Orchid Pharma Limited

September 29, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	75.00	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Assigned
Long-term Bank Facilities	186.00 (Reduced from 427.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short-term Bank Facilities	50.00	CARE A3 (A Three)	Revised from CARE A4+ (A Four Plus)
Total Bank Facilities	**311.00 (Rs. Three Hundred Eleven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to Orchid Pharma Limited (Orchid) considers the significant reduction in debt levels post hiving off the Irrungatukottai (IKKT) Formulation unit and proceeds raised from this transaction. The rating revision also takes note of the improved cost efficiency of the operations, though the efforts have been tempered on account of the COVID-19 pandemic.

The rating continues draws comfort from the promoter's experience in the pharmaceutical industry and infusion of funds to aid the operations of the company. The ratings continue to draw strength from the accredited manufacturing facility of the company, well-reputed and geographically diversified customer base with presence in the regulated markets

The ratings strengths are tempered by the concentrated product portfolio, exposure to the regulatory risk and substantial dependence on imports from China for 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

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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.

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(Proprietory)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. 31st 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)
Total operating income	484.40	454.44
PBILDT	30.20	55.03
PAT	-131.05	-116.54
Overall gearing (times)	0.93	0.89
Interest coverage (times)	4.86	1.05

A: Audited;

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in **Annexure-3**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instrument / 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-; Stable
Non-fund-based - ST-BG/LC		-	-	-	50.00	CARE A3
Fund-based - LT-Cash Credit		-	-	-	75.00	CARE BBB-; Stable

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-; Stable	-	1)CARE BB+; Stable (05-Oct-20)	-	-
4	Non-fund-based - ST-BG/LC	ST	50.00	CARE A3	-	1)CARE A4+ (05-Oct-20)	-	-
5	Fund-based - LT-Cash Credit	LT	75.00	CARE BBB-; Stable				

Annexure-3 Complexity level of various instruments rated for this Company – Not Applicable

Annexure-4: Detailed explanation of covenants of the rated instrument

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 has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact
Name: Mr Mradul Mishra
Contact No.: +91 22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Mr Jaganathan A
Contact no.: +91-44-2850 1000
Email ID: jaganathan.a@careratings.com

Relationship Contact
Name: Mr V. Pradeep Kumar
Contact No.: +91-44-2850 1001
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:
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