

Hetero Drugs Limited

January 13, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	650.00	CARE A+; Stable	Reaffirmed
Long-term / Short-term bank facilities	250.00	CARE A+; Stable / CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Hetero Drugs Limited (HDL) continue to derive strength from it being part of Hetero group, its experienced promoters and management team with a long track record in the pharmaceutical industry, the group's well-established position in multiple therapeutic segments, and its presence in the major regulated markets. The Hetero group has well-diversified revenue profile with vertically-integrated operations, accredited manufacturing facilities with well-equipped research and development (R&D) facilities, and well-established marketing network. HDL acts as backward integrated unit for Hetero Labs Ltd (HLL; flagship company of the Hetero group) and thus derives majority of its revenue (~34% in FY24) by selling active pharmaceutical ingredients (APIs) to them. Ratings are underpinned by HDL's strong product portfolio spread across multiple therapeutic segments and reputed clientele, continuous filing of drug master files (DMF), integrated operations, and favourable outlook for the pharmaceutical industry. Ratings also factor comfortable capital structure and debt coverage indicators of the company with strong cash accruals. However, ratings are constrained by moderation in the revenue in FY24 (refers to April 1 to March 31), exposure to the group companies, elongated operating cycle, foreign exchange fluctuation risk, and highly fragmented industry with regulatory risk inherent in the pharmaceutical industry.

CARE Ratings Limited (CARE Ratings) further notes the expected reduction in exposure to group wind power companies by virtue of conclusion of their sale to JSW Neo Energy Ltd (a wholly owned subsidiary of JSW Energy Ltd) by Q4FY25 leading to improvement in HDL's liquidity profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in scale of operations by ~10% to 15% while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 15% consistently.
- Maintaining operating cycle days consistently below 150 days.

Negative factors

- Overall gearing going beyond 0.60x on a sustained basis.
- Further investments in associate companies beyond 20% of the net worth.
- Decline in revenue and/or profitability below the current levels on a sustained basis.

Analytical approach:

Consolidated, factoring linkages with the Hetero group. CARE Ratings in its analysis has considered the consolidated business and financial risk profiles of HDL and its subsidiaries as these entities are linked through a parent-subsidiary relationship and collectively have common management, business and financial linkages. The list of consolidated entities is mentioned as **Annexure-6**.

Outlook: Stable

A stable outlook reflects that the rated entity is likely to maintain its established market position and improve its overall operational performance in the medium term.

Detailed description of key rating drivers:

Key strengths

Established track record and experienced promoter and management

Hetero is one of the major pharmaceutical groups in India, engaged in the development and manufacturing of APIs, intermediate chemicals, and finished dosages. The group has a portfolio of more than 900 drugs spread across various therapeutic segments.

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

The group has a presence in over 140 countries and has over 36 manufacturing units for pharmaceuticals products. The group was established by Dr B Parthasaradhi Reddy in 1993, who has over three decades of experience in the Indian pharmaceutical industry. The company has been growing over the years, adding numerous API products to its portfolio. The overall management of the company is looked after by the promoters and is supported by experienced and professional management team with a long track record in the pharmaceutical industry.

Strong product portfolio spread across multiple therapeutic segments

HDL has a strong product portfolio of over 120 products in APIs. Sertraline, an antidepressant API, contributed highest revenue, almost 9% of revenue in FY24 and H1FY25. The top 10 products have contributed ~50% of the revenue in FY24 (PY: 61%). HDL has a presence across over 40 therapeutic segments with majority contribution from segments such as anti-depressant, anti-hypertensive, and anti-ulcer. Revenue from top five therapeutic segments in FY24 stands at ~46% against 69% in FY23.

Reputed and diversified clientele base

HDL has a diversified client base for APIs, including most of the major pharmaceutical players in India, US, and European countries. In FY24, HLL (33.39%), Sumitomo Pharma Co. Ltd (5.50%), Novartis Pharma AG (4.17%), and Invagen Pharmaceuticals Inc (Cipla group company 3.50%) continued to be the major revenue contributors. The revenue from top five clients stood at 49.00% in FY24 against 61.72% in FY23. The company also supplies to other reputed pharma players such as Alkem Laboratories Limited (rated 'CARE AA+; Stable/ CARE A1+'), Cipla Limited (rated 'CARE AAA; Stable/ CARE A1+'), Torrent Pharmaceuticals Limited, and Sandoz AG among others. In FY24, domestic revenue was ~56%, while exports contributed remaining 44%.

Moderation in scale of operations in FY24, though with improved profitability; recovery in scale of operations in H1FY25

In FY24, the company's total operating income (TOI) declined to ₹2,926 crore from ₹3,235 crore in FY23, reflecting a de-growth of ~9.54%. However, the company demonstrated improved profitability, with PBILDT increasing to ₹292.15 crore and the PBILDT margin rising to 9.98%, compared to ₹213.05 crore and 6.59% in FY23, respectively.

An API Ritonavir, used in the formulation of COVID-19 drugs, contributed ~₹711 crore to the turnover in FY23. However, due to a decline in demand for COVID-19 drugs, revenue from Ritonavir decreased significantly to ₹140 crore in FY24. Excluding this product, overall turnover improved from FY23 to FY24. The PBILDT margins in FY23 were impacted by the negative profitability of the South African subsidiary. However, in November 2022, this subsidiary ceased to be part of Hetero Drugs, resulting in an improvement in PBILDT margins in FY24.

In H1FY25, HDL at standalone level has showed an improvement in its scale of operations, achieving a standalone TOI of ₹1,733 crore compared to ₹1,538 crore in H1FY24. Additionally, the company has filed DMFs for several products in key markets, including the US, Canada, and Europe, which is expected to drive future growth. As of September 2024, the company has successfully filed over 130 DMFs.

Comfortable capital structure

HDL's capital structure continued to remain comfortable with overall gearing as on March 31, 2024 stood to 0.30x against 0.22x as on March 31, 2023. Other debt coverage indicators such as total debt to gross cash accruals (GCA) and interest coverage ratio (PBILDT/interest) stood to 3.48x (PY: 3.03x) and 5.38x (PY: 4.62x) as on March 31, 2024, which though deteriorated remained comfortable. The company's total debt primarily comprises working capital borrowings and lease liabilities. CARE Ratings expects the debt coverage indicators of the company to continue to remain comfortable with strong cash accruals, going forward. Additionally, the sale of wind power entities of Hetero group (associate companies of HDL) expected by March 2025 will further enhance liquidity by ~ ₹230 - 250 crore and reduce HDL exposure to associate companies.

Key weaknesses

Elongated operating cycle

In FY24, the company's operating cycle increased to 180 days compared to 141 days in the previous year. This was primarily driven by an increase in inventory days, which rose to 152 days (PY: 124 days), and an extended collection period, which increased to 113 days (PY: 99 days). Meanwhile, the creditors' period also reported a slight increase, standing at 85 days (PY: 82 days).

The longer collection period can be attributed to the extended credit terms provided to customers, particularly to maintain strong relationships with overseas clients, who contribute significantly to the company's revenue; 44% of HDL's total revenue in FY24 was from exports. Despite the higher collection period, the default risk is mitigated to a large extent due to the healthy credit profile of the company's clients. Additionally, the extended collection period is partially balanced by the credit period extended by suppliers, with the remaining working capital requirements met through the company's credit facilities. The average working capital utilisation for last 12 months ended November 2024 stood at ~80%.

Exposure to group companies

HDL has five subsidiaries, five associate companies and one joint venture. The company has invested in the form of equity and preference shares in these companies. As on March 31, 2024, HDL has invested ~₹393 crore in group companies. This apart, HDL has also extended corporate guarantee to the tune of ~₹82 crore for its associate companies.

JSW Energy Ltd announced on October 19, 2024, that JSW Neo Energy Ltd, a wholly owned subsidiary of JSW Energy Ltd has signed definitive agreements on October 18, 2024, to acquire three wind energy special purpose vehicles (SPVs) (Hetero Med Solutions Ltd, Hetero Wind Power Ltd, and Hetero Wind Power (Pennar) Pvt Ltd) collectively holding 125 MW of Wind Energy generation capacity from HLL and HDL. Per the management, this transaction is expected to get latest by Q4FY25, thus by March 31, 2025, both Hetero Med Solutions and Hetero Wind Power shall cease to be its associate companies, which in turn would significantly reduce the HDL exposure to associate companies by end of FY25 and simultaneously improve the liquidity by ~₹230 - 250 crore by virtue of realisation from sale proceeds of wind power plants.

Exposure to regulatory risk

HDL faces regulatory risks due to its focus on manufacturing APIs, a sector heavily regulated globally. Approval for new product registrations is complex, time-consuming (6 months to several years), and costly. Delays or failures in approvals can impact business prospects. Given India's major role in the US generic drug market, the USFDA has intensified scrutiny of Indian pharma companies. Non-compliance may lead to product bans, import alerts, and hinder future approvals. Regulatory compliance is critical for HDL's growth in markets such as the US and UK. Notably, USFDA inspected HDL's Unit I in FY20 with no critical observations.

Liquidity: Strong

The company's liquidity profile remains strong, with GCA of ~₹203 crore in FY24. The interest coverage ratio (PBILDT/Interest) was comfortable at 5.38x in FY24. For FY25, the company has a term debt obligation of ₹25 crore, of which ~₹12.50 crore had already been repaid as on December 31, 2024. Based on the cash accruals generated in FY24 and the expected accruals in FY25, the company is well-positioned to meet its debt obligations comfortably. Additionally, the sale of wind power entities of Hetero group (associate companies of HDL) expected by March 2025 will further enhance liquidity by ~₹230 - 250 crore and reduce Hetero Drugs' exposure to associate companies.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Consolidation](#)

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[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 in 1993, HDL is a part of the Hetero group. It is promoted by Dr B. Parthasaradhi Reddy, Chairman and Managing Director of the company. HDL is a pharmaceutical company, primarily engaged in manufacturing APIs. HDL was initially incorporated as a private limited company, and subsequently, converted into public limited company in 1996. The Hetero group is one of the major pharmaceutical groups in India. HDL is a closely held company, with entire 100% shareholding being held by the promoters and associates. HDL has three manufacturing units and one R&D unit, located in Telangana and Andhra Pradesh. Its manufacturing facilities have been approved by the US FDA, WHO-Geneva, Spanish Agency of Medicines & Healthcare products, ANVISA-Brazil, and IDA-Netherlands among others.

Brief Financials (₹ crore)	March 31, 2023 (A)#	March 31, 2024 (A)#	H1FY25 (UA)^
Total operating income	3,235.28	2,926.49	1,733.37
PBILDT	213.05	292.15	148.49
PAT	98.21	128.30	63.18
Overall gearing (times)	0.22	0.30	NA
Interest coverage (times)	4.62	5.38	5.05

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

Consolidated, ^ Standalone

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-Cash Credit	-	-	-	-	500.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	31-06-2028	150.00	CARE A+; Stable
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	50.00	CARE A+; Stable / CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	200.00	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-Cash Credit	LT	500.00	CARE A+; Stable	-	1)CARE A+; Stable (02-Jan-24)	1)CARE A+; Stable (24-Jan-23)	1)CARE A+ (CW with Developing Implications) (07-Dec-21)

						2)CARE A+; Stable (07-Jul-23)	2)CARE A+; Stable (10-Jan-23) 3)CARE A+ (RWD) (27-Dec-22)	2)CARE A+ (CW with Developing Implications) (19-Oct-21)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	200.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (02-Jan-24) 2)CARE A+; Stable / CARE A1 (07-Jul-23)	1)CARE A+; Stable / CARE A1 (24-Jan-23) 2)CARE A+; Stable / CARE A1 (10-Jan-23) 3)CARE A+ / CARE A1 (RWD) (27-Dec-22)	1)CARE A+ / CARE A1 (CW with Developing Implications) (07-Dec-21) 2)CARE A+ / CARE A1 (CW with Developing Implications) (19-Oct-21)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (10-Jan-23) 2)CARE A+ (RWD) (27-Dec-22)	1)CARE A+ (CW with Developing Implications) (07-Dec-21) 2)CARE A+ (CW with Developing Implications) (19-Oct-21)
4	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	50.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (02-Jan-24) 2)CARE A+; Stable / CARE A1 (07-Jul-23)	1)CARE A+; Stable / CARE A1 (24-Jan-23) 2)CARE A+; Stable / CARE A1 (10-Jan-23)	-
5	Fund-based - LT-Term Loan	LT	150.00	CARE A+; Stable	-	1)CARE A+; Stable (02-Jan-24)	-	-

LT: Long 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 - LT/ ST-Working Capital Demand loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	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	Vibhavari Industries Limited	Full	Subsidiary
2	Valary Lab Private Limited	Full	Subsidiary
3	Sicopa Lab Private Limited	Full	Subsidiary
4	Asphar Research Labs Private Limited	Full	Subsidiary
5	Shadri Labs Private Limited	Full	Subsidiary
6	Sri Sai Ashirwaad Enterprises Private Limited	Proportionate	Associate
7	Hetero Europe SL, Spain	Proportionate	Associate
8	Hetero USA Inc., USA	Proportionate	Associate
9	Hetero Med Solutions Limited	Proportionate	Associate
10	Hetero Wind Power Limited	Proportionate	Associate
11	Pharmed Healthcare company SAE, Egypt	Proportionate	Joint Venture

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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