Corona Remedies Private Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	128.00	CARE A; Stable	Assigned
Long-term / Short-term bank facilities	70.00 (Enhanced from 50.00)	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Corona Remedies Private Limited (CRPL) continue to derive strength from its qualified and experienced management with established presence in the domestic pharmaceutical formulation market. Ratings are also strengthened from CRPL's diversified product portfolio across multiple therapeutic segments with continued expansion through organic and inorganic route, wide marketing and distribution network, and various strategic tie-ups. Ratings continue to factor its growing scale of operations and healthy profitability, comfortable capital structure, strong debt coverage indicators and liquidity, and stable industry outlook.

However, above rating strengths are constrained by the on-going capital expenditure with risks associated with completion of the project in the envisaged time and cost parameter and realisation of envisaged benefits thereon. Ratings are also constrained due to CRPL's dependency on contract manufacturing, presence in a price controlled and competitive domestic pharmaceutical formulation business, and exposure to the inherent regulatory risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors:

- Healthy growth in the scale of operations with total operating income (TOI) of over ₹1,250 crore while maintaining profit before interest, lease, depreciation, and tax (PBILDT) margin over 17% and return on capital employed (ROCE) around 25% on a sustained basis.
- Gross operating cycle not exceeding 120 days.
- Maintaining current low leverage and strong liquidity.

Negative factors:

- Significantly increasing working capital intensity with gross operating cycle exceeding 180 days.
- Large size acquisition/capital expenditure (capex) resulting in overall gearing above 0.75x.

Analytical approach: Standalone

Outlook: Stable

The outlook on CRPL's long-term rating is "Stable" considering the inherent strength of its sales and distribution network coupled with its wide portfolio of the branded generic formulation, having major focus on the chronic segment, which would enable it to sustain its healthy business risk profile in near to medium term.

Detailed description of the key rating drivers

Key strengths

Qualified and experienced management

CRPL is promoted by Dr Kirtikumar L. Mehta (Non-Executive Chairman) who has more than four decades of experience in medicine and looks after the general administration and export operations. He is assisted by his sons, Nirav Mehta and Ankur Mehta, in the capacity of directors, for the company's overall functioning of the company. The promoters are supported by a qualified second-tier management with well-defined organisational structure and an adequate information management system.

In March-April 2021, Sepia Investment Limited, Anchor Partners, and Sage Investment Trust (affiliates of renowned Pharma Private Equity player ChrysCapital) acquired equity stake and 0.01% compulsory convertible non-cumulative preference shares (CCNCPS), and thereafter also purchased 8% stake from CRPL's promoters. ChrysCapital converted its entire CCNCPS into equity in July 2022. Post conversion, ChrysCapital holds 27.50% stake as on March 31, 2023. Kshitij Sheth of ChrysCapital is also a nominee director on the board of CRPL, benefiting the company in terms of its overall growth and market intelligence.

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

Diversified product portfolio with continued expansion through organic and inorganic route

CRPL has a wide portfolio of more than 550 products under more than 70 brands across various therapeutic segments such as vitamins/nutrients, hormones, gastroenterology, cardiovascular system, diabetology, anti-infective, gynaecology, and respiratory system, among others.

Top five therapeutic segments contributed around 78% of CRPL's total net sales in FY23 (FY22: 79%). Overall, CRPL derives around 60-70% of the revenue from the chronic segment with balance from the acute segment. Higher share of chronic therapeutics in the overall revenue generally provides better revenue stability and profitability to CRPL. Top 10 brands of CRPL contributed nearly 45% of its total net sales in FY23 (FY22: 44%) depicting moderately diversified product portfolio.

Over the years, the company's focus has been to grow through organic and inorganic routes. CRPL acquired three formulation brands (Dilo, Stelbid, and Vitneurin) from Glaxosmithkline (GSK) and two formulation brands (Obimet and Thyrocab) from Abbott India Ltd in FY17 and FY18, respectively, for around ₹55 crore, which is expected to generate revenue of around ₹100 crore in FY24.

In July 2023, the company acquired 'Myoril' brand from Sanofi India Ltd and commenced its sales from September 2023. The brand has received a strong response and is likely to register a two-fold sales growth in FY25.

Wide marketing and distribution network

CRPL has a PAN-India marketing and distribution network with a strong team of around 3,400 field forces as on December 31, 2023. This large marketing team is spread across India, covering more than 150,000 unique doctors and more than 100,000 pharmacies. CRPL has two warehousing facilities, one located at Ahmedabad and other located at Solan, Himachal Pradesh, enabling faster movement of its products across India.

In past 20 years of its operational track record, CRPL grew significantly and is currently ranked 32nd (Source: IQVIA) in the Indian pharmaceuticals market.

With its gradual foray into various parts of the country, CARE Ratings Limited (CARE Ratings) notes that the share of western India in CRPL's overall sales mix has reduced steadily in last five years from 61% in FY19 to 47% in FY23 and further to 45% in 9MFY24, resulting in a greater geographical diversification.

CRPL has been able to register healthy growth in the sales of its in-house brands and acquired brands along with improvement in gross margin, demonstrating its strong marketing and distribution capabilities.

Various strategic tie-ups

In FY23, CRPL entered in in-licensing tie-ups and co-marketing arrangements with Ferring Pharmaceuticals Pvt Ltd (a subsidiary of Switzerland-based global biopharmaceuticals company, Ferring Pharmaceuticals) for four products (under gynaecology and urology). It also entered in co-marketing agreements with Albert David Ltd (ADL; rated 'CARE A; Stable/CARE A1') in FY22 and launched a new formulation brand with technical support and supply of ADL.

This apart, CRPL holds 33.50% equity stake as on March 31, 2023, in La Chandra Pharmalab Private Limited (LCPL), which is a largest manufacturer of female hormone active pharmaceutical ingredient (API) at its EU-GMP-certified plant located at Palanpur, Gujarat. Thus, through this acquisition, CRPL benefits from an assured supply of the key raw materials for its female hormone formulations.

Going forward, with various initiatives undertaken by the company, CARE Ratings expects CRPL to further strengthen its competitive position and thereby its presence in the domestic market.

Growing scale of operations with healthy profitability

CRPL's TOI grew by 43% from ₹617.75 crore in FY22 to ₹884.61 crore in FY23 with cardiology, gynaecology, diabetology, and respiratory segment, exhibiting strong growth y-o-y apart from other therapeutic segments. CRPL moved from super distributor (SD) model to carrying and forwarding (C&F) model w.e.f. from January 01, 2022. Considering this, its TOI would have been around ₹750 crore in FY22.

CRPL has a healthy gross margin of around 70-75%. Its profitability remained healthy marked by PBILDT margin of 14.55% during FY23. The PBILDT margin declined to 2.97% in FY22 due to change in the distribution model adjusted for which its PBILDT margin was 17.44% for FY22.

Over the years, CRPL has consistently added new brands to its portfolio leading to a consistent growth in scale of operation. It commenced 'urology division' during current year.

With a healthy PBILDT margin and moderate depreciation and interest cost, CRPL reported healthy profit after tax (PAT) margin of 9.58% in FY23 and 9.79% in 9MFY24. The gross cash accruals (GCA) also stood healthy at ₹104.49 crore in FY23 and ₹91.85 crore in 9MFY24.

CRPL has added significant sales force in FY23-FY24 to strengthen its competitive position in some of the key growing segments, impacting its profitability to some extent. CARE Ratings notes that CRPL is expected to grow its revenue at a compounded annual growth rate (CAGR) of 20% supported by further market penetration and addition of newer therapeutic segments, whereas

PBILDT margin is expected to improve to around 16-18% with economies of scale, improving sales force productivity, and focus on high-margin products.

Comfortable capital structure and healthy debt coverage indicators

CRPL has a comfortable capital structure marked by an overall gearing of 0.07x as on March 31, 2023 and 0.37x as on December 31, 2023. Moderation in the overall gearing during current year was due to an increase in the total debt for acquisition of 'Myoril'. The acquisition, amounting to ₹234 crore, was funded through a term loan of ₹180 crore (already pre/repaid ₹43 crore till December 31, 2023) and balance from the available liquidity /cash accruals. Tangible net worth (TNW) remained healthy at ₹407.76 crore as on March 31, 2023.

Despite availment of new debt, CRPL's debt coverage indicators continued to remain strong marked by a PBILDT interest coverage and total debt to GCA (TDGCA) of 30.16x and 0.27x, respectively, in FY23 and 15x and 1.46x, respectively, in 9MFY24. Going forward, with no major debt-funded capex in pipeline and pre/repayment of term debt availed for brand acquisition, CARE Ratings expects CRPL to maintain its comfortable capital structure and strong debt coverage indicators.

Stable industry outlook

The Indian pharmaceutical sector holds a prominent global position, particularly in the generic drugs market, ranking as the third largest by volume and thirteenth by value. Over the period spanning FY17 to FY23, the industry, encompassing both domestic and export markets, achieved a notable compounded annual growth rate (CAGR) of 8%. This growth was driven by a 7% increase in exports and an 8% rise in the domestic market. Consequently, the Indian pharmaceutical industry expanded from approximately USD 34.7 billion in FY17 to reach approximately USD 50 billion in FY23 and is envisaged to further increase to USD 57 billion by FY25. Globally, the industry has established a robust presence in the generics segment, with pharma exports and the domestic market contributing equally to its overall stature.

Growth in the domestic pharmaceuticals market is expected to be driven by an increase in the health insurance penetration, improving access to healthcare facilities, lifestyle changes, rising prevalence of chronic diseases, and rising per capita income.

Key weaknesses

Dependence on contract manufacturing

CRPL follows an asset light approach and outsources part of its manufacturing requirements which has led to low overheads and high asset turnover over the years. In FY23, share of in-house manufacturing stood at around 62% of the overall sales mix (FY22: 57%), while the balance was from contract manufacturing.

Although contract manufacturing keeps the business model asset light, it possesses supply chain-related issues regarding quality control and resultant reputation risk. However, the company largely gets low value-added formulation products including injectables manufactured through contract manufacturers.

Also, with the commercialisation of the new plant at Ahmedabad, CARE Ratings expects that the sales proportion of the in-house manufacturing to contract manufacturing would gradually improve to 70:30 in the medium-term.

On-going capex for hormone formulations

CRPL is currently undertaking a capital expenditure to manufacture female hormone formulations. This plant is adjacent to its existing plant at Ahmedabad. The project's total cost is estimated at around ₹110 crore, which will be entirely funded through internal accruals. As on December 31, 2023, CRPL has incurred a total cost of around ₹80-90 crore on this project and the project is expected to be complete by June 2024. CARE Ratings notes moderate time and cost overrun in the project mainly due to a change in the technical specifications. Notably, CRPL currently manufactures the hormones formulations at its Solan plant with the some of the key raw material being procured from LCPL.

Commencement of the plant's operations will lead to further increase in the company's production capacities with addition of new product offerings. Accordingly, completion of the said project in the envisaged time and cost parameters remains crucial for company's growth. Any major delays or significant cost overrun impacting company's liquidity shall remain a key rating monitorable.

Exposure to inherent regulatory risk and presence in the competitive industry

CRPL is exposed to the regulatory risks inherent to the pharmaceuticals industry. The players in the industry need to adhere to stringent quality standards. Good manufacturing practice (GMP) must be followed for the manufacturing and quality control of drugs. The government also controls the prices of pharmaceutical products through the drug price control order (DPCO) under price control mechanism. However, CARE Ratings notes that CRPL currently derives only around 10% of its revenue from products covered under DPCO, which provides it a financial flexibility.

In May 2023, CRPL received the EU-GMP certification for its Ahmedabad plant. While CRPL has started dossier filings with the concerned authorities, CARE Ratings notes that export to European countries may take some time considering the lengthy approval process. However, CRPL has already commenced production from the plant from FY22 onwards per EU-GMP compliances and currently caters to the domestic market.
The pharmaceutical formulation market is highly competitive in the generic segment medicines which command lower prices. CRPL is primarily engaged in the marketing of branded generic formulations in the domestic market, which exposes it to intense competition and pressure on selling price.

Liquidity: Strong
CRPL has strong liquidity characterised by healthy cash accruals against its low term debt repayment obligations, healthy liquid investment and cash & bank balance, and low working capital utilisation. Average fund-based working capital utilisation remained negligible for past 12-months ended January 31, 2024, providing sufficient cashflow cushion.
CRPL is expected to earn GCA of over ₹120 crore against its debt repayment obligation of ₹27 crore in FY24. Considering the strong cash flows, CRPL has already re-paid ₹43 crore of its term debt obligations till December 31, 2023 (including pre-payment of ₹25 crore).
Envisaged cash accruals along with availability of free cash and bank balance and liquid investments (majorly in the fixed deposits) to the tune of ₹45.40 crore as on December 31, 2023, would be sufficient to cater to its capex requirement over near to medium term.
Cash flow from operations remained at healthy ₹102.70 crore in FY23 (FY22: ₹97.70 crore) and its current and quick ratio remained comfortable at 1.80x and 1.30x, respectively, as on March 31, 2023. With change in the distribution model from SD to C&F from January 2022, the debtor days reduced from 82 days in FY22 to 33 days in FY23, whereas inventory holding increased from 37 days in FY22 to 50 days in FY23. Consequently, operating cycle also moderated from 72 days in FY22 to 40 days in FY23.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

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

Incorporated in August 2004 and based out of Ahmedabad, CRPL (CIN: U24231GJ2004PTC044656) is engaged in the manufacturing and marketing of branded generic formulations. Promoted and controlled by the Mehta family, CRPL started its operations by marketing of formulations. CRPL operates two manufacturing units, one in Solan (Himachal Pradesh, WHO-CGMP certified which started operations in 2007) and other at Bavla (Ahmedabad, EU-GMP certified which commenced operations in March 2021).
In March-April 2021, Sepia Investment Limited, Anchor Partners, and Sage Investment Trust (an affiliate of renowned Pharma Private Equity player, ChrysCapital) acquired equity stake from Cydista Limited, which was a PE investor in CRPL since July 2016 and purchased 8% stake from CRPL's promoters. As on March 31, 2023, ChrysCapital holds 27.50% stake in CRPL, while balance is being held by the promoters.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	617.75	884.61	761.47
PBILDT	18.32	128.75	125.28
PAT	-0.40	84.70	74.55
Overall gearing (times)	0.14	0.07	0.37
Interest coverage (times)	3.87	30.16	15.00

A: Audited; UA: Un-audited; Note: These are the 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 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: Please refer to Annexure-4

Lender details: Please refer to 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	-	-	-	May 2028	128.00	CARE A; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	70.00	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/Non-fund-based-LT/ST	LT/ST	70.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (08-Mar-23)	1)CARE A; Stable / CARE A1 (20-Dec-21)	1)CARE A-; Positive / CARE A2+ (20-Oct-20)
2	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (08-Mar-23)	1)CARE A; Stable (20-Dec-21)	1)CARE A-; Positive (20-Oct-20)
3	Fund-based - LT-Term loan	LT	128.00	CARE A; Stable	-	-	-	-

LT: Long term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based/Non-fund-based-LT/ST	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 based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: +91-79-4026 5611 E-mail: kalpesh.patel@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Nikita Goyal Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5616 E-mail: nikita.goyal@careedge.in Jignesh Trivedi Assistant Director **CARE Ratings Limited** E-mail: jignesh.trivedi@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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