

## Hetero Drugs Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	150.00	CARE A+; Stable	Assigned
Long-term bank facilities	500.00	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	250.00 (Reduced from 270.00)	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 Hetero Drugs Limited (HDL) continue to derive strength from its being part of Hetero group, its experienced promoters and management team with a long track record in the pharmaceutical industry, the group's well-established position in multiple therapeutic segments, its presence in the major regulated markets. The Hetero group has well diversified revenue profile with vertically-integrated operations, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network. HDL acts as backward integrated unit for Hetero Labs Ltd (flagship company of the Hetero group) and thus derives majority of its revenue (about 50% during FY23) by selling APIs to them. Further the ratings are underpinned by HDL's strong product portfolio spread across multiple therapeutic segments and reputed clientele, continuous filing of drug master files (DMF), integrated operations and favourable outlook for the pharmaceutical industry. The ratings also factor comfortable capital structure and debt coverage indicators of the company with strong cash accruals. The ratings are, however, constrained by moderation in the profitability during FY23 (refers to the period April 1 to March 31), exposure to the group companies, elongated operating cycle, foreign exchange fluctuation risk and highly fragmented industry with regulatory risk inherent in the pharmaceutical industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in scale of operations by about 10% to 15% while maintaining PBILDT margin above 15% consistently.
- Maintaining operating cycle days consistently below 150 days.

#### Negative factors

- Overall gearing going beyond 0.60x on sustained basis.
- Any adverse assessment proceeding from income tax department resulting an adverse impact on the operation or liquidity of the company.
- Further investments in associate companies beyond 20% of the Network.
- Decline in revenue and/or profitability below the current levels on sustained basis.

### Analytical approach: Consolidated

Consolidated, factoring linkages with the Hetero group. CARE Ratings in its analysis has considered the consolidated business and financial risk profiles of Hetero Drugs Limited and its subsidiaries as these entities are linked through a parent-subsidiary relationship and collectively have common management, business & financial linkages.

### Outlook: Stable

The stable outlook reflects that the rated entity is likely to maintain its established market position with comfortable liquidity.

### Detailed description of the key rating drivers:

#### Key strengths

<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

**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 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, who 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 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**

HDL has a strong product portfolio of 110 products in APIs. Ritonavir in combination with other drugs used in formulation of COVID drug by HLL contributed highest (25.14%) in terms of revenue during FY23 and as fall in demand for COVID drugs is being witnessed, revenue from Ritonavir has reduced to 8.04% in H1FY24. The top 10 products have contributed 62.00% (PY:57.80%) of the revenue during FY23. HDL has a presence across 49 therapeutic segments with majority contribution from segments like antihypertensive, HIV, antiviral and antiulcer. Revenue from top five therapeutic segments during FY23 stands at 68.70% as against 58.67% in FY22.

**Reputed and diversified clientele base**

HDL has a diversified client base for APIs, including most of the major pharmaceutical players in India, USA and European countries. During FY23, Hetero Labs Ltd (49.32%), Invagen Pharmaceuticals Inc (Cipla group company 4.28%; Cipla rated CARE AAA; Stable/CARE A1+), Sandoz AG (3.32%) and Novartis International Pharma (3.16%) continued to be the major revenue contributors. The revenue from top 5 clients stood at 61.72% during FY23 as against 51.93% during FY22. The company also supplies to other reputed pharma players such as Alkem Laboratories Limited (CARE AA+;Stable/CARE A1+), Lupin Limited, Torrent Pharmaceuticals Limited, Ascent Pharmaceuticals Inc. etc. Further, During FY23, domestic revenue (63%) contributed to the highest share of the revenue followed by USA (9%), Switzerland (9%), and Singapore (1%) among others .

**Improvement in revenue with moderation in profitability in FY23 albeit recovered in H1FY24**

During FY23, at consolidated level, the total operating income of the company increased to ₹3,235.28 crore vis-a-vis ₹ 2,891.38 crore in FY22 indicating a growth of 11.9%. However, profitability margins have been moderated to 6.58% from 8.71% in FY22. PBILDT margins have been impacted by the negative profitability of South African subsidiary. African business has been impacted due to supply chain issues and pricing pressure in African markets for ARV related products, this combined with weak demand owing to focus by multilateral funding agencies towards curbing Covid has overall impacted the pricing leading to net loss of about ₹80 crore in Subsidiary company. However, during Q3FY23, the above company which is primarily into formulation trading was sold to Hetero Labs Ltd.

Profit after tax (PAT) margins have experienced a moderation, declining from 3.97% to 3.03%, primarily attributed to a decrease in PBILDT margins and an increase in interest costs.

During H1FY24, company has registered TOI of ₹1,537.86 crore with PBILDT of ₹122.44 crore. PBILDT margins in H1FY24 have improved by 137 bps to 7.96% against FY23. Company has filed Drug Masters Files (DMF) for several products in multiple countries like USA, Canada and in Europe which is expected to contribute for the future growth of the company. As of September 2023, company has filed 122 DMFs.

**Comfortable capital structure**

Capital structure of HDL continued to remain comfortable with overall gearing as on March 31,2023 stood to 0.21x as against 0.22x as on March 31, 2022. Further, other debt coverage indicators like total debt to GCA and Interest coverage stood to 3.02x (PY:2.72x) and 4.61x (PY: 10.40x) as on March 31, 2023 which though deteriorated however remained comfortable and the company's total debt primarily comprises working capital borrowings. CARE Ratings expects the debt coverage indicators of the company to continue to remain comfortable with strong cash accruals, going forward.

**Key weaknesses****Exposure to group companies**

HDL has six subsidiaries, five associate companies and one joint venture. The company has invested in the form of equity and preference shares in these companies. As on March 31, 2023, at consolidated level, the company has invested about ₹380 crore in group companies. This apart, HDL has also extended corporate guarantee to the tune of around ₹162 crore for its associate company. Furthermore, increase in the exposure towards group companies will be the key monitorable for the company.

**Elongated operating cycle**

During FY23, the operating cycle of the company stood at 140 days. The inventory days stood at 124 days, collection period improved to 99 days (PY:118 days) and creditors period reduced to 82 days (PY:106 days) The collection period is relatively on

a higher side due to extended credit period provided to the customers. Given the healthy profile of the clients of the company, the risk of debtors getting defaulted is mitigated to a great extent. Further, substantial revenue is derived from exports (37% of HDL's revenue is from the exports) and in order to have long withstanding relationship with the overseas clients, the company is offering credit period to its customers. However, the higher collection period is offset to some extent by credit period from suppliers and balance is met through working capital limits.

### Exposure to regulatory risk

The company is exposed to the regulatory risk with its operations centred majorly into manufacturing APIs. The pharmaceutical industry is highly regulated in many other countries and requires various approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given, India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from USFDA. Hence, the ongoing regulatory compliance has become critical for Indian pharma companies, including HDL, as it seeks to strengthen its position in the regulated markets like USA, UK, etc. During FY20, USFDA inspected Unit I and no critical observations were made.

### Liquidity: Strong

Liquidity is marked by strong accruals against negligible repayment obligations. The company is planning to avail a term debt of ₹150.00 crores in FY24 which shall be drawn down in FY24 and FY25 for regular capacity expansion.

Company is expected to generate cash accruals of around Rs.200 crores going forward against repayment obligations of ₹2.41 crores and ₹31.66 crores respectively for FY24 and FY25. Liquid investments stood at ₹24.27 crore as on March 31, 2023. With a gearing of 0.21x as on March 31, 2023 the company has sufficient head room to raise additional debt for its capex. Its unutilized fund-based limits of ₹127 crore (including enhanced limits) are adequate to meet its incremental working capital needs over the next one year.

**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](#)

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[Policy on Withdrawal of Ratings](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 1993, HDL is a part of the Hetero group. It is promoted by Dr B. Parthasaradhi Reddy, Chairman and Managing Director of the company. HDL is a pharmaceutical company, primarily engaged in the manufacturing of active pharmaceutical ingredients (APIs). HDL was initially incorporated as a private limited company, and subsequently, converted into public limited company in 1996. The Hetero group is one of the major pharmaceutical groups in India. HDL is a closely held company, with entire 100% shareholding being held by the promoters and associates.

Brief Financials (₹ crore)	March 31, 2022 (A)#	March 31, 2023 (A)#	H1FY24 (UA)\$
Total operating income	2,461.52	2,961.99	1537.86
PBILDT	246.30	298.25	122.44
PAT	99.88	164.88	48.68
Overall gearing (times)	0.23	0.22	NA
Interest coverage (times)	10.35	6.51	5.88

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

# Consolidated, \$ 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-Cash credit	-	-	-	-	500.00	CARE A+; Stable
Fund-based - LT-Term loan	-	-	-	-	150.00*	CARE A+; Stable
Fund-based - LT/ ST- Working capital demand loan	-	-	-	-	50.00	CARE A+; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	200.00	CARE A+; Stable / CARE A1

\*Proposed term loan

## 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- Cash credit	LT	500.00	CARE A+; Stable	1)CARE A+; Stable (07-Jul-23)	1)CARE A+; Stable (24-Jan-23) 2)CARE A+; Stable (10-Jan-23) 3)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+; Stable (08-Jan-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	200.00	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (07-Jul-23)	1)CARE A+; Stable / CARE A1 (24-Jan-23) 2)CARE A+; Stable / CARE A1 (10-Jan-23) 3)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+; Stable / CARE A1 (08-Jan-21)
3	Fund-based - LT- Term loan	LT	-	-	-	1)Withdrawn (10-Jan-23) 2)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+; Stable (08-Jan-21)
4	Fund-based - LT/ ST-Working capital demand loan	LT/ST*	50.00	CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (07-Jul-23)	1)CARE A+; Stable / CARE A1 (24-Jan-23) 2)CARE A+; Stable / CARE A1 (10-Jan-23)	-	-

5	Fund-based - LT-Term loan	LT	150.00	CARE A+; Stable				
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\*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	Fund-based - LT/ ST-Working capital demand loan	Simple
4	Non-fund-based - LT/ 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](mailto:care@careedge.in) for any clarifications.

## Contact us

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### About us:

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### Disclaimer:

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