Emcure Pharmaceuticals Limited

January 5, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,075.43 (Reduced from 1,075.44)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	1,286.00	CARE A+; Stable / CARE A1	Reaffirmed
Short-term bank facilities	114.00 (Reduced from 254.00)	CARE A1	Reaffirmed
Non-convertible debentures	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Emcure Pharmaceuticals Limited (hereafter referred to as EPL/ Group) continues to factor in the existence of experienced management and the group's successful track record of more than four decades in pharmaceutical industry, diversified product portfolio with focus on chronic high-value segments, accredited manufacturing facilities with well-equipped R&D facility and geographical diversification coupled with growth in domestic and European markets.

The group has exposure to various litigations. Avet lifesciences private limited (erstwhile Heritage), Emcure and the promoter have reached a settlement agreement in principle with the Plaintiff States (the "States Settlement Agreement" and, together with the DPP Settlement Agreement and the EPP Settlement Agreement, the "Settlement Agreements") which is being considered for approval and Heritage (Avet) agreed to pay a total of USD 30 million. Given Avet's moderate liquidity profile when compared to the liability, the same has been funded by unsecured non-convertible debentures (NCDs) subscribed by Emcure group company, Zuventus Healthcare limited (79.58% owned by EPL). This reduces the uncertainty regarding the liability involved to some extent. Any adverse outcome on account of the various pending lawsuit and arbitrations leading to significant financial liability would be critical from credit risk point of view and shall remain a key monitorable.

The rating strengths continue to remain constrained by the moderate albeit improving capital structure, regulatory risks associated with the various geographies in which EPL operates and exposure to foreign exchange fluctuations.

Also, the company has resubmitted the DRHP for an amount of ₹800 crores and intends to utilise ₹640 crores in reduction of debt. As on March 31, 2023, on a consolidated level, EPL, had total debt (including lease liabilities) amounting to ₹2334 crores with an overall gearing of 1.01x.

The rating assigned to NCDs are withdrawn at the request of company as the same are not issued.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in Total operating income (TOI) by 10% and maintenance of overall PBILDT margin above 20% on sustained basis.
- Significant Improvement in financial risk profile with overall gearing ratio falling below 0.60x on consistent basis
- Resolution of pending regulatory issues without major cash outflows
- Realisation of envisaged benefits out of expenditure incurred on Research and Development activities and capex across group companies.

Negative factors

- Any deterioration in the capital structure because of incremental debt constraining debt service coverage ratio below 1.2x and overall gearing ratio increasing to 1.40x on sustained basis at consolidated level.
- PBILDT margin falling below 15% on a sustained basis.
- Any regulatory action other than ongoing, against EPL, significantly impairing the credit profile of the group.
- Adverse outcome from any ongoing litigations

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of the Emcure Group including EPL and its subsidiaries as on March 31, 2023 on account of exposure of EPL to group companies in terms of corporate guarantee and similar line of

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

business and management. Furthermore, the majority of the subsidiaries of EPL are engaged in the trading and marketing of products manufactured by EPL and other companies across various geographies. As a result of similar line of business and inter group transactions, consolidated view has been considered. CARE Ratings has also considered in its analysis the corporate guarantee extended to Avet for USD 65 million stand by letter of credit availed by Avet. The list of major companies being consolidated with EPL is given as Annexure-6.

Outlook: Stable

The stable outlook reflects CARE Rating's expectation that the company will continue to benefit from established track record and diversified product profile of the company in the near term.

Detailed description of the key rating drivers:

Key strengths

Experienced management and successful track record of the group in pharmaceutical industry

The promoters have more than four decades of experience in the pharmaceutical industry. The CEO of the company, Satish Mehta is a first-generation entrepreneur with an experience of over four decades in the field of pharmaceuticals. Namita Thapar (MBA from Duke University (Fuqua) School of Business, US & Chartered Accountant, ICAI), looks after India Business. The company also has strong professionals leading various key aspects of business, including Dr Mukund Gurjar and Dr Deepak Gondaliya. Dr Mukund Gurjar is Chief Scientific Officer. He has over three decades of experience in pharmaceutical sciences, during which he was involved in advanced research in organic chemistry at the National Chemical Laboratory for 25 years and is a fellow at various national and international academics. Dr Deepak Gondaliya has over two decades of experience in formulation R&D.

Diversified product portfolio with focus on chronic high-value segments

The group is vertically integrated, manufacturing APIs and formulations and is also involved in the bio-pharma drugs. Under formulations, EPL has presence in the high value chronic therapy as well as in acute segments. The company's products are diversified across chronic and acute segments like cardiology, oncology, nephrology, anti-HIV, anti-infective, pain management, anemia, gynaecology, anti retrovirals, pediatrics, etc. The company has launched multiple products in recent years mainly in the segments of Anti-Neoplastics, Gynaecological, Anti-infectives, Derma, Anti-Diabetics, Analgesics, Neuro/CNS, Respiratory, Cardiac, Hormones etc thereby expanded its presence in varied segments.

Accredited manufacturing facilities with well-equipped R&D facility

Out of the group, EPL, Gennova Biopharmaceuticals Limited (GBL) and Zuventus Healthcare Limited (ZHL) have manufacturing facilities while other subsidiaries are engaged in warehousing and marketing of drugs manufactured by EPL or other companies in various geographies. EPL at consolidated level has 13 manufacturing facilities across India which are capable of producing pharmaceutical and biopharmaceutical products of a wide range of dosage forms, including oral solids, oral liquids, injectables including lipid, liposomal, lyophilized injectables, biologics, vaccines and complex APIs, including chiral molecules and cytotoxic products. The facilities have obtained approvals from various regulatory bodies including, among others, the USFDA, MHRA (United Kingdom), Health Canada, EDQM (Europe), TGA Australia, ANVISA Brazil, HALMED Croatia and cGMP India.

Geographical diversification coupled with growth in domestic and European markets

The group has a wide geographical presence with sales to more than 70 countries globally, and has an overall healthy mix of exports, providing the group geographic diversification. The group is further expanding its presence in various emerging markets. The group has a strong sales and marketing team both within India and outside the country. The group has an established marketing network through channel partners in the international markets and C&F agents within domestic market. The geographically diversified nature of revenues significantly reduces the exposure of the company towards any adverse economic slowdown in any single geography. Over the years, the group has established its presence in domestic markets through EPL, GBL, and ZHL and in international markets through overseas acquisitions. The group has seen reasonable growth in sales in domestic, European and Canadian market over the past few years.

Clarity regarding liability in certain cases, despite high exposure to contingent liabilities

Avet, Emcure and the promoter have reached a settlement agreement in principle with the Plaintiff States (the "States Settlement Agreement" and, together with the DPP Settlement Agreement and the EPP Settlement Agreement, the "Settlement Agreements") which is being considered for approval and Heritage (Avet) agreed to pay a total of USD 30 million. Given Avet's moderate liquidity profile when compared to the liability, the same has been funded by unsecured NCDs subscribed by Emcure group company, Zuventus Healthcare limited (79.58% owned by EPL). This reduces the uncertainty regarding the liability involved to some extent. Also, EPL has entered into an indemnity deed with Avet, wherein EPL would be liable for any potential settlement obligation, or adverse jury verdict for the amount directed specifically against it, only in the event that Avet Life is unable to fully satisfy such an obligation or verdict. These reduces potential exposure and provides clarity on the potential outflow to certain extent.

A Seattle-based biopharma company, HDT Bio Corp (HDT) has filed a lawsuit against Emcure Pharmaceuticals Limited on March 21, 2022 at the US District court at the state of Washington. Besides, an arbitration suit has been filed by HDT against Gennova Biopharmaceuticals Limited in the London Court of International Arbitration. In these cases, HDT has claimed that EPL and GBL have stolen HDT's intellectual property which breaches the License Agreement and constitutes misappropriation of HDT's billion dollar trade secrets. HDT has sought compensatory damages in excess of USD 950 million. In so far as Gennova is concerned,

management have stated that there is no contravention of breach on any contractual obligations or provisions of law and they are working to address the matter and bring it to closure as the matter is to be decided through the arbitration. The case was dismissed without prejudice by the US court for EPL and is still pending with the London Court of International Arbitration for GBL.
The ultimate resolution, timing and quantum of outflow remains a key monitorable as it can have an adverse effect on the credit metrics and liquidity of the company.

Key weaknesses

Moderately high albeit reducing debt levels

The capital structure as on March 31, 2023 improved with overall gearing coming down to 1.01x as on March 31, 2023 as against 1.17x as on March 31, 2022. The gearing level remained moderately high due to debt funded capex and acquisition of brands/companies over the recent years as well as higher reliance on external debt to fund working capital requirements Nevertheless, with continued improvement in scale of operational, prepayment of loans, and company gradually realising synergy from various acquisitions made during past few years, CARE Ratings expects the gearing levels to improve in the future.
Also, the company has resubmitted the DRHP for an amount of ₹800 crores and intends to utilize ₹640 crores in reduction of debt. As of March 31, 2023, on a consolidated level, EPL, had total debt (including lease liabilities) amounting to ₹2334 crores with an overall gearing of 1.01x.

Intense competition and exposure to regulatory risk inherent in pharmaceutical industry

The company faces intense competition in the domestic as well as international markets. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide by virtue of its direct bearing on public health. In India too, government policies have played key role in performance of companies such as explicit control on drug prices in the form of drug price control order (DPCO). Further, the patent laws and related regulations might hamper company's plans to launch new products and cater to new markets.

Foreign exchange fluctuation risk

The group generates majority of its foreign currency revenues denominated in USD, Euro, GBP and CAD. Any fluctuation in foreign currency rates may have an impact on the financials of the company. However, trade payables and loans in foreign currency are hedged naturally against the foreign currency receivables.

Liquidity: Adequate

The current ratio of the group improved to 1.20x as on March 31, 2023 as against 1.10x as on March 31, 2022. The fund-based working capital utilisation remained high at 89% for past 12 months ending October 2023. Nevertheless, group's internal cash accruals, cash and bank balance and unutilised working capital limits provide adequate buffer to cover the scheduled debt obligations in medium term. At consolidated level, EPL, is expected to generate gross accruals around ₹1000-1300 crore in the near term, against there is ₹250-350 crores of debt repayments. In H1FY24, the group has repaid ₹231 crores and interest repayments of Rs.100 crores. There are no major capital expenditures in the near future except maintenance capex amounting to ₹300 crores and the same can be met comfortably with cash accruals that are being generated.

Assumptions/Covenants – Not applicable

Environment, social, and governance (ESG) risks - Not mentioned as the entity is not listed

Applicable criteria

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

About the company and industry

Industry classification

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

EPL was incorporated in April 1981 as a Private Limited Company and is engaged in manufacturing of pharmaceuticals products (mainly formulations). The company has major thrust in the areas of manufacturing and marketing of formulations which contributes around 90% revenue of EPL along with APIs, Contract Research and Manufacturing Services. It has presence in multiple therapeutic segments with gynaec, cardiac and ant infective segments being the company's forte with famous brands like orofer, metpure, elaxim etc. Over the last 5 years the group has derived 45%-55% revenue from India and remaining from other parts of the world with a growing focus on emerging market.

Brief Financials consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (A)
Total operating income	5812.35	6004.82	3200.56
PBILDT	1287.27	1200.53	625.29
PAT	702.56	561.85	286.80
Overall gearing (times)	1.17	1.01	NA
Interest coverage (times)	7.46	5.64	5.63

A: Audited UA: Unaudited NA: 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 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
Debentures-Non Convertible Debentures	-	-	-	Proposed	-	Withdrawn
Fund-based - LT-Term Loan	-	-	-	30-09-2029	1075.43	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	954.00	CARE A+; Stable / CARE A1

Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	200.00	CARE A+; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	-	132.00	CARE A+; Stable / CARE A1
Non-fund-based - ST-BG/LC	-	-	-	-	114.00	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	1075.43	CARE A+; Stable	-	1)CARE A+; Stable (06-Jan-23) 2)CARE A; Positive (05-Apr-22)	1)CARE A; Positive (07-Jan-22)	1)CARE A; Stable (08-Jan-21)
2	Non-fund-based - ST-BG/LC	ST	114.00	CARE A1	-	1)CARE A1 (06-Jan-23) 2)CARE A1 (05-Apr-22)	1)CARE A1 (07-Jan-22)	1)CARE A1 (08-Jan-21)
3	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	954.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (06-Jan-23) 2)CARE A; Positive / CARE A1 (05-Apr-22)	1)CARE A; Positive / CARE A1 (07-Jan-22)	1)CARE A; Stable / CARE A1 (08-Jan-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	132.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1	1)CARE A; Positive / CARE A1	1)CARE A; Stable / CARE A1

						(06-Jan-23) 2)CARE A; Positive / CARE A1 (05-Apr-22)	(07-Jan-22)	(08-Jan-21)
5	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	200.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (06-Jan-23) 2)CARE A; Positive / CARE A1 (05-Apr-22)	1)CARE A; Positive / CARE A1 (07-Jan-22)	1)CARE A; Stable (08-Jan-21)
6	Debentures-Non Convertible Debentures	LT	-	-	-	1)CARE A+; Stable (06-Jan-23) 2)CARE A; Positive (05-Apr-22)	1)CARE A; Positive (07-Jan-22)	1)CARE A; Stable (08-Jan-21)

*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	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries

Name Of subsidiaries	Percentage of Holding (%)
Direct subsidiaries	
Gennova Biopharmaceuticals Limited	87.95%
Zuventus Healthcare Limited	79.58%
Emcure Nigeria Limited	100.00%
Emcure Pharmaceuticals Mena FZ LLC	100.00%
Emcure Pharmaceuticals South Africa (Pty) Limited	100.00%
Emcure Brasil Farmacêutica Ltda	100.00%
Emcure Pharma UK Ltd	100.00%

Emcure Pharma Peru S.A.C.	100.00%
Emcure Pharma Mexico S.A. DE C.V.	100.00%
Emcure Pharmaceuticals Pty ltd	100.00%
Marcan Pharmaceuticals Inc.	100.00%
Emcure Pharma Chile SpA	100.00%
Lazor Pharmaceuticals Limited	100.00%
Emcure Pharma Philippines Inc	100.00%
Emcure Pharmaceuticals Dominicana S.A.S	100.00%
Step down subsidiaries	
Tillomed Laboratories Ltd	100.00%
Tillomed Pharma GmbH	100.00%
Laboratories Tillomed Spain S.L.U.	100.00%
Tillomed Italia S,R.L	100.00%
Tillomed France SAS	100.00%
Mantra Pharma Inc	100.00%
Tillomed Malta ltd	100.00%
Tillomed d.o.o.*	100.00%

*****An application for summary termination of Tillomed d.o.o has been submitted to the court of registry of commercial court of Zagreb on March 6, 2023.

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:
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