Annora Pharma Private Limited

February 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	135.00	CARE A; Stable	Assigned
Long-term bank facilities	195.00	CARE A; Stable	Reaffirmed
Long-term/short-term bank facilities	25.00	CARE A; Stable/CARE A1	Assigned
Short-term bank facilities	40.00	CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Annora Pharma Private Limited (APPL) consider the strong parentage of and demonstrated support from Hetero Labs Limited (HLL) and experienced promoters in the same line of business. Ratings also draw strength from the continuously improving financial performance between FY20 and H1FY24, strong product portfolio across multiple therapeutic segments, and the launch of new molecules. It also factors increased abbreviated new drug application (ANDA) filing, the company's strategic importance to the parent, and the industry's favourable demand-supply scenario.

However, ratings are offset with the company's limited operational track record, geographical and customer concentration risks, inherent regulatory exposure risk with the pharmaceutical industry, intense competition, and the resultant pricing pressure in the export market.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations by about 10-15% while maintaining a consistent profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 18%.
- Filing ANDAs consistently and launching new molecules.
- Improving geographical and customer diversifications.

Negative factors

- Weakening of linkages with or lack of adequate support from the parent or credit profile of the parent declining.
- Further debt-funded capex, potentially impacting liquidity and capital structure.

Analytical approach

Standalone, factoring linkages with the parent, HLL. HLL wholly owns APPL and has extended shortfall undertaking for the latter's facilities.

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that APPL will improve its operational performance year-on-year and continue to receive need-based support from HLL.

Detailed description of the key rating drivers

Key strengths

Part of the Hetero group, a reputed player in the pharma business

HLL, the flagship company of the Hetero group, wholly owns APPL. Hetero, among the major pharmaceutical groups in India, develops and manufactures active pharmaceutical ingredients (APIs), intermediate chemicals, and finished dosages. The group's portfolio spans more than 900 drugs across therapeutic segments. With a presence in over 126 countries, the Hetero group has more than 36 manufacturing units for pharmaceuticals products.

Dr B Parthasaradhi Reddy established the Hetero group in 1993. Dr Reddy has more than three decades of experience in the Indian pharmaceutical industry.

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

Over the years, the group has been growing, adding numerous API products to its portfolio. It forayed into the formulations segment in 2006, and since, has been focusing on finished dosages, having added about 500 products to its portfolio. Promoters look after the company's overall management and are supported by a professional management team with wide industry experience.

Strong product portfolio across multiple therapeutic segments
APPL has a strong product portfolio comprising more than 30 products. The revenue in FY23 has been diversified as against the product concentration in FY21 and FY22. DLT (anti-retroviral) and levetiracetam (epilepsy) drugs contributed about 40% together to total revenue in FY23 and H1FY24 as against 78% and 63%, respectively, in FY21 and FY22. With improved diversification, contribution from these two products reduced to about 40%, with other drugs contributing significantly.

APPL has a presence across therapeutic segments, with segments such as anti-epileptic, anti-retroviral, HIV, anti-hypertensive, and anti-depressant contributing most. Revenue from the top five therapeutic segments in FY23 stood at 77.20% as against 91.45% in FY22.

Incremental filing of ANDAs
APPL has a United States Food and Drug Administration (USFDA)-approved manufacturing plant. The company has been continuously filing ANDAs, having filed a total of 75 ANDAs to date, of which 40 have received approvals and 35 are under review. APPL will reportedly file about 10-12 ANDAs each year, going forward.

Growing scale of operations, improving revenue and margins
APPL commenced operations in FY20. The total operating income (TOI) has grown by an average 25% between FY22 and H1FY24, and is expected to follow a similar trajectory in FY24. Operating revenue has increased from ₹700.55 crore in FY22 to ₹921.73 crore in FY23, growing by 31%. Revenue in H1FY24 was reported at ₹653.24 crore as against ₹406.54 crore in H1FY23. CARE Ratings expects APPL to achieve revenue in the range of ₹1,100-1,200 crore in FY24, given the already-achieved revenue in H1FY24 and the company's augmented capacities and product approvals.

Revenue increase is on the back of rising volumes, process efficiency, changed products, and price mix. On the margins front, APPL has improved by 575 bps in FY23. In FY22, it recorded PBILDT and profit-after-tax (PAT) margins of about 11.43% and 3.53%, respectively, further improving to 17.18% and 8.64%, respectively, in FY23 on the back of operational efficiency and increasing scale of operations. In H1FY24, APPL recorded operating margin of 20.27% and PAT margin of 11.85%.

Low net worth due to loss in initial years, although improving year-on-year
Incorporated in November 2015, APPL commenced commercial operations in FY20. The company had no revenue booked before FY20, due to which it faced losses, leading to negative net worth. However, it reported profits FY21 onwards, this being the first full year of operations. From a negative net worth of ₹46.54 crore as on March 31, 2022, the net worth increased to ₹47.73 crore as on March 31, 2023.

Notably, the parent, HLL, has infused ₹628.63 crore up to March 31, 2023, in the form of optionally convertible preference shares (OCPS) and unsecured loans. While CARE Ratings has considered the OCPS as debt for analytical purpose, the management is of the opinion that it will be converted to equity at the time of redeeming. In FY23, APPL converted ₹15.00 crore of OCPS into equity.

Key weaknesses

Exposure to group companies in revenue terms
APPL manufactures generic finished dosages for therapeutic segments. As a subsidiary of HLL, with operational and managerial support, APPL derives majority of its revenue by selling its products to group companies. In FY23, the company derived 90.23% (PY: 93.76%) of its revenue by selling products to HLL and Camber Pharmaceuticals Inc (CPI; subsidiary of HLL). Group entities are major contributors to revenue, exposing APPL to customer concentration risk. However, CPI, in turn, sells to wholesale distributors in the US. On a consolidated basis, HLL has revenue exposure of about 25% in the US. This apart, the consolidated revenue of the Hetero group is well diversified, given it exports to more than 140 countries and HLL's established track record of more than three decades. Thus, the revenue concentration risk is mitigated to an extent.

Regulatory risk
Having a global presence and given the product usage, application and consequent impacts, APPL is required to comply with laws, rules and regulations, and operate under strict regulatory environments. Infringement in law or adverse changes in import-export policies or environmental or regulatory policies in regions where APPL operates can impact its operations. The USFDA inspection took place in August 2023, with no observations made.

Liquidity: Adequate
Liquidity is marked by strong accruals against negligible repayment obligations. In FY23, APPL had gross cash accruals (GCA) of ₹127.31 crore. CARE Ratings expects the company to generate GCA of about ₹170.00 crore and ₹200.00 crore in FY24 and FY25, respectively, with no debt repayment obligations. For the availed term loan of ₹135.00 crore, debt repayment obligations of ₹27.00 crore commence in FY26 (June 2025), post a moratorium period of 18 months.

The company's overall gearing stood at 17.05x, given that APPL's operations were supported by HLL in the past by infusing unsecured loans and OCPS of ₹628.63 crore in total debt (TD) of ₹814.24 crore. Considering healthy cash accruals, CARE Ratings expects APPL to comfortably meet its debt obligations.

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 and biotechnology	Pharmaceuticals

Incorporated in November 2015, APPL is a pharmaceutical company promoted by HLL. APPL primarily manufactures generic finished dosages and specialises in manufacturing tablets, capsules, and liquid orals, among others, catering to a diverse therapeutic range. The company has a manufacturing unit in Annaram, Telangana The unit is designed to conform to Schedule M standards of the Indian Drugs & Cosmetics Act, USFDA, and European Regulatory Agency's Guidelines and aligned to current Good Manufacturing Practices (cGMP). APPL's portfolio includes more than 30 products encompassing major therapeutic categories such as HIV and AIDS (ARVs), anti-hyperlipidaemic, anti-hypertensive, anti-epileptic, anti-muscarinic, antihistamine, anti-viral, treatment of idiopathic pulmonary fibrosis, antidepressant, neurogenic orthostatic hypotension, and treatment of chronic ulcerative proctitis and anti-cholinergic.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	700.56	921.74	653.24
PBILDT	80.07	158.37	132.44
PAT	24.76	79.67	101.19
Overall gearing (times)	-16.19	17.06	NA
Interest coverage (times)	2.92	4.98	NA

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

Status of non-cooperation with previous CRA: Not available

Any other information: Not available

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instruments/facilities: 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

List of all the entities consolidated: Annexure-6

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-Working Capital Limits		-	-	-	195.00	CARE A; Stable
Fund-based - LT/ ST-Cash Credit		-	-	-	25.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Letter of credit		-	-	-	40.00	CARE A1
Term Loan-Long Term		-	-	31/03/2030	135.00	CARE A; Stable

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-Working Capital Limits	LT	195.00	CARE A; Stable	1)CARE A; Stable (27-Apr-23) 2)CARE A; Stable (03-Apr-23)	-	-	-
2	Term Loan-Long Term	LT	135.00	CARE A; Stable				
3	Fund-based - LT/ ST-Cash Credit	LT/ST*	25.00	CARE A; Stable / CARE A1				
4	Non-fund-based - ST-Letter of credit	ST	40.00	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-Working Capital Limits	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Non-fund-based - ST-Letter of credit	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated: Not applicable

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.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in Naveen Kumar Dhondy Associate Director **CARE Ratings Limited** Phone: 91-040 40102030 E-mail: dnaveen.kumar@careedge.in Srivani Gandla Lead Analyst **CARE Ratings Limited** E-mail: Srivani.g@careedge.in

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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