

**Hetero Labs Limited (Revised)**

February 15, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	4,653.24 (Reduced from 4,653.50)	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	1,250.00	CARE A+; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

**Rationale and key rating drivers**

Ratings assigned to bank facilities of Hetero Labs Limited (hereinafter known as HLL) continue deriving strength from its strong promoter group with established track record and experienced management team. Ratings also positively factor in improved FY23 (refers to April 1- March 31) performance, where revenue grew by about 14% with improved operating margins, diversified product portfolio spread across multiple therapeutic segments with reputed clientele, significant presence in the US market by building healthy portfolio of filed and approved abbreviated new drug application (ANDAs), comfortable capital structure with moderate debt coverage indicators, integrated operations, and favourable outlook for the pharmaceutical industry. However, the ratings continue to remain constrained by persistent high debt levels, elongated working capital cycle, foreign exchange fluctuation risk and regulatory risk inherent in the pharmaceutical industry. CARE Ratings Limited (CARE Ratings) also notes resolution of income tax search operations which is expected to be completed by March 31, 2024 and the likely impact of the same on the company's financial risk profile.

**Rating sensitivities: Factors likely to lead to rating actions**
**Positive Factors**

- Improving PBILDT margins on a sustained basis above 17%.
- Maintaining operating cycle days consistently below 180 days.
- Improving total debt to PBILDT below 1.70x on sustained basis.

**Negative Factors**

- Total debt to PBILDT going beyond 2.50x on a sustained basis.
- Substantially increasing exposure towards group companies.
- Undertaking major capex or acquisitions utilising internal accruals which may impact the liquidity position of the company.

**Analytical approach: Consolidated**

CARE Ratings Limited (CARE Ratings) has considered the consolidated business and financial risk profiles of HLL and its subsidiaries/associates/joint ventures (JV), as they are linked through a parent-subsidiary relationship and collectively have common management, business, and financial linkages. The consolidated list of HLL's subsidiaries/associate/JV are mentioned in Annexure-6.

**Outlook: Stable**

A stable outlook reflects that the rated entity is likely to maintain its established market position and improve its overall operational performance in the medium term.

**Detailed description of the key rating drivers:**
**Key strengths**
**Established track record and experienced promoter and management**

Hetero is one of the major pharmaceutical groups in India. The group is engaged in developing and manufacturing active pharmaceutical ingredients (APIs), intermediate chemicals and finished dosage. The group has a portfolio of more than 900 drugs spread across therapeutic segments. The group has a presence in over 140 countries and has over 36 manufacturing units. It was established by Dr B Parthasaradhi Reddy in 1993. He 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 company entered the formulations segment in 2006, and has been focusing more on finished dosages, adding about 500 products to its portfolio.

<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.

The company's overall management is looked after by the promoters and supported by experienced and professional management team with a long track record in the pharmaceutical industry.

**Strong product portfolio spread across multiple therapeutic segments and reputed clientele**

HLL has a strong product portfolio of about 500 products in APIs and formulations. In FY23, about 78% of the total consolidated operating revenue was derived from formulations sale, 21% from APIs and 1% from power and others. HLL has a presence across 20 therapeutic segments with majority revenue contribution (standalone level) from high growth segments such as Antiretroviral (27.20% of total operating revenue in FY23), Antiviral (23.70%), Cardio (14%) and CNS (9.60%) among others. HLL has been supplying APIs and formulations to most of the major pharmaceutical players. In FY23, at standalone level, Camber Pharmaceuticals Inc (Camber) was the major revenue contributor with 20.28% share in total operating income. Camber is a step-down subsidiary of HLL, incorporated internationally to ease the marketing arrangement. The company is also a supplier for other reputed pharma players such as Chemonics International Inc., Pfizer Inc., Sun Pharmaceutical Industries Limited, Alkem Laboratories, Cipla Limited, Lupin Limited, and Dr. Reddy's Laboratories Limited, among others. In FY23, at standalone level, US market contributed to the highest share of the revenue followed by India, Europe, and South Africa.

**Integrated operations with presence across the pharma value chain**

HLL procures raw materials, APIs and intermediates, from its group companies. The group has established various backward integrated units. On standalone basis in FY23, about 50% of the total raw material consumed (₹3367 crore) were procured from group companies (subsidiaries/associates and the companies on which HLL's key management personnel can exercise significant influence) of which, Hetero Drugs Limited and Honour Labs were major contributors. HLL is primarily engaged in the formulations segment, while HDL focusses on the API segment. HLL continues to depend on its associate concerns particularly Hetero Drugs Limited, Honour Lab Limited, Hindys labs, Dasami Labs and Cirex Pharmaceuticals Limited, to procure APIs required for manufacturing finished products.

**Accredited manufacturing units**

HLL has 10 manufacturing units, of which six are USFDA approved and are fully compliant. Six facilities are in Telangana, two in Andhra Pradesh, and one each in Himachal Pradesh and Karnataka. Of the 10 manufacturing facilities, three are for APIs and the remaining for formulation.

**Strong presence in the US market through ANDA filing**

HLL has its presence in multiple geographies, such as the USA, the UAE, South Africa, and Thailand, among others. It derives about 23%-25% of revenue from the US market. The company has a rich history of filing ANDAs for new drugs. Till December 2023, the company has filed 235 ANDAs of which 141 have been approved and 57 ANDAs are under review. In FY23 and 9MFY24, the company filed 16 ANDAs. From FY21, the company received approval for 61 ANDAs and have filed 38 ANDAs. At the group level, the company has filed 332 ANDAs with USFDA, of which 194 have been approved. CARE Ratings believes that the company will continue to file 10 ANDAs every year on average driven by strong R&D.

**Healthy growth in total operating income coupled with improving margins**

At consolidated level, HLL has witnessed healthy growth in its total operating income (TOI) in FY23. Its total operating income (TOI) grew by ~14% to ₹13639.76 crore in FY23 as against ₹11930.82 crore in FY22. The PBILDT margin also improved from 14.82% in FY22 to 16.92% in FY23, by 210 basis points. The company has been entering new therapeutic and more profitable segments, increasing its revenue contribution, resulting in improved margins. On a standalone basis in H1FY24, the company reported revenue of ₹5778 crore (H1FY23: ₹5931 crore) with PBILDT margin of 16.67% (H1FY24: 16.88%). Care Ratings expects that at the back of healthy product portfolio, supported by high ANDA approvals in recent years, the company will continue to report steady growth in TOI and PBILDT margin.

**Demerger of real estate assets**

Over last few decades HLL has acquired land parcels for the future requirement of pharmaceutical business. In order to consolidate the real estate undertakings in the group and to provide optimal utilization of resources with greater administrative efficiencies, the company has filed a composite scheme of demerger with National Company Law Tribunal (NCLT), whereby identified real estate business undertakings will be demerged from the company. The demerger exercise will result in reduction in net worth and assets of the company by about ~Rs 450 crore, subject to changes until the appointed date i.e. April 01, 2024. CARE Ratings expects that the step of demerging the non-core business/assets from HLL will help company enhance its focus further towards improving the operational efficiency of the core business.

### Income tax search matter

The Income tax department carried out the search operations in the company's business premises in October 2021. Subsequently, company has received notices U/s 148 and other provisions of the Act for certain assessment years for which the company has filed necessary submissions. The assessment proceedings are under various stages for completion and are expected to conclude by the end of March 2024. The search proceedings and consequent tax payments have not impacted the operations of the company.

### Comfortable capital structure with consistent improvement in debt coverage

HLL's capital structure continues to remain comfortable and has witnessed steady improvement. The capital structure, represented by overall gearing and debt to equity improved to 0.56x (PY:0.62x) and 0.17x (PY:0.17x) respectively as on March 31, 2023. Other debt coverage indicators have also improved steadily. Total debt to PBILDT and interest coverage ratio improved to 2.16x (PY:2.67x) and 5.99x (PY: 7.61x) respectively. The total debt to GCA improved to 3.20x from 3.61x in FY22.

### Key weaknesses

#### Elongated operating cycle

The operating cycle of the company continues to remain elongated. In FY23, the company's operating cycle stood at 208 days against 211 days in FY22. The primary factor in elongated operating cycle is the average inventory period, which remained high at 170 days (PY:167 days). The average collection period also stood at 120 days (PY: 127 days). The collection and inventory holding period are higher as majority of the revenue is from exports. Further, HLL maintains inventory at Camber, as it caters to the top 3 wholesalers in the US market. HLL supplies products on a just-in-time basis and supply delays attract penalties. To overcome penalties, the company maintains buffer stock. However, this is offset to some extent by credit period from suppliers and the balance is met through working capital limits.

The company has opted for from September 2023 "Accounts Receivables Purchase scheme (ARPS)" amounting to about ₹1000 crore to reduce its operating cycle, which is expected to bring down the receivable days for the company and thus will result in improvement in operating cycle.

### Regulatory risk

HLL has a presence in multiple countries across the world. Considering product usage and application, and its consequent impact, HLL is required to comply with laws, rules, and regulations, operating under strict regulatory environment. Infringement in laws, and significant change in import/export or environmental/regulatory policies, have an impact on the company operations. The company is continuously taking adequate steps to address regulatory risks. Almost after six years, one of its plants at Jadcherla received a close-out letter from USFDA.

### Liquidity: Strong

Liquidity of the company is strong marked by healthy cash accruals of ₹1560 crore in FY23 against repayment obligations of ₹192.47 crore in FY23. The company had cash balance of ₹582.56 crore as on March 31, 2023. CARE Ratings expects HLL to generate gross cash accruals in the range of ₹1600 - ₹1700 crore every year against debt repayment obligation ~₹267 crore in FY24 and ~₹255 crore in FY25. The company is also expected to incur regular maintenance and capacity enhancement capex in the range of ₹500 - ₹600 crore every year. Of the total debt obligation of ~₹267 crore (including lease liabilities) in FY24, the company repaid about ₹200 crore till December 31, 2023. Considering the company's cash accruals in the recent past and estimated accruals, it is expected to meet its debt obligations comfortably after meeting capex and increased working capital requirements.

**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 and biotechnology	Pharmaceuticals

Incorporated in 1989, HLL is the flagship company of the Hetero Group. HLL is a pharmaceutical company, primarily engaged in manufacturing APIs and finished dosages formulations (FDF). The company is promoted by Dr B. Partha Saradhi Reddy, Chairman, HLL and the Hetero Group. HLL is a closely held company with 100% shares held by promoters and their associates. HLL has 10 manufacturing facilities located in Andhra Pradesh, Telangana, and one formulations manufacturing facility in Baddi, Himachal Pradesh. These manufacturing have been approved by the USFDA, WHO, COFEPRIS Mexico, ANVISA-Brazil, NOMA – Norway and MCC South Africa.

Brief Consolidated Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA) #
Total operating income	11,930.82	13,639.76	5777.87
PBILDT	1,767.72	2,308.41	962.91
PAT	1011.75	1237.24	556.26
Overall gearing (times)	0.62	0.56	-
Interest coverage (times)	7.61	5.99	6.83

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

#H1FY24 financials are on standalone basis.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of 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	-	-	-	31/03/2026	501.73	CARE A+; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	4151.51	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	1250.00	CARE A+; Stable / CARE A1+

**Annexure-2: Rating history for 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	4151.51	CARE A+; Stable	-	1)CARE A+; Stable (31-Mar-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+; Positive (08-Jan-21)
2	Fund-based - LT-Term Loan	LT	501.73	CARE A+; Stable	-	1)CARE A+; Stable (31-Mar-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+; Positive (08-Jan-21)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST	1250.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (31-Mar-23) 2)CARE A+; Stable / CARE A1+ (10-Jan-23) 3)CARE A+ / CARE	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+; Positive / CARE A1+ (08-Jan-21)

						A1+ (RWD) (27-Dec-22)		
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\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	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**

Sr No	Name of the entity	Extent of consolidation (%)	Rationale for consolidation
1	Annora Pharma Private Limited	100.00	Subsidiary
2	Aspiro Pharma Limited	99.83	Subsidiary
3	Strivo Pharma Private Limited	99.83	Subsidiary
4	Evaric Pharma Limited	100.00	Subsidiary
5	Hetero Med Solutions Limited	51.00	Subsidiary
6	Camber Pharmaceuticals Company Limited (Cambodia)	95.00	Subsidiary
7	Hetero Wind Power(Pennar)Private Limited	51.38	Subsidiary
8	Amarox (Canada) Limited	100.00	Subsidiary
9	Hetero Wind Power Limited	51.38	Subsidiary
10	Amarox Ukraine Limited	90.25	Subsidiary
11	Actero Pharma Private Limited	100.00	Subsidiary
12	Abhiru Industries Limited	100.00	Subsidiary
13	Yatnam Lab Limited	100.00	Subsidiary
14	Hetero Biopharma Limited	100.00	Subsidiary
15	Camber Consumer Care Inc.	95.00	Subsidiary
16	Camber Pharmaceuticals Inc	95.00	Subsidiary
17	Amarox Pharmaceuticals,S.A.	95.00	Subsidiary
18	Camber Pharmaceuticals S.A	95.00	Subsidiary
19	DMN Invest LLC	94.99	Subsidiary
20	Excellen Peru S.A.C	94.91	Subsidiary
21	Hetero Australia pty Limited	95.00	Subsidiary
22	Hetero FZCO U.A.E	95.00	Subsidiary
23	Hetero Labs Nigeria Limited	85.50	Subsidiary
24	Hetero Drugs South Africa (Pty) Limited	100.00	Subsidiary
25	Agrata Lab Private Limited	100.00	Subsidiary
26	Camber Pharmaceuticals Inc (formerly Hetero Philippines Inc.)	95.00	Subsidiary
27	Hetero Singapore Pte Ltd.	97.50	Subsidiary
28	Camber Pharmaceutical Co. Ltd. Thailand( formerly Hetero Thailand Limited)	99.95	Subsidiary
29	Makiz Pharma LLC.	94.99	Subsidiary
30	Pharmed Healthcare Company SAE	29.30	Joint venture
31	Renhe Hetero Pharmaceuticals Ltd, China	49.00	Joint venture
32	Mintz Pharmaceuticals Inc.	44.08	Joint venture
33	Nexgen Pharma FZ (L.L.C.)	47.50	Joint venture
34	Camber Farmaceutical Ltda	95.00	Subsidiary
35	Ascent Pharmaceuticals Inc	48.45	Joint venture

Sr No	Name of the entity	Extent of consolidation (%)	Rationale for consolidation
36	Hetero Pharma Russia LLC, Russia	95.00	Subsidiary
37	Amarox Pharma GMBH	95.00	Subsidiary
38	Hetero Saudi Labs Limited, U.A.E.	50.00	Joint venture
39	Hetero Labs South Africa Pty	95.00	Subsidiary
40	Hetero Infrastructure SEZ Limited	79.92	Subsidiary
41	Sri Sai Ashirwaad Logistic Limited	50.00	Associate
42	Dialog Pharma LLC	47.50	Associate
43	Hetero Europe S.L	50.00	Associate
44	Hetero USA Inc.	50.00	Associate
45	Veer West Realty India Private Limited	100.00	Subsidiary
46	PTE AmaroX global	76.95	Subsidiary
47	Anaika Industries Limited	100.00	Subsidiary
48	Evaric Pharmaceuticals Inc.	95.00	Subsidiary
49	Amarox UK	95.00	Subsidiary
50	Camber Pharma LLP	95.00	Subsidiary
51	Tarbis Farma SLU	95.00	Subsidiary
52	AK Sintvita LLC	95.00	Subsidiary
53	Camber Laboratories SDN BHD	95.00	Subsidiary
54	Hetero Pharma Beijing Co Ltd	95.00	Subsidiary
55	Camber Pharmaceuticals HongKong Limited	95.00	Subsidiary
56	Amarox Pharma B.V	95.00	Subsidiary
57	Camber Pharmaceuticals Co. Ltd	95.00	Subsidiary
58	Annora Pharma FZ LLC	100.00	Subsidiary
59	Amarox (Canada) Limited	100.00	Subsidiary

**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.

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**About us:**

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