Graviti Pharmaceuticals Private Limited

December 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	227.00 (Enhanced from 207.00)	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities	30.00	CARE A; Stable / CARE A1	Assigned
Long-term / Short-term bank facilities	40.00 (Reduced from 60.00)	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Graviti Pharmaceuticals Private Limited (GPPL) take into account its strong parentage having more than three decades of experience in the similar line of business, satisfactory overall improvement in financial performance during FY23, continuous launch of new molecules, and filing of abbreviated new drug application (ANDA). The ratings also factor in the operational and financial linkages with the parent, Yashoda Healthcare Services Private Limited (YHSPL), with common management, centralised accounting and treasury function, and favourable demand-supply scenario of the industry. The ratings are, however, offset due to the limited track record of operation of the company, moderation in financial risk profile during FY23, as well as geographical and customer concentration risk. The ratings are also constrained by the exposure to inherent regulatory risk associated with the pharmaceutical industry coupled with intense competition and resultant pricing pressure in the export market.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations by about 10% to 15% while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 20% consistently.
- Consistent improvement in filing of ANDAs and launch of new molecules.
- Improved geographical diversification.

Negative factors

- Decline in revenue and profitability due to either regulatory issues or pricing pressure in the US market.
- Deterioration in the overall gearing to 1.25x.
- Reduction in the PBILDT margin to below 15% on a sustained basis.
- Withdrawal of support by the parent, YHSPL.

Analytical approach: Consolidated and factoring linkages with parent, YHSPL. Being a subsidiary of YHSPL, GPPL has strong financial and operational linkages with its parent. The promoters and the management for both YHSPL and GPPL are common, and both the companies have centralised accounting, treasury functions to manage its investments, debt finance and forex requirements. The subsidiaries and associates of GPPL that have been consolidated are mentioned in Annexure-6.

Outlook: Stable

The stable outlook reflects the operational and financial performance of the company in medium term to remain consistent with the growth curve gradually moving in the upward direction.

Detailed description of the key rating drivers:

Key strengths

Strong parentage with established market position

YHSPL is an established player in the Hyderabad region, operating three large multi-specialty hospitals with capacity of around 2,000 beds. The company has a long operational track record of about 30 years in the area of tertiary and quaternary healthcare. This has enabled the company to build a strong brand 'Yashoda Hospitals' attracting patients from multiple locations. The hospital has speciality departments, including oncology, cardiology, gastroenterology, liver, multiorgan transplant, neuroscience,

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

orthopaedics, etc. With the commissioning of their new hospital (Hitec City), the bed count is expected to gradually increase to around 2,500 over next two fiscals, which will make them one of the largest hospital operators in the region. For FY23, at consolidated level, the company reported total operating income (TOI) of ₹1,674 crore with PBILDT margin of about 29%. As on March 31, 2023, the company had cash and liquid investments to the tune of over ₹800 crore with overall gearing at 0.41x.

Limited track record albeit improving operations
The company commenced its commercial operations from October 2018 and has a track record of about five years in the pharma industry. Though the company has limited track record of operations, the promoter group has extensive experience of over three decades in the healthcare industry. From FY19 to FY23, multiple molecules catering to various diseases have been launched by the company which has aided in the overall improvement in the company's operations. CARE Ratings Limited (CARE Ratings) believes that in the medium-term, the company will further improve its scale of operations and will derive benefits of economies of scales aiding in improving performance.

Incremental filing of ANDAs resulting in improved diversification
GPPL is a research-focused formulation firm catering primarily to the US market. The company has been spending about 7%-8% of its revenue in Research and Development (R&D) activities. The company has filed 25 molecules, till November 2023, of which 14 molecules have been approved and launched, eight molecules have received approval and are yet to be launched, and three molecules are under approval. Furthermore, about 30 molecules are under various stages of development. CARE Ratings expects the company to file about six to seven ANDAs every year.

Healthy margin profile on account of favourable contract structure
GPPL has a revenue model which allows it to have healthy margin profile. Currently, the company caters only to the US market, where the company, through its marketing partners, sells its drugs. The company sells drugs to its marketing partner on transfer price and it receives the payment of the same within 45 days from such transfer. Furthermore, when the marketing partners sell the drugs, GPPL receives its share of profits. On account of the aforementioned contract structure with its marketing partners, the company's PBILDT margin, barring FY22, had remained healthy. In FY22, on account of pricing pressure for its anti-cholesterol molecule, the revenue and profitability of the company had declined. However, during FY23, the PBILDT margin was improved by 953 basis points to 16.79% from 7.26% in FY22. CARE Ratings expects, that given the contract structure, GPPL will be able to report PBILDT margin of above 20% going forward in the medium term.

Reputed customers with high concentration risk albeit the same is slowly improving
The company commenced its operations with only one customer who contributed to the majority of the revenue from FY20 to FY22. However, during FY23 and 9MFY24, the company has broadened its customer base and the customer concentration risk is reducing slowly. Nevertheless, the top two customers contributed more than 90% of its total revenue during FY23 and 9MFY24.

Improved product diversification
The company started its operations with one molecule, viz., anti-cholesterol, which was contributing 100% of its revenue. Over the years, the company has developed 25 molecules out of which 15 have been commercialised. The launch of additional molecules has helped the company diversify its revenue and have lessened its dependence on a single molecule.

Key weaknesses

Fluctuating TOI and margins albeit the same is improved during FY23 and H1FY24
The company's operating performance has seen ups and downs over FY20-FY23. GPPL commenced operations from October 2018. For FY19, the company booked revenue of ₹64 crore (operated for six months), and the same was scaled up to around ₹259 crore in FY21. However, in FY22, there was pricing pressure in the US market which resulted in moderation of revenue to ₹175 crore. Over the years, the company has been actively engaged in research and development for its other molecules in order to diversify its revenue. This resulted in launch of new molecules and improved performance during FY23, where its TOI improved by around 55% to ₹272 crore during FY23 from ₹175 crore during FY22. In line with fluctuating revenue, the company has also witnessed fluctuating PBILDT margin which has seen fluctuations between 7% and 30%. However, in FY23, the company's PBILDT margins have improved to 16.79% from 7.26% reported in FY22. Despite higher PBILDT margins in FY23, the company has reported marginal loss at profit after tax (PAT) level due to deferment of profit share by its marketing and selling partners. For H1FY24, the company has reported TOI of ₹205 crore with PBILDT margin of around 21%. CARE Ratings expects that the performance of the company will witness steady improvement in terms of revenue and PBILDT margins.

Moderation in overall financial risk profile
GPPL witnessed moderation in the overall financial risk during FY23. The overall gearing deteriorated to 1.08x as on March 31, 2023, vis-à-vis 0.94x as on March 31,2022. The other debt coverage indicators such as total debt to gross cash accrual (TDGCA) deteriorated to 7.28x (PY: 5.32x); however, total debt to PBILDT improved to 4.27x during FY23 from 13.37x in FY22. CARE Ratings believes that the expected improvement in the operational performance of the company during FY24 will lead to improvement in the overall financial risk profile of the company.

Geographical concentration risk
GPPL is a 100% export-oriented firm, and its entire revenue is generated from US market which exposes the company to geographical concentration risk. On account of geographical concentration to one market, the performance for FY22 got negatively impacted when the pricing pressure was high in the US market. Furthermore, US being a highly regulated market, any adverse observation by US FDA inspection may negatively impact the revenue and profitability of the company.

Limited track record of operation and highly regulated market
GPPL has limited track record in pharma industry. The company commenced operations in FY19 which provides operational track record of five years. CARE Ratings notes that though the company has grown well over the years, its operational track record remains limited.

Liquidity: Adequate
The liquidity position of the company is adequate with comfortable cash accruals against debt repayment obligations. During FY23, the company generated cash accruals of about ₹27 crore against the debt repayment obligation of ₹18.52 crore. Furthermore, the company also had cash and liquid investments to the tune of about ₹40 crore as on March 31, 2023. CARE Ratings expects that the company will continue to generate cash accruals in the range of ₹50 crore - ₹60 crore during FY24 and FY25 against the debt repayment obligation in the range of ₹30 - ₹40 crore. Furthermore, the company is expected to have cash and liquid investments in the range of ₹30 - ₹40 crore all the time. The working capital cycle of the company remains stable at about 100 days with current ratio as on March 31, 2023, stood at 1.45x.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
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

GPPL, incorporated on December 27, 2012, is a research-based formulation firm established in Hyderabad for producing complex generics. The company operates a high-end research and development facility along with manufacturing plant for US FDA-approved generic drugs to cater the needs of US market. The company is focused on modified release, bio and stability sensitive molecules. The company has one manufacturing unit situated at Isnapur village in Medak District, Telangana, with total capacity of 2.80 billion tablets per year. This apart, the company has well-equipped R&D facility since 2014, which is situated at Patancheru, Hyderabad.

Brief consolidated Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)*
Total operating income	174.96	270.41	205.10
PBILDT	12.65	45.40	43.82
PAT	3.89	-0.47	14.11
Overall gearing (times)	0.94	1.08	-
Interest coverage (times)	1.05	3.43	5.42

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

*standalone

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: 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	-	-	-	31/12/2034	227.00	CARE A; Stable
Fund-based - LT/ ST-Cash credit	-	-	-	-	40.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-CC/Packing credit	-	-	-	-	30.00	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 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	227.00	CARE A; Stable	-	1)CARE A; Stable (03-Jan-23)	-	-
2	Fund-based - LT/ ST-Cash credit	LT/ST*	40.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (03-Jan-23)	-	-
3	Fund-based - LT/ ST-CC/Packing credit	LT/ST*	30.00	CARE A; Stable / CARE A1				

*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-Term loan	Simple
2	Fund-based - LT/ ST-Cash credit	Simple
3	Fund-based - LT/ ST-CC/Packing credit	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries and associates as on March 31, 2023

Name of Company/Entity	Percentage of Holding
Graviti Pharma Inc	100
Graviti Foundation	100
Diamen Pharma Private Limited	100
Hopped up Trade Private Limited	100
Wellocity Bio Sciences Private Limited	49

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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