

## Orchid Pharma Limited

December 27, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	261.00	CARE BBB- (CWD) (Triple B Minus) (Under Credit watch with Developing Implications )	Placed on Credit watch with Developing Implications
Short Term Bank Facilities	50.00	CARE A3 (CWD) (A Three) (Under Credit watch with Developing Implications )	Placed on Credit watch with Developing Implications
<b>Total Bank Facilities</b>	<b>311.00</b> <b>(Rs. Three Hundred Eleven Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Orchid Pharma Limited (Orchid) have been placed on credit watch with developing implications following the company announcement of a proposed scheme of amalgamation and arrangement between Dhanuka Laboratories Limited (DLL), and Orchid. CARE is monitoring developments in this regard and the possible impact of the same on the credit profile of the company.

The ratings continue to draw comfort from the promoter's experience in the pharmaceutical industry, accredited manufacturing facility of the company, reputed and geographically diversified customer base with presence in the regulated markets. The rating also factors the company's efforts in deleveraging the balance sheet by way of using the proceeds from sale of assets.

The rating strengths are tempered by the concentrated product portfolio, low albeit improving capacity utilization, exposure to the regulatory risk and substantial dependence on imports from China for the raw materials.

### Rating Sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Scaling up of operations of Orchid with consistent capacity utilisation above 50%
- Sustainable operating margins with PBILDT margins in excess of 20%

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any negative regulatory observations resulting in disruption of operations
- Any impact on the working capital management with respect to inventory availability

### Detailed description of the key rating drivers

#### Key Rating Strengths

**More than three decades of experience of the promoters in the pharmaceutical industry:** The new promoters, the Dhanuka group, have presence in the agrochemical and pharmaceutical industries. Their experience in the pharmaceutical business comes from two companies viz. Dhanuka Laboratories Limited (DLL) and Synmedic Laboratories. DLL operates in the API space with major presence in Cephalosporin API business and in the nonregulated/Semi regulated Synmedic Laboratories, a partnership firm, operates in the formulation segment, and exports finished pharmaceutical formulations to the non-regulated markets. DLL holds a small stake in Otsuka Chemical India Pvt Ltd, a key raw material for manufacture of Cephalosporin and is a major supplier for Orchid. Mr. Manish Dhanuka, the Managing Director of Orchid is a chemical engineer from IIT Delhi and has more than 26 years' experience in the pharmaceutical industry.

**State of the art manufacturing facility with approvals from regulated markets:** Orchid has three plants with the main plant at Alathur, Chennai, being the API manufacturing unit. This plant is certified by USFDA, MHRA –UK, EDQM, and GMP for manufacture of Cephalosporin based APIs. The Alathur API unit contributes to more than 95% to the total revenues of the company. The company has two other smaller units in Alathur which are into manufacturing of formulations for the non-regulated and domestic markets.

**Improvement in margins with significant efforts in cost optimisation:** In FY21 (refers to the period April 1 to March 31), the revenue has taken a hit due as all non-emergency surgeries / treatments have been delayed and the use of anti-biotics were impacted. However, the PBILDT margins have improved from 6% in FY20 to 12% in FY21 on the back of cost saving measures taken. The company has seen reduction in employee cost, power costs and rationalisation of other expenses to achieve operating profits

**Efforts taken for deleveraging of balance sheet:** Orchid had bank loans of Rs. 427 crore at the beginning of FY21 and it has repaid Rs. 241 crore of loan as on September 20, 2021. The company has been pre-paying the loans with proceeds of GST and other current asset realisations in FY21. In FY22, the company has sold the land in Vizag and also transferred 74% of its stake in its IKKT unit to BionPharma Health Inc. The proceeds of the sale has been used to pay the term loans.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Reputed and geographically diversified customer base:** Orchid being an EOU, major portion of the revenues of Orchid are from exports and the company enjoys a well-diversified geographic presence across the globe. The top 10 clients of Orchid contribute to 57% of the total revenues and geographically, the company does not have exposure of more than 15% to any particular geography.

#### Key Rating Weaknesses

**Improving but low capacity utilisation:** Under earlier management, the working capital availability had impacted the capacity utilisation levels. The utilisation during FY2018-FY2020 has continued to remain below 30% resulting in accumulated losses and cash crunch. However, post the resolution and take-over, the company has shown marginal improvement in capacity utilisation to 32% in FY21.

**Concentrated product portfolio:** The major products of Orchid remain Cephalosporin based APIs. In Orchid, Cephalosporin APIs contribute 99% to the total revenues in FY21. The products find application in manufacturing of anti-bacterial, anti-biotic and anti-inflammatory formulations, thereby creating high exposure to single acute therapy segment.

**Exposure to regulatory risk:** The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for conducting business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies across countries and authorities, usually taking a minimum of six months to several years from the date of application. Any delay or failure in obtaining approvals for new product launch could adversely affect the business prospect of the company.

**Significant dependence on China imports for raw materials:** Orchid imports nearly 70% of its raw material requirements, majority of them from China. The dependence on import of key starting material (KSM) has increased from around 48% of total purchases in FY18 to 66% in FY21. The increasing import dependency can be attributed primarily to the availability of low-cost raw materials, however, the high dependency on China for raw material procurement remains a concern.

#### Prospects:

While pharma industry has grown substantially on the back of COVID, the prospects of specific segment of anti-biotics have been subdued in FY21 mainly due to low demand for its antibiotics as there were fewer elective surgeries during this period. Orchid's TOI in FY21 and Q1FY22 remained low due to the subdued demand and lockdown in its major markets. However, with easing of lockdown, a gradual improvement in demand is expected. In the current geo-political scenario, many of the pharma players are looking into de-risking their dependence on China for supplies. Orchid's ability to leverage on the same and increase its customer base would remain key to the prospects of the company.

#### Liquidity: Adequate

With working capital made available by the new management, the capacity utilisation has improved thereby improving cash flows. The company has prepaid major portion of its term-loan obligations. However, the operations are working capital intensive with the company availing around 60-90 days of credit period from suppliers and 2.5 months credit period given to customers.

#### Analytical approach: Consolidated

The consolidated balance sheet of Orchid Pharma Ltd includes the following subsidiaries.

Subsidiaries	Shareholding
Orchid Europe Limited, UK	100%
Orchid Pharmaceuticals Inc. USA	100%
Bexel Pharmaceuticals Inc. USA	100%
Orchid Pharmaceuticals SA(Proprietary)Limited, South Africa	100%
Diakron Pharmaceuticals Inc. USA	76.65%

#### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Methodology for manufacturing companies](#)

[CARE'S Methodology for Consolidation](#)

[Rating Methodology- Pharmaceuticals Sector](#)

[Criteria for Short term instruments](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity analysis - Non-Financial sector](#)

#### About the Company

Orchid Pharma Limited, (Orchid), established in 1992, is an integrated pharmaceutical company with presence in bulk drug manufacturing and formulations. The company was acquired by Dhanuka Laboratories Limited (DLL) under Corporate Insolvency Resolution Process (CIRP) by The National Company Law Tribunal (NCLT) and the resolution plan has been implemented w.e.f. 31<sup>st</sup> March 2020. Orchid, at present, has 3 manufacturing facilities in Chennai. The API unit at Alathur is USFDA certified, while the 2 formulations unit in Alathur cater to exports to non-regulated markets and the domestic market.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	484.40	454.44	220.05
PBILDT	30.20	55.03	15.77
PAT	-131.05	-116.54	18.50
Overall gearing (times)	0.93	0.89	0.49
Interest coverage (times)	4.86	1.05	0.76

A: Audited; Prov.: Provisional

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**Rating History for last three years:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated for this company:** Annexure 4

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2026	186.00	CARE BBB- (CWD)
Non-fund-based - ST-BG/LC		-	-	-	50.00	CARE A3 (CWD)
Fund-based - LT-Cash Credit		-	-	-	75.00	CARE BBB- (CWD)

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings		Rating history				
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (02-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Sep-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)
2	Fund-based - ST-EPC/PSC	ST	-	-	-	1)Withdrawn (02-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Sep-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)
3	Fund-based - LT-Term Loan	LT	186.00	CARE BBB- (CWD)	1)CARE BBB-; Stable (29-Sep-21)	1)CARE BB+; Stable (05-Oct-20)	-	-
4	Non-fund-based - ST-BG/LC	ST	50.00	CARE A3 (CWD)	1)CARE A3 (29-Sep-21)	1)CARE A4+ (05-Oct-20)	-	-
5	Fund-based - LT-Cash Credit	LT	75.00	CARE BBB- (CWD)	1)CARE BBB-; Stable (29-Sep-21)	-	-	-

\*Long-term; \*\*Short-term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable**

#### Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About CARE Ratings Limited:

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