Zuventus Healthcare Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1.00	CARE A+; Stable	Revised from CARE A+; Stable / CARE A1
Long-term bank facilities	50.00 (Enhanced from 1.00)	CARE A+; Stable	Reaffirmed
Short-term bank facilities	11.00 (Enhanced from 10.00)	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Zuventus Healthcare Limited (ZHL) continue to derive strength from the management's experience and long track record in the pharmaceutical industry, accredited manufacturing facilities, diversified product portfolio and strong marketing and distribution network, moderation in total operating income and profitability margins during FY23 as against FY22 albeit improved during H1FY24 and comfortable capital structure. The above rating strengths remain constrained by intense competition in the generic formulations industry along with regulatory risk inherent in the pharmaceutical industry. The rating strengths continue to remain constrained due to exposure to group entities in the form of corporate guarantees and subscribing for the NCDs issued by Avet Lifesciences Pvt ltd, a promoter held entity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the overall financial risk profile of the parent company "Emcure Pharmaceuticals Limited (Emcure)"
- Improvement in Total operating income by about 10% while maintaining PBILDT margin of about 20% on sustained basis.
- Significant improvement in the free liquidity buffer of the company.

Negative factors

- Any deterioration in capital structure as a result of incremental debt constraining debt service coverage ratio falling below 2x and overall gearing ratio increasing to 0.40x on sustained basis.
- PBILDT margin falling below 13% on a sustained basis.
- Extension of funding support to related parties leading to weaking of liquidity profile.
- Any regulatory action against the company significantly impairing the credit profile of the company.
- Any downward movement in the credit risk assessment of the parent company "Emcure Pharmaceuticals Limited"

Analytical approach: Standalone factoring linkage with the parent i.e. Emcure Pharmaceuticals Ltd.

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

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

ZHL is the part of the Emcure group, one of the leading pharmaceutical companies based out of Pune. The group is engaged in the manufacturing of Active Pharmaceutical Ingredients (APIs), formulations as well as Research & Development (R & D). The group has presence in domestic as well as regulated and other emerging markets. EPL is the flagship company of the group and holds 79.58% stake in ZHL. The promoters have more than four decades of experience in the pharmaceutical industry. The CEO of EPL, the flagship company, Satish Mehta is a first-generation entrepreneur with an experience of over 4 decades in the field of pharmaceuticals.

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

Presence across therapeutic segments
ZHL has a portfolio of more than 200 products in the high value chronic therapy as well as in acute segments. Under chronic segment, the company's products are diversified across Cardiology, anti- diabetic Oncology, Nephrology, Anti-HIV, etc. Acute products are diversified across Anti-infective, Pain Management, Anemia, Gynaecology, Anti Retrovirals, and Pediatrics etc.

Nation-wide strong marketing network
ZHL has a team of over 25 C&F agents and over 2,000 medical representatives (MR). Furthermore, the company has set up office major metropolitan cities such as Delhi, Kolkata, Bangalore, Hyderabad, Guwahati, and Cuttack. The products are sold through more than 2,000 wholesalers, 1,00,000 retail points and network of around 3,00,000 doctors all over India.

Moderation in operating revenue and profitability during FY23 albeit improved in H1FY24
Income from operations de grew by 5.15% from ₹1,051.50 crore in FY22 to ₹997.31 crore in FY23. During COVID years, demand for multivitamins has witnessed significant growth, but the same has declined in FY23 leading to decline in TOI, however, company has achieved operating revenue of ₹550.50 crore in H1FY24 and is expected to report growth of about 5% to 10% for full year as compared to last year.
PBILDT margins have moderated from 25.98% in FY22 to 19.57% owing to increase in employee costs from 21% to 25% as a percentage of total revenue and other expenses. However, margin has improved to 21.42% in H1FY24 and expected to be in the similar range going forward.

Comfortable capital structure
The capital structure and debt coverage metrics of the company continues to remain comfortable represented by Long-term debt to equity ratio and overall gearing at 0.03x and 0.03x respectively as on March 31, 2023 (0.04x and 0.04x respectively as on March 31, 2022). The company's net worth has improved from ₹522.70 crore as on March 31, 2022 to ₹611.80 crore as on March 31, 2023. The company does not have any term debt outstanding.

Key weaknesses

Intense competition and exposure to regulatory risk
The company faces intense competition in the domestic 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).

Exposure to group companies and related parties
ZHL has extended corporate guarantee of ₹174.43 crores (PY: ₹197.98 crore) to Emcure for the loan taken from financial institution.
Emcure and Heritage (aka Avet Pharmaceuticals Inc, US) are named defendants in the Generic Pharmaceuticals pricing antitrust litigation which has been going on since 2015. Avet Lifesciences Private Ltd (Avet India) and Heritage (Avet US) have been spending a considerable amount of time and money for the past seven years in defending the case. Avet India has reached settlement agreement in principle in Antitrust litigation for USD 30.00 million (₹250.00 crore) . However, considering its moderate liquidity profile it has raised the requisite money through issuance of unsecured non-convertible debentures which have been subscribed by ZHL during FY24. Any further significant increase in exposure to its group or related parties by ZHL shall be critical from credit risk point of view.

Stable industry outlook
The Indian pharmaceutical industry (IPI) is ranked 3rd globally in terms of volume and 13th in terms of value. The industry size is estimated at about USD 47-49 billion in 2022. Growth in the domestic pharma market is expected to be driven by increase in the penetration of health insurance, improving access to healthcare facilities, rising prevalence of chronic diseases and rising per capita income. The export growth is expected to be led by increasing generic penetration in the regulated markets on the back of enhanced focus on the niche and complex product segments, patent expiries, medicine patent pool announcing licensing agreement with pharmaceutical companies and growing demand from semi-regulated pharma markets

Liquidity: Adequate

The liquidity position of the company remains strong with no term debt payment obligations in FY24. ZHL's liquidity indicator derives comfort from unutilized working capital limits and sufficient internal cash accruals against debt repayments. The average cash credit utilization for 12 months ended October 31, 2023 was nil thereby maintaining sufficient cushion. During FY23, the company has generated healthy net cash flows from operations of ₹151.75 crore and with no major capex foreseen in medium term, ZHL's internal cash accruals continue to remain sufficient. The cash and liquid investments of the company stood at ₹253.35 crore and ₹273.50 crore as on March 31, 2023 and September 30, 2023 respectively. However, about Rs. 250 crore out of the available liquidity has been utilized for subscribing NCDs issued by Avet Lifesciences Pvt Ltd during Q3FY24.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Policy on default recognition](#)
[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

ZHL was incorporated on May 27, 2002, as a public limited company through a Joint Venture between the promoters [Prakash Kumar Guha (MD), C. V. Shetty, and S. Balasubramaniam] and EPL (rated CARE A+; Stable/ CARE A1). ZHL is a part of the Emcure Group based out of Pune. The primary business of ZHL was to market the products of its holding company, EPL. Subsequently, ZHL started selling its own pharmaceutical products in the domestic market. ZHL has got manufacturing facilities at Jammu, Sikkim and Bengaluru.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (A)
Total operating income	1,051.50	997.31	550.50
PBILDT	273.20	195.19	117.94
PAT	187.75	127.95	75.58
Overall gearing (times)	0.04	0.03	NA
Interest coverage (times)	37.61	28.57	32.58

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
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE A+; Stable
Fund-based- Long Term – Cash Credit	-	-	-	-	1.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	11.00	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-Long Term – Cash Credit	LT	1.00	CARE A+; Stable	-	1)CARE A+; Stable / CARE A1 (06-Jan-23) 2)CARE A; Stable / CARE A1 (06-Apr-22)	1)CARE A; Stable / CARE A1 (07-Jan-22)	1)CARE A; Stable / CARE A1 (08-Jan-21)
2	Fund-based - LT-Cash Credit	LT	50.00	CARE A+; Stable	-	1)CARE A1 (06-Jan-23) 2)CARE A1 (06-Apr-22)	1)CARE A1 (07-Jan-22)	1)CARE A1 (08-Jan-21)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (08-Jan-21)
5	Non-fund-based - ST-BG/LC	ST	11.00	CARE A1	-	1)CARE A1 (06-Jan-23) 2)CARE A1	1)CARE A1 (07-Jan-22)	1)CARE A1 (08-Jan-21)

						(06-Apr-22)		

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-Long Term	Simple
3	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:
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