Orchid Pharma Limited

December 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	135.00	CARE A- (RWD)	Placed on Rating Watch with Developing Implications
Long Term / Short Term Bank Facilities	75.00	CARE A- / CARE A2 (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	84.00	CARE A2 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings has placed the ratings assigned to the bank facilities of Orchid Pharma Limited (Orchid) on Rating Watch with Developing implications. The rating action follows the company's announcement of the approval of board of directors for a proposed scheme of amalgamation and arrangement between Dhanuka Laboratories Limited (DLL), and Orchid. DLL is the parent company of Orchid and holds about 69.84% of the shares in Orchid. CARE Ratings notes that the aforementioned scheme is subject to various approvals. CARE Ratings will be monitoring developments in this regard and the possible impact of the same on the credit profile of the company.

The rating assigned to the bank facilities of Orchid Pharma Limited (Orchid) takes into account the successful completion of the qualified institutional placement (QIP) issue resulting in substantial improvement in the financial risk profile, marked by pre-payment of debt and virtually external-debt-free status of the company. The rating also factors in the steady improvement in the operational performance marked by improved capacity utilisation leading to increase in scale and profitability.
The ratings continue to draw comfort from the promoter's experience in the pharmaceutical industry and internationally-accredited manufacturing facility of the company.
The ratings are tempered by the concentrated product portfolio, declining proportion of sale from regulated markets and exposure to the regulatory risk and substantial dependence on imports for the raw materials.
CARE Ratings Limited (CARE Ratings) notes that the company, as part of the backward integration, is setting up a unit for production of Key Starting Material (KSM). This capex is expected to be a relatively large-sized debt-funded project. The project is being set up under the production-linked incentive (PLI) scheme of the government of India (GOI) and timely completion of this project within cost estimates would be key to the company's prospects.
The commercialisation and scaling up of other initiatives with respect to launch of new products and receipt of royalty proceeds for the new chemical entity (NCE) would augur positively for the company.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely completion of the capex at subsidiary and deriving benefits from the same at a consolidated level
- Improvement in scale of operations above ₹1,000 crore with margins above 20% deriving benefits from expansion in regulated markets, receipt of royalty proceeds from the NCE

Negative factors

- Any negative regulatory observations resulting in disruption of operations.
- Increase in the debt level (excluding OCD from the promoters) resulting in deterioration of TDGCA above 3.5x on a sustained basis
- Delays in project implementation or cost overruns in the project being implemented at a consolidated level

Analytical approach: Consolidated

CARE Ratings has adopted the consolidated approach for analysing Orchid Pharma Limited. The consolidated balance sheet of Orchid includes the following subsidiaries:

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

Subsidiaries	Shareholding as on March 31, 2023
Orchid Pharmaceuticals Inc. USA	100%
Bexel Pharmaceuticals Inc. USA	100%
Orchid Pharmaceuticals SA(Proprietory)Limited, South Africa	100%
Diakron Pharmaceuticals Inc. USA	76.65%
Orchid Biopharma Limited, India	100%

Outlook: Stable

CARE Ratings believes that while debt levels are expected to increase with large debt being contracted at the subsidiary level, the company would maintain its risk profile and debt coverage metrics aided by a steady pipeline of new products, scaling up of its existing operations.

Detailed description of the key rating drivers:

Key strengths:

State-of-the-art manufacturing facility with approvals from regulated markets

Orchid has three plants with the main plant at Alathur, Chennai, being the active pharmaceutical ingredients (API) manufacturing unit. This plant is certified by USFDA, MHRA –UK, EDQM, and GMP for manufacture of Cephalosporin-based APIs. The company is also among the three global players to have a USFDA approvals for Cephalosporin-based Sterile APIs. The company has 34 cephalosporin DMFs, including 17 unique cephalosporin assets for regulated markets.

More than three decades of experience of the promoters in the pharmaceutical industry

The promoters, the Dhanuka group, have presence in the agrochemical and pharmaceutical industries. Their experience in the pharmaceutical business comes from two companies, viz., Dhanuka Laboratories Limited (DLL) and Synmedic Laboratories. DLL is the holding company of Orchid with a shareholding of about 69.84%. DLL holds a small stake in Otsuka Chemical India Pvt Ltd, where Manish Dhanuka is a Director, is engaged in the manufacture of glucuronic acid epimerase (GLCE), a key raw material, for manufacture of Cephalosporin.

Manish Dhanuka, the Managing Director of Orchid, is a chemical engineer from IIT Delhi, has masters in chemical engineering from the University of Akron, USA and has more than 26 years of experience in the pharmaceutical industry.

Steady improvement in the operational performance

Post the takeover by Dhanuka, the company has shown significant improvement in the production levels and capacity utilisation especially in its sterile unit. With the capacity utilisation in sterile reaching more than 100%, the company has further expanded the capacity from 140 MT to about 200-225MT. Orchid is also expanding its oral unit backed by new product additions. The total operating income (TOI) improved by 18% in FY23 as against FY22 and by 25% in H1FY24 as against H1FY23.

In terms of margins, due to lower-than-envisaged expansion to regulated markets, the margins have remained lower than 15%. However, with continuous process efficiency measures, PBILDT margins are sustained at 11-13% over the last three years since the takeover. Increase in exposure to regulated market and improvement in margins remains key to the prospects of the company.

Successful completion of QIP issue and prepayment of debt

Orchid has completed fresh issue of shares of ₹400 crore through QIP route in June 2023. The company has received net proceeds of ₹ 394 crore, of which ₹ 141 crore was used for prepayment of term loans related to acquisition and working capital lines. Furthermore, the company had a term loan for expansion of sterile unit of ₹37 crore which was also repaid in October 2023, making the company virtually external debt-free. The financial profile is strengthened with overall gearing of less than 0.2x as on September 30, 2023.

Commercialisation of NCE and new products in pipeline

The company had developed a NCE known as Enmetazobactam. The molecule was out-licensed in 2013 to a European company Allecra Therapeutics, which has been able to complete the development with Phase-3 Clinical Trials in 2020 and Allecra has further out-licensed to Advanz Pharma in Europe and Shanghai Haini in China. The rights to Indian sales are retained by Orchid. As per the out-licensing agreement, Orchid Pharma is entitled to a 6 to 8% royalty on worldwide sales of the product. The sales in China, US and Europe sales are expected from FY25 onwards. This royalty income would be a direct accretion to the profits of the company, thereby improving the margins for the company going forward.

The company is also undertaking various research & development (R&D) activities and new product trials which is expected to operationalise by FY24 or FY25 which would further boost the revenue for the company.

Orchid has entered into a manufacturing sublicense agreement with Global Antibiotic Research & Development Partnership (GARDP) to manufacture Cefiderocol which is still under the patent of Shionogi. Orchid has exclusive agreement for manufacturing this product and would manufacture the end-product not just the API.

Key weaknesses:

Concentrated product portfolio

The major products of Orchid and DLL remain Cephalosporin-based APIs which are mainly used in anti-bacterial, anti-biotic and anti-inflammatory formulations. While the company has a wide range of product portfolio, within this, the revenue is concentrated on the top three products – Cefixime, Cefuroxime and Ceftriaxone (about 68% in FY23). In case of any pricing pressures or lower demand of these products in the key markets of the company, ability of the company to successfully launch new products and scale up sales of the new products remains key to the prospects of the company.

Exposure to regulatory risk

The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for conducting business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies across countries and authorities, usually taking a minimum of six months to several years from the date of application. Any delay or failure in obtaining approvals for new product launch could adversely affect the business prospects of the company.

Debt-funded capital expenditure plans

Orchid has set up a subsidiary called Orchid Bio Pharma Limited for undertaking PLI-based capital expenditure project in Jammu. Orchid has received 1,000 MTPA approval from GoI in its Wholly Owned Subsidairy (WoS). The estimated cost including working capital margin as per the QIP placement document was at ₹750 crore, out of which ₹90 crore is expected to be funded out of QIP proceeds, ₹60 crore from internal accruals and rest by debt. The debt is expected to have benefit of interest subvention under the PLI scheme.

About 75% of the offtake is expected to be from Orchid, and the rest would be to third parties directly from the subsidiary. The project at subsidiary is expected to be completed by Q3FY25. Parallely, Orchid is also envisaging a capex for the processing of the 7ACA from the subsidiary at an estimated cost of about ₹100 crore. This is expected to be funded entirely from the QIP funds. Timely completion of the project at subsidiary within cost estimates would be a key monitorable.

The company is also expected to undertake a capex for putting up a formulation unit for manufacturing of Cefidorocol under the manufacturing sub-license agreement at a cost of about ₹100 crore out of which ₹70 crore is expected to be debt funded. The rest would be from internal accruals. The project is envisaged to be completed and running by the end of FY26.

Liquidity: Adequate

The operations are working capital intensive with the company availing around 60-90 days of credit period from suppliers and 2-3 months credit period given to customers.

The company has prepaid all of its term-loan obligations both with sale of non-core assets and with QIP proceeds. The company has strong accruals as against no repayment obligation in FY24. After repaying term loans of ₹40 crore and reducing the working capital outstanding by ₹101 crore from the QIP proceeds, the company has parked about ₹253.53 crore in fixed deposits (FDs) as on September 30, 2023. The company also had cash and bank balances of ₹50 crore as on September 30, 2023.

Environment, social, and governance (ESG) risks

Environmental	Effluent treatments and waste treatment continues to be a great concern for the industry as a whole. Orchid has employed a zero liquid trade effluent treatment lant and treatment facilities for its liquid and gaseous pollutants generated from the production processes and undertakes various measures to restrict any bio-hazard. The company has taken several ongoing measures to reduce consumption of water and energy. Study and streamlining of effluent streams under progress to reduce higher energy consumption in Ecology plant
Social	Orchid employed a total of 940 permanent employees. As on June 30, 2023, 117 of the employees are associated with the employees union. The company has health and safety standards in place and has given over 850 trainings on health and safety and skill upgradations.
Governance	Is in compliance with Regulation 34(3) read with Schedule V of the Listing Regulations. The company has eight directors out of which four are independent directors. Composition of different boards and committees is as per the regulations. In June 2024, the company has completed issue of shares through QIP and brought down the promoter shareholding to 72% as on June 30, 2023 as against 90% as on March 31, 2023, thereby complying with Securities and Exchange Board of India (SEBI's) minimum public shareholding norms.

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
Manufacturing Companies
Pharmaceutical

About the company and industry

Industry classification

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

Orchid, established in 1992, is an integrated pharmaceutical company with presence in bulk drug manufacturing and formulations. The company was acquired by Dhanuka Laboratories Limited (DLL) under Corporate Insolvency Resolution Process (CIRP) by The National Company Law Tribunal (NCLT) and the resolution plan has been implemented w.e.f. March 31, 2020. Orchid, at present, has three manufacturing facilities in Chennai. The API unit at Alathur is USFDA certified, while the two formulations units in Alathur cater to exports to non-regulated markets and the domestic market.

Brief Financials (₹ Crore) (Consolidated)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (prov.)
Total Operating Income	567.14	671.10	381.68
PBILDT	62.16	89.66	45.46
PAT	-1.95	46.32	29.21
Overall Gearing Ratio (times)	0.58	0.65	0.21
Interest Coverage (times)	1.86	2.72	0.00

A: Audited Prov: Provisional; 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 last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated: Annexure 4

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in 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-Cash Credit		-	-	-	65.00	CARE A- (RWD)
Fund-based - LT-Term Loan		-	-	Proposed	70.00	CARE A- (RWD)
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	75.00	CARE A- / CARE A2 (RWD)
Non-fund-based - ST-BG/LC		-	-	-	84.00	CARE A2 (RWD)

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (02-Sep-20)
2	Fund-based - ST-EPC/PSC	ST	-	-	-	-	-	1)Withdrawn (02-Sep-20)
3	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (30-Nov-23)	1)CARE BBB; Stable (10-Feb-23) 2)CARE BBB- (RWD) (27-Dec-22)	1)CARE BBB- (CW with Developing Implications) (27-Dec-21) 2)CARE BBB-; Stable (29-Sep-21)	1)CARE BB+; Stable (05-Oct-20)

4	Non-fund-based - ST-BG/LC	ST	84.00	CARE A2 (RWD)	1)CARE A2 (30-Nov-23)	1)CARE A3+ (10-Feb-23) 2)CARE A3 (RWD) (27-Dec-22)	1)CARE A3 (CW with Developing Implications) (27-Dec-21) 2)CARE A3 (29-Sep-21)	1)CARE A4+ (05-Oct-20)
5	Fund-based - LT-Cash Credit	LT	65.00	CARE A- (RWD)	1)CARE A-; Stable (30-Nov-23)	1)CARE BBB; Stable (10-Feb-23) 2)CARE BBB- (RWD) (27-Dec-22)	1)CARE BBB- (CW with Developing Implications) (27-Dec-21) 2)CARE BBB-; Stable (29-Sep-21)	-
6	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	75.00	CARE A- / CARE A2 (RWD)	1)CARE A-; Stable / CARE A2 (30-Nov-23)	1)CARE BBB; Stable / CARE A3+ (10-Feb-23)	-	-
7	Fund-based - LT-Term Loan	LT	70.00	CARE A- (RWD)	1)CARE A-; Stable (30-Nov-23)	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - ST-BG/LC	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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