers. Also, with completion of new unit, sales proportion from in-house manufacturing is expected to increase going forward.

CRPL has low spend on research and development (R&D) at less than 1% of its total sales over last three years ended FY21 which may adversely impact its ability to develop and launch higher margin new products.

Exposure to inherent regulatory risk associated with pharmaceutical industry

CRPL is exposed to regulatory risk which is inherent in the with pharmaceuticals formulation manufacturing business. The players in the pharmaceutical industry need to manufacture products that meet the set quality standards. Good manufacturing practice (GMP) must be followed for the control and management of manufacturing and quality control testing 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 which mitigates the risk to certain extent.

In March 2021, CRPL commenced operation of its new greenfield manufacturing plant for which it has also applied for the EU-GMP certification. The process of the plant approval for the regulated market is lengthy and may take 2 to 3 years. The risk remains due to the fact that any delays in the approval from the concerned authority can impact its expansion plan in the export market and may adversely impact the envisaged returns on the capital invested.

Competitive industry landscape

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 marketing of branded generic formulations in domestic market which exposes it to intense competition and pressure on selling price.

Analytical approach: Standalone

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](#)

About the Company

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 Mehta family (Mr. Nirav Mehta and Mr. Ankur Mehta), CRPL started its operations by marketing of formulations. CRPL established WHO-CGMP approved manufacturing plant in Solan (Himachal Pradesh) in 2007. Since then, CRPL has expanded its brand portfolio to more than 73 brands spanning over several therapeutic segments. In March 2021, CRPL had completed capex and operationalize greenfield manufacturing plant to manufacture various formulation at Bavla, Ahmedabad.

During July 2016, Cydista Limited (an affiliate of private equity (PE) firm Creador LLP) acquired minority stake and subscribed to compulsory convertible non-cumulative preference share (CCNCPS) of CRPL for Rs.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 (an affiliate of PE player Chrys Capital) acquired equity stake along with CCNCPS from Cydista Limited in secondary market transaction and thereafter also acquire partial stake from the promoters. CCNCPS are expected to be converted to equity share by March 2024.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Prov.)
Total operating income	603.08	580.56	390.74
PBILDT	94.30	109.79	95.08
PAT	58.80	69.95	62.72
Overall gearing (times)	0.22	0.18	0.12
Interest coverage (times)	41.74	54.67	59.43

A: Audited; Prov.: Provisional

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/ST	-	-	-	-	25.00	CARE A; Stable / CARE A1
Fund-based - LT-Term Loan	-	-	-	April 2024	38.61	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			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/ST	LT/ST*	25.00	CARE A; Stable / CARE A1	-	1)CARE A-; Positive / CARE A2+ (20-Oct-20)	1)CARE A-; Stable / CARE A2+ (24-Sep-19)	1)CARE A-; Stable / CARE A2+ (20-Aug-18)
2	Fund-based - LT-Term Loan	LT	38.61	CARE A; Stable	-	1)CARE A-; Positive (20-Oct-20)	1)CARE A-; Stable (24-Sep-19)	-

* 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	Fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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