

Gennova Biopharmaceuticals Limited

August 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	100.00	CARE AA-; Stable	Revised from CARE A+; Stable
Long-term / Short-term bank facilities	105.00	CARE AA-; Stable / CARE A1+	Revised from CARE A+; Stable / CARE A1
Short-term bank facilities	17.00 (Enhanced from 7.00)	CARE A1+	Revised from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Gennova Biopharmaceuticals Limited (GBL) reflects a significant improvement in the Emcure group's financial risk profile, which is largely due to a substantial reduction in debt following proceeds from their recent initial public offering of equity. Ratings also positively considers withdrawal of arbitration suit filed by HDT Bio Corp (HDT) against GBL in London Court of International Arbitration tribunal. Ratings continue to derive strength from its experienced promoters, diversified product portfolio, accredited manufacturing facilities and strong marketing network of the group, growing scale of operations, the company's strategic importance to the Emcure group as it is the only entity in the group focusing solely on bio-pharma products. Ratings also factor consistent improvement in total operating income (TOI) exhibited by the company in the last three years, healthy profitability margins combined with improved credit metrics in FY24. However, these strengths continue to remain tempered by improving-yet-moderate financial risk profile, intense competition in domestic and overseas markets, semi and unregulated markets and regulatory risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving TOI by 10-15% on sustained basis, while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin over 25% on sustained basis.
- Maintaining overall gearing ratio below 0.60x on consistent basis.

Negative factors

- Deteriorating capital structure because of incremental debt leading to deteriorating total debt to PBILDT over 2.00x.
- PBILDT margin falling below 18% on a sustained basis.
- Regulatory actions against GBL that significantly impairs the company's credit risk profile.

Analytical approach: Standalone

Standalone, factoring linkages with parent company, Emcure Pharmaceuticals Limited (EPL)

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that GBL will continue to benefit from strength of its experienced promoters, diversified product portfolio, accredited manufacturing facilities and strong marketing network of the group.

Detailed description of key rating drivers:

Key strengths

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

GBL is part of the Emcure Group with 87.95% of equity stake in GBL held by EPL. Promoters of parent company (EPL) have over four decades of experience in the pharmaceutical industry. Satish Mehta has experience of over four decades in the field of pharmaceuticals and holds the position of Chairman at GBL. He is also the CEO for EPL, the group's flagship company. Dr. Sanjay Singh is the whole-time director and CEO of GBL, having experience of almost three decades in vaccines and biopharmaceuticals.

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

Favourable outcome on major pending litigation

Seattle-based biopharma company HDT Bio Corp (HDT) filed a lawsuit against EPL on March 21, 2022, and arbitration proceedings were filed against GBL in the London Court of International Arbitration. HDT claimed that GBL had stolen HDT's intellectual property, breaching the License Agreement and constituted misappropriation of HDT's billion-dollar trade secrets. HDT had also sought compensatory damages of US\$ 950 million. On December 04, 2023, the US Court dismissed HDT's claims without prejudice. In May 2024, HDT and GBL resolved their dispute amicably and entered a settlement agreement, which provided mutual release from all claims, debts, and liabilities, among others.

Growing scale of operations and profitability

Income from operations improved by around 13% from ₹375 crore in FY23 to around ₹423 crore in FY24 due to improved demand for its biopharmaceutical products in the domestic and emerging markets and receiving grants from the government under PLI scheme for development of medicines. GBL has established a strong presence in the specialised biosimilar market. The company offers a portfolio of 9-10 products designed for treatment in oncology, cardiovascular, neurology, and nephrology therapeutic segments. GBL operates on a healthy PBILDT margins of 25-30%. PBILDT margin in FY24 stood at around 26.55% (PY: 26.10%).

Diversified product portfolio

GBL is involved in manufacturing biotechnology drugs and the products manufactured and marketed by the company marks their presence in high value chronic therapy and acute segment. The company's products are diversified across chronic and acute segments such as cardiology, oncology, nephrology and gynaecology. The company manufactures its recombinant products using bacterial, yeast, and mammalian-based expression platforms and has developed deep expertise in perfusion-based continuous manufacturing technologies. Notable among its top brands are Elaxim, Encicarb, Vintor, Tenectase, and Hamysyl among others.

Key weaknesses**Improving-yet-moderate financial risk profile**

GBL's financial risk profile even though improved in the year remains moderate due to moderate net worth and elongated working capital cycle. The company's capital structure and debt coverage metrics improved in FY24 represented by overall gearing of 0.87x as on March 31, 2024 (1.13x as on March 31, 2023) with repayment of existing term debt and accretion of net profits to net worth. However, GBL's working capital cycle increased to 129 days in FY24 as against 92 days in FY23 due to significant decline in trade payables as on March 31, 2024, with receivables and inventory remaining at similar levels. With completion of major capex activities in FY24 and no further debt funded capex expected in FY25, the capital structure and debt coverage metrics are expected to improve further going forward.

Intense competition and exposure to regulatory risk inherent in pharmaceutical industry

The company faces intense competition in the domestic and international markets. Pricing pressure, increasing regulation, and increased sensitivity towards product performance are key issues in the pharmaceutical industry. The pharmaceutical industry has been a highly regulated industry worldwide considering 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). Patent laws and related regulations might hamper the company's plans to launch new products and cater to new markets.

Liquidity: Strong

Fund-based working capital utilisation remained high at around 85% of fund-based limits for 12-months ending March 31, 2024. Unutilised working capital limits provide adequate buffer to cover exigencies in the medium term. Cash accruals generated in FY24 was around ₹73 crore, which combined with expected cash accruals to be generated in FY25 will be sufficient to repay near-term debt obligations comfortably. Liquidity profile continues to benefit from financial support provided by EPL, when needed.

Assumptions/Covenants: Not applicable**Environment, social, and governance (ESG) risks: Not applicable**

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Pharmaceuticals](#)

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[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Biotechnology

GBL (earlier known as Emcure Biotech Limited) is part of the Emcure group and as on March 31, 2024, EPL held 87.95% equity stake in GBL. GBL is engaged in research & development (R&D), manufacturing and marketing bio-pharma products. The company caters mainly to chronic therapeutic segments including oncology, neurology, nephrology and cardiology. GBL has its manufacturing facilities and R&D centre at Hinjewadi, Pune.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	375.26	422.86
PBILDT	97.93	112.29
PAT	30.71	32.25
Overall gearing (times)	1.13	0.87
Interest coverage (times)	4.86	5.26

A: Audited UA: Unaudited; 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
Fund-based - LT-Cash Credit	-	-	-	-	50.00	CARE AA-; Stable
Fund-based - LT-Term Loan	-	-	-	30-09-2026	50.00	CARE AA-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	-	105.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	17.00	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 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	Non-fund-based - ST-BG/LC	ST	17.00	CARE A1+	-	1)CARE A1 (05-Jan-24)	1)CARE A1 (06-Jan-23) 2)CARE A1 (CE) (05-Apr-22)	1)CARE A1 (CE) (07-Jan-22)
2	Fund-based - LT-Term Loan	LT	50.00	CARE AA-; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (06-Jan-23) 2)CARE A (CE); Positive (05-Apr-22)	1)CARE A (CE); Positive (07-Jan-22)
3	Fund-based - LT-Cash Credit	LT	50.00	CARE AA-; Stable	-	1)CARE A+; Stable (05-Jan-24)	1)CARE A+; Stable (06-Jan-23) 2)CARE A (CE); Positive (05-Apr-22)	1)CARE A (CE); Positive (07-Jan-22)

4	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	-	-	-	-	1)Withdrawn (06-Jan-23) 2)CARE BBB / CARE A3 (05-Apr-22)	1)CARE BBB / CARE A3 (07-Jan-22)
5	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (06-Jan-23) 2)CARE BBB; Stable (05-Apr-22)	1)CARE BBB; Stable (07-Jan-22)
6	Fund-based/Non-fund-based-LT/ST	LT/ST	105.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1 (05-Jan-24)	1)CARE A+; Stable / CARE A1 (06-Jan-23) 2)CARE A (CE); Stable / CARE A1 (CE) (05-Apr-22)	1)CARE A (CE); Positive / CARE A1 (CE) (07-Jan-22)
7	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (06-Jan-23) 2)CARE BBB; Stable (05-Apr-22)	1)CARE BBB; Stable (07-Jan-22)

LT: Long term; ST: Short term; LT/ST: 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

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.

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About us:

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