Corona Remedies Private Limited

August 20, 2018

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings[1]**	**Rating Action**
Long-term/ Short-term Bank Facilities	25.00	**CARE A-; Stable/ CARE A2+ (A Minus; Outlook: Stable/ A Two Plus)**	**Assigned**
Totals	**25.00 (Rupees Twenty Five crore only)**		

Details of facilities in Anneuxre-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Corona Remedies Private Limited (CRPL) derive strength from qualified and experienced management, established presence in domestic formulation market with diversified product portfolio, brands across multiple therapeutic segments along with recent acquisition of brands from reputed pharmaceutical companies to complement the existing products and wide distribution and marketing set-up. The ratings further derive comfort from consistent growth in total operating income, comfortable capital structure and healthy liquidity.

These ratings strength are partially off-set by CRPL's modest scale of operations and relatively low profitability due to high overhead cost, its presence in price controlled and competitive domestic pharmaceutical formulation business and inherent regulatory risk associated with the pharmaceutical industry. The ratings also constrained due to elongated debtor collection during FY18 following the impact of Goods and Service Tax (GST) and implementation and stabilization risk associated with proposed capex.

CRPL's ability to increase its scale of operation by leveraging its large marketing and distribution network along with sustained improvement in profitability, effective working capital management and continued compliance of regulatory norms are the key rating sensitivities. Moreover, the company is expected to fund the further working capital and capex requirement partially through internal accruals and rest through external borrowing and any major increase in debt level compared to envisaged debt would also remain key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experienced management: CRPL is promoted by Mr. Nirav Mehta (B.Pharm, MBA) who has marketing experience of more than fifteen years in domestic formulation industry. Dr. Kirtikumar Mehta (Chairman) has more than four decade of experience in medicine practice and looks after general administration and export operations of CRPL. Mr. Ankur Mehta (B.sc., MBA) is looking after purchase, production and finance function of CRPL for more than a decade. Further, CRPL has well-qualified and experienced second tier management with well-defined organisational structure and strong management information system.

Diversified product portfolio and established brands across multiple therapeutic segment: CRPL has a wide product portfolio of more than 80 brands across various therapeutic segments like Vitamins/Nutrients, Gastroenterology, Cardiovascular System (CVS), Anti-Infective, Gynecology, Respiratory System, etc. with vitamin and nutrient segment contribution more than 25% of the total operating income (TOI). Top 10 brands contributed nearly 45-50% of total revenue during past three year ended FY18 (FY refers to the period from April 01 to March 31) depicting fairly diversified product portfolio. Further, CRPL acquired four formulation brands from GlaxoSmithKline (GSK) and two brands from Abbott India during FY18. With its strong marketing and distribution network CRPL expects significant contribution from the sales of these brands in future.

Wide marketing and distribution network: CRPL has significantly expanded its marketing and distribution network during last three years ended FY18. Strength of its marketing staff increased to 2,379 employees as on March 31, 2018 from 929 employees as on March 31, 2015. This large marketing team is spread across 17 states, covering more than 1,50,000 doctors, more than 50,000 chemists and around 3,000 distributors. Further, CRPL has two storage facilities, one located at Ahmedabad and other located at Solan, Himachal Pradesh, enabling it faster movement of its products across north and west India.

Consistent growth in total operating income, comfortable capital structure and healthy liquidity: CRPL has shown compounded annual growth rate (CAGR) of 22% in total operating income (TOI) for past four years ended FY18 and grew at 38% during FY18 over FY17. Growth in TOI was largely attributed to expansion in filed force coupled with introduction of new products. Further, CRPL has strong financial risk profile with company being effectively debt free (Total debt of

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

Rs.6.79 crore against Cash and unencumbered liquid investments of Rs.22.96 crore as on March 31, 2018). CRPL has funded acquisition of new formulation brands from GSK and Abbott India and expansion of its marketing and distribution network through equity infusion during FY17 and internal accruals. Moreover, the company has funded a large part of its working capital requirement through internal accrual with reliance of external borrowings remained low thereby provides financial flexibility.

Key Rating Weaknesses

Modest scale of operations and low profitability: Despite consistent growth in total operating income, the scale of operation of the company remains modest in competitive domestic formulation business. Further, due to its high reliance on contract manufacturing and its presence in competitive and price controlled products segment, the profitability margins too have remained moderate. Further, CRPL has significantly expanded its sales force during last three years leading to higher employee cost, which also impacted profitability margins. However, management expects the employee cost to rationalize with increase in scale of operations and will lead to improvement in profitability margin.

Elongation in debtor collection leading to high working capital intensity: Pre-GST regime, CRPL was following C&F model for distribution of its products and post implementation of GST, company shifted to super-stockiest-distributer-dealers network. This move was to avoid higher administrative and compliance cost. With expansion of business and implementation of GST, CRPL needs to extend the higher credit to their dealers to support their working capital requirement. The absolute debtor position has elongated as on March 31, 2018 compared to March 31, 2017 and it continued to remain elevated as on June 30, 2018. With this elongation in debtor collection, the cash flow from operations turned negative to Rs.16.60 crore during FY18 as against positive cash flow of Rs.10.96 crore during FY17.

Implementation and stabilization risk associated with proposed capex: CRPL is setting up new PIC/s (Pharmaceutical Inspection Co-operation Scheme) compliant formulation manufacturing facility at Bavla, near Ahmedabad at estimated cost of Rs.60 crore which is expected to be funded through term debt of Rs.25 crore and balance through internal accruals. The company has already acquired the land for the said facility. The new facility is planned to cater the export demand from European and some other developed markets. CRPL expects to commence commercial production from new manufacturing facility by April 2020. CRPL also increased its fund based working capital limits from Rs.7.25 crore to Rs.25 crore in June 2018. Apart from these debts, the company expects all incremental working capital and capex requirement would be funded through internal accruals and reliance on external borrowings would continue to remain low. Hence, any major increase in debt level compared to envisaged debt would be crucial from credit perspective.

Exposure to regulatory risk: CRPL is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical formulations. The players in the pharmaceutical industry need to manufacture products that meet the set quality standards. Good manufacturing practice (GMP) has to be followed for the control and management of manufacturing and quality control testing of drugs. The government also controls the prices of pharmaceutical products through the drug price control order (DPCO) under price control mechanism. CRPL present portfolio under DPCO coverage is high. Besides DPCO, Government interventions such as ban on certain fixed dose combinations in August 2018 may impact the industry players including CRPL.

Intense competition in domestic formulation industry: The Indian Pharmaceutical Industry (IPI) is ranked third globally in terms of volume and thirteenth in terms of value. The lower market share in terms of value can be attributed to the predominance of IPI in generic medicines which command lower prices. CRPL is primarily engaged in marketing of braded generic formulations in domestic markets which exposes it to intense competition and pressure on selling prices. Further, with receding opportunities in major markets like U.S, U.K. and Europe, slew of Indian companies are shifting their focus of domestic market, increasing competition in the domestic formulation markets.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology - Pharmaceutical Sector
Financial ratios – Non-Financial Sector

About the Company

Incorporated in August 2004 and based out at Ahmedabad, CRPL is engaged in manufacturing and marketing of branded generic formulations. Promoted and controlled by Mehta family (Mr. Nirav Mehta and Mr. Ankur Mehta), CRPL started its operations by marketing formulations. CRPL established WHO-CGMP approved manufacturing plant in Solan (Himachal Pradesh) in 2007. Since then, CRPL expended its brand portfolio to more than 80 brands spanning over several therapeutic segments.

During July 2016, Cydista Limited (an affiliate of PE firm Creador III LLP) subscribed compulsory convertible preference share of CRPL for Rs.100.00 crore. Each preference share will be converted into one equity share after completion of three years. After conversion Cydista will hold 19.51% equity share capital in CRPL.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (Prov.)
Total Operating Income	292.12	403.98
PBILDT	10.38	35.10
PAT	8.73	25.04
Overall Gearing (times)	0.02	0.04
Interest Coverage (times)	10.03	59.05

A – Audited, Prov. – Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-LT/ST	-	-	-	25.00	CARE A-; Stable / CARE A2+

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-LT/ST	LT/ST	25.00	CARE A-; Stable / CARE A2+	-	-	-	-

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