

Zydus Foundation

August 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	90.00 (Reduced from 145.00)	CARE A-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to the non-convertible debenture (NCD) issue of Zydus Foundation (ZF) continues to derive strength from its strong parentage of Zydus Lifesciences Limited (ZLL) as its wholly owned subsidiary. CARE Ratings Limited (CARE Ratings) observes that majority of ZLL's corporate social responsibility (CSR) spend is being done through ZF and expects this to continue. The rating also suitably factors ZLL's need-based support to ZF as a parent, since it is strategically important to the Zydus Cadila group which already has vast experience in pharmaceutical and healthcare sectors. Through ZF, the group has forayed in the field of medical college. Rating also takes into consideration growth in its scale of operations considering commencement of post-graduation (PG) courses and continued healthy enrolment, prepayment of part NCDs in FY23 (refers to April 1 to March 31) and FY24 out of the surplus generated through operations and donation received from parent and group companies. The rating also favourably factors comfortable capital structure and good prospects for medical education and healthcare sector providing adequate revenue visibility.

However, rating continued to remain constrained considering the upcoming large schedule bullet repayment of NCDs of ₹90 crore due in March 2025; expected to require reliance on the Zydus Cadila group for its servicing. The rating is further constrained considering limited track record of operation of the existing medical college, which is susceptible to regulatory changes in higher education and healthcare sectors and decline in its operating surplus in FY24, which remained lower than expected due to higher-than-envisaged employee cost post commencement of PG courses. CARE Ratings also takes cognisance of on-going Public Interest Litigation (PIL) filed against ZLL in the honourable Gujarat High Court, where the court has asked ZLL not to charge fees from below poverty line (BPL) patients for medical treatment until the case is disposed-off. Furthermore, CARE Ratings takes note of ZF's formation under Section 8 of the Companies Act, 2013 with the objective of promotion of education, research or charity; and profit to be utilised for promoting these objectives, limiting net surplus and cash flow.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Self-sustainable generation of sufficient cash flows for meeting ZF's debt servicing requirements without reliance on group support.
- Significantly improving debt coverage indicators.

Negative factors

- Material reduction in enrolment of students with sharp decline in income on a sustained basis.
- Any change in the extent of shareholding of the parent (ZLL) or deterioration in the credit profile of ZLL or lower-than-envisaged support from ZLL/Zydus Cadila group.

Analytical approach: Standalone and factoring managerial and financial linkages with its parent, ZLL. Considering a strong credit risk profile, ZLL is capable of providing need-based support to ZF in a timely manner. Furthermore, ZLL's management has also strongly articulated their willingness to extend need-based support to ZF.

Outlook: Stable

CARE Ratings believes that ZF shall continue to benefit from its strengthened infrastructure leading to continued healthy student enrolment, while it shall continue to receive need-based support from the Zydus Cadila group.

Detailed description of key rating drivers

Key strengths

Strong parentage of ZLL providing financial flexibility

ZF is a 100% subsidiary of ZLL, the flagship company of the Zydus Cadila group. ZLL is one of the largest pharmaceutical companies in India and the fifth-biggest generic-pharmaceutical company in the United States of America (USA) based on prescription (Source: ZLL's Annual report for FY24). ZLL has strong presence in domestic formulation market with 7 of the company's brands were among the top 300 brands of Indian Pharmaceutical Market (IPM) in FY24.

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

ZLL's financial risk profile is very strong marked by large net worth base and minimum reliance on external debt, resulting in healthy capital structure and strong debt protection indicators. In FY24, ZLL reported a net profit of ₹3,950 crore and gross cash accruals (GCA) of ~₹4,222 crore (profit after taxation [PAT] and GCA of ₹2,097 crore and ₹2,712 crore, respectively in FY23). ZLL (consolidated), on an average, spends ~₹25-30 crore annually to CSR primarily in education and healthcare sectors. In FY24, ZLL and its group entities provided funds of ₹9.81 crore (PY: ₹15.25 crore) in the form of CSR contribution to ZF. Due to its strong financial profile, ZLL is capable of providing need-based assistance to ZF. Furthermore, ZLL's management has also indicated their willingness to extend need-based support to ZF.

Managerial linkages with the resourceful promoter group, Zydus Cadila, which has wide experience in pharmaceutical and healthcare sectors

ZF is a part of the Zydus Cadila group promoted by Ahmedabad-based Pankaj Patel and his family. Pankaj Patel, the Chairman of ZLL, and Sharvil Patel, Managing Director of ZLL and Chairman of Zydus Wellness Limited (ZWL), act as Directors in ZF, demonstrating strong managerial linkages with the Zydus Cadila group. Furthermore, the promoter group has significant experience of over six decades in pharmaceutical and healthcare industry. Major group companies are Zydus Healthcare Limited, Zydus Wellness Limited, Clantha Research Limited, Zydus Hospira Oncology Private Limited, and Zydus Technologies Limited among others.

Zydus Cadila group currently manages and operates four hospitals in Gujarat, including two in Ahmedabad, one in Anand and one in Suzuki Motor Gujarat Township at Becharaji. Over last five years ended FY24, the Zydus Cadila group demonstrated strong financial support to ZF by infusing fund to support its operations and fund the ongoing capex requirement.

Continued high enrolment ratio considering limited availability of medical seats in the state with overall favourable growth prospects for medicinal education and healthcare sectors

Post take-over of hospital operation under Public-Private Partnership (PPP) model, ZF completed the project to build additional bed capacity and college facility/infrastructure for M.B.B.S. and PG. ntre capex of ~₹430 crore is being funded through NCD of ₹185 crore (of which the entity has prepaid ₹95 crore) and balance through CSR contribution received from Zydus group entities. Since its first year of operation in 2019, ZF was able to maintain the enrolment level at 100% due to limited seats available for medical education in Gujarat. Total seats available for M.B.B.S. course in Gujarat is ~6,400-6,500 as against over 84,000 students, who registered for National Eligibility-cum-Entrance Test (NEET) annually. Hence, CARE Ratings expects that ZF would continue to receive 100% enrolment going forward. Moreover, the outlook for overall medicinal education sector remains favourable, considering low penetration of healthcare services in India. This provides adequate revenue visibility for ZF, which derives over 80% of its total operating income (TOI) from medical college.

At present, rising incidences of lifestyle diseases, rising demand for affordable healthcare, emergence of technologies like telemedicine, and increased role of government in healthcare investment space are major driving factors in Indian healthcare industry. Indian government is very active through its initiatives such as Ayushman Bharat, Amrutam Yojana and other schemes.

Healthy net worth bases leading to comfortable capital structure

ZF's capital structure marked by overall gearing continued to remain comfortable at 0.38x as on March 31, 2024 (0.65x as on March 31, 2023). In FY24, ZF received donation for special purpose amounting to ₹9.81 crore (₹15.25 crore in FY23), which was directly credited to the corpus fund leading to further strengthening of net worth base of the entity as on March 31, 2024. Moreover, ZF prepaid part NCD of ₹55 crore in FY24 leading to reduction in debt level to ₹90 crore as on March 31, 2024. As informed by the management, ZF does not plan to avail major external borrowing in the near-to-medium term. Hence, CARE Ratings expects ZF's capital structure to remain comfortable in the near-to-medium term.

Liquidity: Adequate

ZF's cash accruals are expected to remain adequate for its regular capex and meeting operational exigency requirement. ZF has scheduled term debt repayment of ₹90 crore due in March 2025. Its cash-flow is expected to remain inadequate to meet repayment obligations. ZLL being a parent and having a very strong financial and liquidity profile is expected to provide timely need-based support to ZF in meeting its obligations.

Key weaknesses

Moderation in operating surplus in FY24 due to higher employee costs

ZF has a limited track record of operation as it had taken over operation of the hospital at Dahod, Gujarat in January 2019. ZF's scale of operations marked by TOI grew by 12% in FY24 (67% in FY23) driven by commencement of PG courses and higher income from the hospital segment. Despite increase in its scale of operations, its surplus before interest, lease, depreciation and tax (SBILDT) declined by 31% in FY24 (y-o-y), mainly considering higher employee cost. As the college and hospital are building new capabilities, they are required to hire and retain good talent. However, ZF generated surplus after tax (SAT) in the last two years ended FY24. ZF reported GCA of ₹22.89 crore in FY24 (FY23: ₹31.74 crore).

ZF drives over 80% of its TOI from medical college fees. Strength of college students and fees are regulated by the government and regulatory bodies. At present, the college is operating at full strength. Hence, the scale of operations is expected to stagnate from FY26, unless increase in fees/increase in student strength is approved. Employee cost is expected to remain elevated in the near-to-medium term, limiting its SBILDT. CARE Ratings expect ZF to report SAT in the near-to-medium term and generate GCA of ~₹20 crore to ₹25 crore.

Challenges of attracting and retaining quality doctors and medical professionals

Undertaking new project and expanding existing facilities require trained doctors and medical personnel. Scarcity of trained medical persons, (including doctors) owing to better alternatives available with them, makes it relatively difficult to attract and retain skilled pool of medical personnel, especially in the tribal area of Dahod.

Envisaged limited operating cash flows for the foreseeable future

ZF has a scheduled bullet repayment obligation of ₹90 crore of NCD due on March 24, 2025, FY25. ZF's cash accruals are envisaged to be limited in FY25, necessitating need-based support from ZLL/Zydus Cadila group for its timely servicing (including through refinancing). Considering bullet repayment of existing NCDs in FY25, there exists refinancing risk. However, CARE Ratings notes and envisages that ZF being part of the Zydus Cadila group and a 100% subsidiary of ZLL, should be able to service/refinance its debt timely.

Presence in a regulated higher education sector

Higher education sector is one of the regulated sectors with state and central governments regulating the industry directly and/or indirectly through different bodies including University Grants Commission (UGC), Medical Council of India (MCI) and All India Council for Technical Education (AICTE). The scope of government regulations is wide, starting from establishment of course/institute, seat sharing, fee fixation and periodical review of standards followed by the institute. These factors have significant impact on revenues and profitability of institutions. Also, risk related to non-renewal of courses and adverse changes in regulatory guideline persists as the university needs to follow this from time to time.

On-going PIL in honourable Gujarat High Court for operating the hospital

Honourable Gujarat High Court has directed ZLL not to charge fees from BPL patients visiting its hospital (erstwhile Dahod General Civil hospital) for treatment. The decision came after a PIL was filed by four residents of Dahod stating that the hospital management started charging poor patients for medical services, which were given free till 2017 and urged the court to put a break on the practice. Presently, ZF is not charging fees for medical treatment of BPL patients in its existing hospital. The matter is sub-judice and its outcome and impact on ZF will be closely monitored by CARE Ratings.

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Education](#)

[Financial Ratios – Nonfinancial Sector](#)

[Service Sector Companies](#)

[Hospital](#)

[Factoring Linkages Parent Sub JV Group](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer services	Other consumer services	Education

ZF, a 100% subsidiary of ZLL, was incorporated in January 2019, under Section 8 of the Companies Act, 2013. ZF is headed by Pankaj Patel and family, who also own and run ZLL and other companies. ZF had taken over running operations of 363-bed Civil Hospital Dahod from Government of Gujarat (GoG) under Brown Field (Scheme for establishment of new self-financed medical college at government hospitals) Scheme of Health Policy, 2016 and obtained permission from GoG and MCI to commence Medical College at Dahod. This initiative is under PPP model initiated by GoG. ZF now manages Zydus Medical College and Hospital (ZMCH) at Dahod. The college is affiliated to Shri Govind Guru University, Godhra. ZMCH provides tertiary health care services to the tribal population of eastern Gujarat and adjacent districts of Madhya Pradesh and Rajasthan and also runs the college offering M.B.B.S. and PG courses.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	108.15	120.79	30.49
PBILDT	31.51	21.83	5.24
PAT	15.05	4.73	-1.10
Overall gearing (times)	0.65	038	NA
Interest coverage (times)	Very high	Very high	Very high

A: Audited; UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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
Non Convertible Debentures	INE04VY08012	24-Mar-2020	0.10%	25-Mar-2025	90.00	CARE A-; Stable

^ Outstanding is ₹90 crore as on July 31, 2024.

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 2024-2025	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
1	Debentures-Non-Convertible Debentures	LT*	90.00	CARE A-; Stable	-	1)CARE A-; Stable (28-Aug-23)	1)CARE BBB+; Stable (30-Aug-22)	1)CARE BBB+; Stable (02-Sep-21)
2	Debentures-Non-Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (02-Sep-21)

*LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

NCDs	Covenants
Financial covenants and non-financial covenants	<p>1) In the event there is a downgrade in the Credit Rating of the Debentures or the Issuer below 'BBB+' by the Rating Agency having an outstanding rating on the Debentures or the Issuer, the Coupon for the Debentures shall be revised upwards by 0.05% for each notch of such downgrade, from the date of such downgrade and shall be payable on the immediately next Coupon Payment Date.</p> <p>2) In case of default in payment of monies accruing due on the respective due dates or in creation of Security Interest within the stipulated timelines, the entire outstanding amount thereof shall carry default interest, which shall be a rate of 2% p. a. over and above the applicable Coupon Rate in respect of all outstanding amounts for default or delay until (and incl.) date on which such failure is rectified or waived off, as the case may be, by the Debenture Trustee.</p> <p>3) Debenture holders shall have a right to call upon the Issuer to mandatorily redeem the Debentures, upon the occurrence of of the following events (each a "Mandatory Redemption Event" and collectively "Mandatory Redemption Events"):</p> <p>(a) In the event, the Credit Rating of the Debentures or Issuer is downgraded to or below 'B-' by the Rating Agency having an outstanding rating of the Debentures or Issuer or a new rating of B- or lower is assigned.</p> <p>(b) In the event the Debentures are not listed on the wholesale debt market segment of the Stock Exchange within 15 (fifteen) days from the Deemed Date of Allotment or within such period permitted under Applicable Law.</p>

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Complex

Annexure-5: Lender details: Not applicable

Note on complexity levels of 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

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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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