Graviti Pharmaceuticals Private Limited

December 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	227.00	CARE A; Stable	Reaffirmed
Long-term / Short-term bank facilities	70.00	CARE A; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Graviti Pharmaceuticals Private Limited (GPPL) reflect the consistent improvement in its overall performance, notable growth in revenue and improvements in key credit metrics. This positive trajectory is further supported by resourceful promoters, successful launch of new molecules, an increased number of Abbreviated New Drug Application (ANDA) filings, and a favourable demand-supply dynamic within the industry. These factors collectively contributed to the company's strengthened position in the market, underpinned by strategic growth initiatives, and an improved financial outlook. Additionally, the company's ability to adapt to industry trends and regulatory developments enhances its long-term stability. However, ratings are offset due to limited track record of company's operations, geographical and customer concentration risk, exposure to inherent regulatory risk associated with the pharmaceutical industry and intense competition and resultant pricing pressure in the export market. CARE Ratings Limited (CARE Ratings) has also noted the restructuring in the shareholding of GPPL wherein the former parent company, Yashoda Healthcare Services Private Limited (YHSPL), has divested its stake, and the shares now held individually by the promoters of Yashoda group. Given GPPL's established presence in the US market and its continued growth trajectory, the change in shareholding is not expected to materially influence its performance.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent improvement in the scale of operations over 15% while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 25% on a sustained basis.
- Consistent improvement in filing of ANDAs and launch of new molecules.
- Improved geographical diversification.

Negative factors

- Decline in revenue and profitability due to either regulatory issues or pricing pressure in the US market.
- Deterioration in total debt/PBILDT to 2.75x or above.
- Reduction in the PBILDT margin to below 15% on a sustained basis.
- Any underachievement in performance compared to the projected targets.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for arriving at ratings of GPPL, given the linkages with its subsidiaries. In its analysis, CARE Ratings has factored common management, promoter group (Yashoda Group), and finance function. The list of companies considered for consolidation is given under Annexure-6.

Outlook: Stable

The stable outlook reflects the expectation that the company's operational and financial performance will remain steady in the medium term, with gradual, sustained growth.

Detailed description of key rating drivers:

Key strengths

Experienced and resourceful promoters

GPPL is a part of the Yashoda Group. YHSPL, the flagship company of Yashoda group, is promoted by Ravender Rao G., Dr Surender Rao G., and Devender Rao G. Ravender Rao has over three decades of experience in the engineering and healthcare domain. Dr Surender Rao is a paediatrician and healthcare administrator, and has worked for eight years in Iran in a corporate

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

hospital along with leading international medical experts. Dheeraj Kumar G (son of Ravender Rao) is also one of the promoters of GPPL. He has done his B.Tech from IIT Madras and MBA from Duke University, USA, and is the Managing Director and CEO of GPPL. The promoters bring considerable resources (both operational and financial) strengthening the company's capabilities and positioning it well for future opportunities and growth.

Improving operations albeit limited track record of operations

The company commenced its commercial operations from October 2018 and has track record of about six years in the pharma industry. Though the company has limited track record of operation in core pharma industry, the promoter group has extensive experience of over three decades in the healthcare industry. From FY19 to FY24, the company has launched multiple molecules catering to various diseases, thereby improving its overall performance.

Incremental filing of ANDAs resulting in improved product diversification

GPPL is research-focused formulation firm catering primarily to the US market. The company has been spending ~7-8% of its revenue in R&D activity. It has filed 29 ANDAs (PY:25) till date of which 18 ANDAs have been launched (PY: 14). Various other molecules are currently progressing through different stages of development. CARE Ratings expects that the company will continue to launch new molecules which will further strengthen diversification and contribute to revenue growth of the company.

Healthy margin profile

GPPL has a revenue model, which allows it to have healthy margin profile. Currently, the company caters exclusively to the US market, where it sells drugs through its marketing partners. The company's PBILDT margin, barring FY22, have remained healthy. In FY22 due to pricing pressure on one of its molecules, the company's revenue and profitability had declined. In FY24, the PBILDT margin was improved to 18.80% from 7.26% in FY22. CARE Ratings expects that given the product portfolio of GPPL it will be able to report PBILDT margin of above 25% going forward in the medium term.

Improving revenue and operating margins

GPPL has been witnessing robust revenue growth with improving operating margins. In FY24, company's total operating income (TOI) improved by over 70% to ₹460 crore from ₹270 crore reported in FY23. Along with revenue growth, the company has witnessed improved operating margins where the operating margins in FY24 improved by 180 bps to 18.81% against 17.01% reported in FY23. The growth in revenue was backed by improving ANDA filing and their successful commercialisation and favourable industry scenario. CARE Ratings anticipates that the company's revenue at the back of incremental ANDA filing will continue to grow by over 15% in the medium term.

Improving credit metrics

The capital structure of the company is witnessing improvement with overall gearing and debt to equity improved to 0.87x and 0.61x as on March 31, 2024, against 1.08x and 0.81x as on March 31, 2023. The other debt coverage indicators such as total debt to PBILDT improved to 2.21x in FY24 from 4.27x in FY23 and total debt to gross cash accruals (GCA) improved to 3.04x (PY: 7.28x). CARE Ratings observes, with the continuing improvement in its overall operations, these metrics are expected to improve further.

Key weaknesses

High customer concentration risk despite the same is slowly improving

The company commenced its operations with only one customer who contributed to the majority revenue from FY20 to FY22. However, in FY24 and H1FY25, the company has broadened its customer base and the customer concentration risk is reducing slowly. Nevertheless, the top two customers contributed over 90% of its total revenue in FY24 and H1FY25.

Geographical concentration risk

GPPL is a 100% export-oriented firm, and its entire revenue is generated from US market, exposing the company to geographical concentration risk. Owing to geographical concentration to one market, the performance for FY22 got negatively impacted when the pricing pressure was high in the US market. US being a highly regulated market, any adverse observation by US FDA inspection may negatively impact the revenue and profitability of the company. However, company is actively trying to diversify and plan to enter in domestic and European market and the same is expected to bring down geographical concentration risk by FY26.

Regulatory risk
GPPL has its presence primarily in US market and currently has one production unit. Considering the nature of the product usage and application, and consequent impacts, GPPL is required to comply with laws, rules, and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have an impact on the company operations. However, the company has maintained clean track record in all USFDA inspections, with no observations or queries raised. The recent USFDA inspection was carried out in February 2024 and the regulatory authority has issued establishment inspection report stating that there are no observations.

Foreign exchange fluctuation risk
In FY24, the company generated its entire revenue from exports, making it significantly exposed to foreign currency fluctuation risk. The primary currency exposure for the company is the US Dollar (USD), as a substantial portion of its sales are denominated in this currency. As a result, fluctuations in the exchange rate between the USD and the company's domestic currency could impact profitability and cash flow.

Liquidity: Adequate
The liquidity position of the company is strong with strong cash accruals against debt repayment obligations. In FY24, company generated cash accruals of ~₹63 crore against the debt repayment obligation of ~₹25 crore. The company also had cash and liquid investments to the tune of ~₹33 crore as on March 31, 2024. CARE Ratings expects that company will continue to generate cash accruals in the range of ₹90 crore- ₹110 crore in FY25 and FY26 against the debt repayment obligation in the range of ₹30-₹40 crore. The company is also expected to have cash and liquid investments in the range of ₹30 crore-₹40 crore time. Comfort is also drawn from the unutilised liens of credit which for the 12 months ending on October 2024 stood at ~50%. Given the expected cash accruals and availability of cash and liquid investments, CARE Ratings expects that GPPL will comfortably be able to meet its debt obligations.

Assumptions/Covenants: Not applicable

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

Applicable criteria

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

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated on December 27, 2012, GPPL is a research-based formulation firm established in Hyderabad for producing complex generics. The company operates a high-end research and development facility and manufacturing plant for US FDA-approved generic drugs to cater the needs of US market. The company is focused on modified release, bio- and stability-sensitive molecules. The company has one manufacturing unit situated at Isnapur village in Medak District, Telangana, with total capacity of 5.40 billion tablets per year. This apart, the company has well-equipped R&D facility since 2014, which is situated at Patancheru, Hyderabad.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	270.41	460.48	265.00
PBILDT	45.99	86.61	85.00
PAT	-0.41	40.59	45.00
Overall gearing (times)	2.98	2.02	NA
Interest coverage (times)	3.47	5.41	9.44

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-Term loan	-	-	-	30/09/2027	227.00	CARE A; Stable
Fund-based - LT/ ST-Cash credit	-	-	-	-	10.00	CARE A; Stable / CARE A1
Fund-based - LT/ ST-CC/Packing credit	-	-	-	-	60.00	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 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-Term loan	LT	227.00	CARE A; Stable	-	1)CARE A; Stable (22-Dec-23)	1)CARE A; Stable (03-Jan-23)	-
2	Fund-based - LT/ ST-Cash credit	LT/ST	10.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (22-Dec-23)	1)CARE A; Stable / CARE A1 (03-Jan-23)	-

3	Fund-based - LT/ ST-CC/Packing credit	LT/ST	60.00	CARE A; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (22-Dec-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-Term loan	Simple
2	Fund-based - LT/ ST-Cash credit	Simple
3	Fund-based - LT/ ST-CC/Packing credit	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Graviti Pharma Inc	Full	Subsidiary
2	Graviti Foundation	Full	Subsidiary
3	Daimen Pharma Pvt Ltd	Full	Subsidiary
4	Hopped up Trade Pvt Ltd	Full	Subsidiary
5	Wellocity Bio Sciences Pvt Ltd	Proportionate	Associate

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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