Cohance Lifesciences Limited

October 09, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	194.68 (Enhanced from 112.37)	CARE AA- (RWD)	Continues to be on Rating Watch with Developing Implications
Long-term / short-term bank facilities	362.00 (Enhanced from 296.80)	CARE AA- / CARE A1+ (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Cohance Lifesciences Limited (Cohance/CLL) derives strength from the diversified business operations with presence across major pharmaceutical markets in India and abroad, accredited manufacturing facility, diversified product profile and reputed clientele base, considerable number of Abbreviated New Drug Applications (ANDA) and Drug Master Files (DMF) in place which would benefit these companies to expand into regulated and semi-regulated markets. Additionally, the existence of strong parent, Advent International Corporation (AIC), a global private equity investor (with ~100% ownership in CLL) and experienced management also augurs well for the company. AIC's global network is expected to benefit CLL and enable it to deepen its market penetration in regulated markets. Ratings are also positively driven by adequate liquidity position. CLL has a presence in more than 50 therapeutic segments and majorly caters to niche therapeutic segments such as oncology, central nervous system segments, gastrointestinal, anti-psychotic, and anti-depressant among others. The company's credit profile continues to remain strong despite certain moderation. The total debt outstanding as on March 31, 2024, almost doubled to ₹524 crore as compared to the total debt outstanding as on March 31, 2023 (₹288 crore). This is owing to the increase in term loans (₹128 crore) and working capital facilities (₹109 crore). The absence of material sales growth combined with substantial dividend payment made in FY23 (₹454 crore) has resulted in fall in cash and liquid assets, resulting in higher working capital utilisation and opting for external funding for capital expenditures. In Q1FY25, the company was able to reduce the total debt from ₹524 crore as on March 31, 2024 to ₹394 crore as on June 30, 2024, by utilising the cash in hand. The management plans to bring down the debt levels further by March 31, 2025, by utilising the operating cash flows generated.

However, ratings are constrained by working capital intensive operations, forex risk considering exports, and exposure to the regulatory risk. Also, the company's sales have been in the ₹1,290-₹1,355 crore level for past three years, without major increase. The total operating income (TOI) slightly moderated from ₹1,352 crore to ₹1,342 crore in FY24 due to certain headwinds in the active pharmaceutical ingredient ++(API++) segment. The company's ability to successfully scale up operations while maintaining the profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins would be a key monitorable.

CARE Ratings Limited (CARE Ratings) has continued to place the rating of CLL on 'Rating watch with developing implications'. This action is on the back of the announcement by Suven Pharmaceuticals Limited (Suven) on February 29, 2024, about a proposed scheme of amalgamation for merging CLL with Suven, with the latter as the surviving entity. Currently, the company has received approval from Securities and Exchange Board of India (SEBI) and stock exchanges and has applied for National Company Law Tribunal (NCLT) approval. The transaction is expected to be completed in the next six months. CARE Ratings will continue to closely monitor the above transaction and will remove ratings from watch and take a final rating action once the transaction is concluded.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the total operating income (TOI) by 15% on continuous basis, while maintaining PBILDT margin of over 30%.
- Improvement in Total debt/ PBILDT below 1.00x.

Negative factors

- Elongation of working capital cycle beyond 200 days.
- Any major debt funded capex, increasing the Total debt/PBILDT more than 1.5x, leading to weakening of credit risk profile of company at combined level.
- Dividend or any other form of outflow of cash to the holding companies exceeding 1x of the net profits for the year.

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

Analytical approach: Standalone
CARE Ratings has adopted a standalone approach, as CLL does not have subsidiaries, factoring linkages with parent, Advent. The three companies commonly owned by Advent – ZCL Chemical Limited (ZCL) and Avra Laboratories Private Limited (Avra) have been merged with CLL, vide NCLT order dated January 5, 2024, effective date as April 1, 2023.

Outlook: NA

Detailed description of key rating drivers:

Key strengths
Diversified business operations with presence across major pharmaceutical markets
CLL has over 100 products, and revenue derived from its top 10 products contribute about 39% of the TOI. The company's domestic sales were only ~20% in FY24. Majority sales (80%) is derived from exports. OThe company derived more than 50% TOI from regulated markets, with Europe contributing about 30% and the US about 23%. Therapeutic segment-wise, the company derives about 39% of its TOI from therapies such as Oncology (11%), attention-deficit hyperactivity disorder (10%), gastrointestinal (7%), anti-depressant (6%), and anti-spasmodic (5%). CARE Ratings expects business operations to continue diversifying, going forward.

Accredited manufacturing facilities
The company has seven units – five API Units in Jaggayapet, Atchutapuram, Ankaleshwar, Nacharam, Vizag and two formulation units in Nacharam and Jadcherla. CLL also has clinical research unit and R&D facilities. These facilities have international accreditation such as - approvals from USFDA, KFDA, WHO-GMP, EDQM, Japan PMDA, COFEPRIS-Mexico, MOH-Russia, ANVISA-Brazil, CDSCO, Saudi FDA, Taiwan FDA, Health Canada, and MHRA among others.

Recent audits completed: Q1FY25:
- Successfully completed ANVISA (Brazil) audit at API Unit-III with zero observations.
- Successfully completed ANVISA (Brazil) audit at FDF Unit-I with no DI, critical or major deficiencies.
- Successfully completed NPRA (Malaysia) audit at CRBio facility.
- Received one new CEP and one new China DMF approval.

Diversified product profile and reputed clientele base
The company at a combined level has more than 100 products, with revenue derived from top 10 products contributing to about 39% of the TOI. The DMFs and ANDAs approved recently and pending approvals are as follows:

Particulars	FY23	FY24	FY25 (5M)
Total number of DMFs filed	10	15	11
Total number of approvals	10	18	8
Total DMF under review	Multiple	Multiple	Multiple
Total number of ANDAs filed	1	1	-
ANDAs approved	7	1	-
ANDAs under review	-	6	-

CARE Ratings expects that this would benefit the company to expand further into regulated markets. CLL has a diversified client base including most of the major pharmaceutical's players in India, the US, and European countries. Further leveraging advent's global presence, the company is able to reach out to globally established pharma players.

Strong parentage and experienced management
The company is owned and managed by Advent International, one of the globally reputed and leading PE firms. Dr. V. Prasada Raju is the Managing Director and Chief Executive Officer of the company. In addition to having a PhD in chemistry and PG Dip in patents law, he is also an alumina of the IIMc under Sr Management programme and IIT, Chicago, USA, where he was trained in material sciences. He has 29+ years of techno-commercial experience in the pharmaceutical space across the value chain. Dr Prasada Raju served in leadership roles at Granules India Limited and Dr. Reddy's Laboratories. Additionally, AIC is represented on the board of CLL by Pankaj Patwari and Shweta Jalan.

Strong credit risk profile, despite recent moderation
In Q1FY25, the company was able to reduce the total debt from ₹524 crore as on March 31, 2024 to ₹394 crore as on June 30, 2024 by utilising the cash in hand. Prior to Q1FY25, the working capital utilisation was between 70% and 90% till Q1FY25, post which the utilisation has reduced to 40-50%. The management plans to bring down the debt levels further by March 31, 2025, by utilising the operating cash flows generated.
The total debt outstanding as on March 31, 2024, almost doubled to ₹524 crore as compared to the total debt outstanding as on March 31, 2023 (₹288 crore). This is owing to the increase in term loans (₹128 crore) and working capital facilities (₹109 crore).

The absence of material sales growth combined with substantial dividend payment made in FY23 (₹454 crore) has resulted in fall in cash and liquid assets, resulting in higher working capital utilisation and opting for external funding for capital expenditures.
Owing to increase in total debt, the company's overall gearing has increased from 0.17x as on March 31, 2023 to 0.31x as on March 31, 2024. Total debt to gross cash accruals (TD/GCA) deteriorated to 2.19x in FY24 as against 1.12x in FY23 due to the same reason. The interest coverage ratio deteriorated from 6.07x in FY23 to 5.68x in FY24 due to moderation in PBILDT. The company had CCD, which has been converted to equity in Q4FY24, post successful merger of Avra and ZCL. Also, the company paid around ₹96 crore towards dividend in FY24.
The company continues to maintain higher inventory levels (₹367 crore in FY24 vs ₹364 crore in FY23) mainly to mitigate the risk arising from increase in RM costs and logistic issues.
The company's ability to further reduce the debt levels in line with FY23 levels would be a key monitorable.

Key weaknesses

Working capital intensive nature of operations

The working capital cycle has been gradually increasing and still remains elongated at 188 days in FY24 (FY23: 166 days) considering increased inventory days. Increased working capital is due to stock buildup in FY24. To optimise the shelf life, the products are semi-finished at a particular level and the remaining steps will be completed and delivered when the end market conditions are optimal. The inventory of WIP goods is ₹146 crore (total inventory: ₹367 crore) in FY24 vs ₹126 crore (total inventory: ₹364 crore) in FY23. The company has to maintain finished goods inventory to meet contingent demand resulting in stretched working capital cycle for the company. Average collection period also increased from 110 days to 127 days, despite the sales being stagnant for the past two years owing to delay in vendor qualification and destocking.

Forex risk considering exports

CLL is exposed to forex risk as the company's major revenue (~80% of the revenue) is derived from exports. The company imports around 10-15% of its raw material consumption, which provides natural hedge to some extent of the total foreign exchange earnings. The company manages currency fluctuations by having a better geographic balance in revenue mix and ensures a foreign currency match between liabilities and earnings. According to the company's management, it continually assesses the currency volatility impact on the cost structure and engages with customers to address such risks. Also, the company enters hedging transactions as and when required. In FY24, the company booked a net forex gain of ₹2.1 crore (1.2% of PAT) vs a ₹14.7 crore gain in FY23.

Exposure to regulatory risk

The company is exposed to the regulatory risk with its operations centred mainly into manufacturing pharmaceutical formulations and APIs. Besides, the pharmaceutical industry is highly regulated in many other countries and requires approvals, licenses, registrations and permissions for business activities. The approval process for a new product registration is complex, lengthy, and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given, India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the US. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from USFDA. Hence, the ongoing regulatory compliance has become critical for Indian pharma companies, including CLL, as they seek to strengthen its position in the regulated markets such as the US and UK among others. Given that manufacturing facilities are approved by USFDA and other regulatory authorities and as of September 2024, these companies have successfully cleared audits carried out by regulatory authorities without any adverse observations, this risk is mitigated to an extent.

Absence of sales growth and moderating PBILDT margin, despite signs of revival in API segment in Q1FY25

The company primarily has two segments – API++ (which contributed 67% of FY24 revenues) and CDMO (which contributed 33% of FY24 revenues). The company's sales have been in the ₹1,290-₹1,355 crore level for the past three years, without major increase. On the other hand, the PBILDT margin has also been in the 25-28%.
The TOI slightly moderated from ₹1,352 crore to ₹1,342 crore in FY24. The sales was impacted due to API++ segment experiencing short-term macro headwinds (destocking), delay in vendor qualification for some products, and one COVID-19 molecule in base. PBILDT margins moderated due to lower cost absorption and one-off expense related to merger like stamp duty paid ₹15 crore in FY24. The company has spent around ₹200 crore on a new unit in Vizag in FY24, resulting in lower fixed cost absorption, owing to lower capacity utilisations.

Particulars	FY22	FY23	FY24	Q1FY24	Q1FY25
API++	963	972	901.8	161	197
CDMO	318	366	439	68.1	54.9
YoY change					
API++	18.56%	0.94%	-7.17%	-	22.12%
CDMO	65.04%	15.20%	19.95%	-	-19.38%

For FY25, the sales are expected to moderately grow at 7-8%. In Q1FY25, the sales increased by 11% to ₹252 crore (vs ₹228 crore in Q1FY24) owing to revival in API++ segment, based on increase in demand. On the other hand, the CDMO segment witnessed moderation owing to the shifting certain delivery to H2FY25. The company's ability to achieve substantial growth in sales while increasing the PBILDT margin over 30% will be a key monitorable.

Liquidity: Adequate

The company's liquidity profile is adequate. CLL's operating cash flows have been healthy at ₹200 crore in FY24. The term loans outstanding as on March 31, 2024 is ₹152 crore and majority of the principal repayments are back ended which commence from May 2025. The company has fund-based working capital limits of ₹420 crore, for which the utilisation has reduced from 70-90% to 40-50% in Q1FY25, decreasing the cash and equivalents by ₹108 crore. The company also does not have major capex planned and the maintenance capex is expected to be between ₹150 crore and ₹160 crore for the next two years. The management also plans to reduce the debt position further by March 31, 2025, utilising the operating cash flows.

The net cash flow from operations with revival in API++ segment is expected to remain about ₹280-320 crore going forward, which is more than adequate to meet its incremental working capital needs, if any, and scheduled term debt repayments in the immediate future. The company has also converted the CCD into equity in Q4FY24, which is expected to reduce the interest expense by ~₹30 crore. Considering the trend of GCA levels generated and presence of unutilised credit lines (~₹200 crore as on August 31, 2024), the company is in a comfortable liquidity position to meet its debt obligations which is about ₹60 crore in FY25.

Assumptions/Covenants – not applicable

Environment, social, and governance (ESG) risks – not applicable

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Pharmaceuticals]
[Short Term Instruments]
[Factoring Linkages Parent Sub JV Group]

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

CLL was incorporated on July 6, 2020. AIC, through its step-down subsidiary, AI Pharmed Consultancy India Private Limited (APC), acquired about 100% stake in RA Chem Pharma Limited (RACPL) in August 2022. Post this, in November 2022, RACPL amalgamated with APC and the merged entity's name was changed to Cohance Lifesciences Limited. RACPL was initially incorporated in January 1996. It manufactures APIs and formulations and undertakes clinical research activity at its manufacturing facilities in Jaggaiahpet, Mukuteswarapuram, Krishna district (Andhra Pradesh), Atchutapuram Industrial Area, Andhra Pradesh, and Nacharam, Jadcherla, Hyderabad, Telangana, and clinical research activity at Balanagar, Hyderabad, Telangana. Advent expects to build a merchant API platform and, in the process, has acquired 100% stake in two other companies – ZCL (99.93% stake on August 12, 2022) and Avra (99.98% stake on September 12, 2022). Avra and ZCL have been merged with CLL vide NCLT order dated January 5, 2024 with April 1, 2023 as effective date.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,352.16	1,342.90	252.0
PBILDT	384.89	343.15	49.1
PAT	198.84	169.43	18.9
Overall gearing (times)	0.17	0.31	NA
Interest coverage (times)	6.07	5.68	5.91

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

Detailed explanation of 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 and Rating Outlook
Fund-based - LT/ ST-Working capital limits		-	-	-	362.00	CARE AA- / CARE A1+ (RWD)
Term loan-Long term		-	-	30-05-2028	194.68	CARE AA- (RWD)

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	Fund-based - LT/ ST-Working capital limits	LT/ST	362.00	CARE AA- / CARE A1+ (RWD)	-	1)CARE AA- / CARE A1+ (RWD) (11-Mar-24) 2)CARE AA-; Stable / CARE A1+ (01-Nov-23)	-	-
2	Term loan-Long term	LT	194.68	CARE AA- (RWD)	-	1)CARE AA- (RWD) (11-Mar-24) 2)CARE AA-; Stable (01-Nov-23)	-	-

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/ ST-Working capital limits	Simple
2	Term loan-Long term	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:

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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