Corona Remedies Private Limited

September 24, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/ Short-term Bank Facilities	25.00	**CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)**	**Reaffirmed**
Long-term Bank Facilities	50.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Assigned**
Total	**75.00 (Rupees Seventy Five crore only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Corona Remedies Private Limited (CRPL) continue to derive strength from its qualified and experienced management, its established presence in the domestic formulation market along with diversified product portfolio spanning multiple therapeutic segments and its wide distribution and marketing set-up. The ratings also continue to derive strength from its low leverage, comfortable debt coverage indicators and healthy liquidity. The ratings also take note of healthy growth in its total operating income and improvement in its profitability margins during FY19 (refers to the period from April 01 to March 31) and Q1FY20.

The above rating strengths are, however, constrained by CRPL's increasing working capital requirement impinging its ability to generate adequate operating cash flows, stabilization risk associated with large size partly debt funded capex, its presence in price controlled and competitive domestic pharmaceutical formulation business and inherent regulatory risk associated with the pharmaceutical industry. Further, the ratings continue to remain constrained due to its relatively modest profitability margins despite improvement witnessed over past two years ended FY19.

CRPL's ability to significantly increase its scale of operations with sustained improvement in its profitability margins by leveraging its large marketing and distribution network, effective management of working capital resulting in healthy cash flow from operations and continued compliance with regulatory norms are key rating sensitivities. Moreover, any large size debt funded capex other than the ongoing capex or any debt funded inorganic expansion adversely affecting the capital structure and debt coverage indicators would also remain key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Qualified and experienced management: CRPL is promoted by Dr. Kirtikumar L. Mehta (Chairman) who has more than four decade of experience in medicine practice and looks after general administration and export operations of CRPL. Sons of Dr. Kirtikumar Mehta, Mr. Nirav Mehta and Mr. Ankur Mehta are also directors of CRPL. Mr. Nirav Mehta (B.Pharm, MBA) has marketing experience of more than fifteen years in the domestic formulation industry. 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 adequate management information system.

Diversified product portfolio and established brands spanning multiple therapeutic segments: CRPL has a wide portfolio of 339 products (including 32 products launched during FY19) under 80 brands across various therapeutic segments like Vitamins/Nutrients, Gastroenterology, Cardiovascular System (CVS), Anti-Infective, Gynaecology, Respiratory System, etc. Share of chronic therapeutic segments in total sales has gradually increased from 37% during FY13 to 65% during FY19. Higher share of chronic therapeutics in overall revenue generally provides better revenue stability and profitability margins. Further, top 10 brands of CRPL contributed nearly 45-50% of total revenue during past three years ended FY19 depicting fairly diversified product portfolio. Further, only 33 products out of its total product portfolio (representing just 5% of the total sales) is under Drug Price Control Order (DPCO) thereby offering better pricing flexibility to the company.

CRPL acquired three formulation brands (Dilo, Stelbid and Vitneurin) from Glaxosmithkline (GSK) and two formulation brands from Abbott India (Obimet and Thyrocab) during FY17 and FY18 respectively for a sum of Rs.55 crore. CRPL was able to register healthy growth in the sales of acquired brands along with improvement in gross margin, which also demonstrates CRPL's marketing and distribution capabilities.

Wide marketing and distribution network: CRPL has significantly expanded its marketing and distribution network during last few years. Strength of its marketing staff increased to around 2,500 personnel as on March 31, 2019 from 929

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

personnel as on March 31, 2015. This large marketing team is spread across India, covering more than 1,31,000 unique doctors, more than 2,00,000 pharmacies and around 1,800 distributors. Further, CRPL has two warehousing facilities, one located at Ahmedabad and other located at Solan, Himachal Pradesh, enabling faster movement of its products across north and west India. In 15 years of operational track record, CRPL has become one of the top 50 companies in the Indian branded formulation market.

Consistently growing scale of operations along with improvement in profitability margins during FY19: CRPL's scale of operations marked by total operating income (TOI) grew at Compounded Annual Growth Rate (CAGR) of 30% during last four years ended FY19 and grew by 26.73% during FY19 over FY18. CRPL's focused approach in building its branded product portfolio, consistent expansion of its sales force and widening geographical reach led to growth in its scale of operations over the years. CRPL's widening geographical reach also resulted in some reduction in revenue concentration towards western India (Gujarat, Maharashtra, Rajasthan & Madhya Pradesh) from 71% during FY17 to 61% during FY19. Further, CRPL acquired three formulation brands from GSK and two formulation brands from Abbott India during FY17 and FY18 respectively, which also supported the growth in scale of operations during FY19. CRPL's PBILDT margin also increased from 9.12% during FY18 to 13.18% during FY19 due to improvement in gross margin and some rationalization of marketing cost. Despite higher depreciation and amortization cost, PAT margin also improved to 6.80% during FY19, majorly due to improved PBIDLT margin. Despite improvement, CRPL's PBILDT margins remained modest due to relatively high marketing cost.

Comfortable capital structure and debt coverage indicators: CRPL's capital structure remained comfortable marked by overall gearing ratio of 0.06 times as on March 31, 2019. CRPL has received the term debt sanction of Rs.50 crore during FY20 for execution of its ongoing capex plan. However, despite availment of term debt, CRPL's capital structure is expected to remain comfortable due to its healthy net-worth base and accretion of profits to reserve. CRPL had received around Rs.100 crore towards subscription of compulsory convertible preference shares (CCPS) during FY17, which strengthened its net-worth base. Further, low leverage and healthy profitability led to comfortable debt coverage indicators. Moreover, CRPL's capital return indicators also remained healthy marked by return on capital employed (ROCE) and return on net-worth (RONW) of 25.96% and 18.09% respectively during FY19.

Key Rating Weaknesses

Continued high debtor level restricts operating cash flows: Over past two years ended FY19, CRPL's average debtor collection period has increased from 33 days during FY17 to 77 days during FY19. After witnessing a major jump in absolute debtor level as on March 31, 2018 over March 31, 2017 post implementation of Goods and Service Tax (GST), the debtor level continued to remain elevated as on March 31, 2019. After the implementation of GST, CRPL changed its distribution channel from C&F model to super-stockiest-distributors-dealers model which has also resulted in higher debtor levels. Furthermore, for growing its business, CRPL needs to extend higher credit to their dealers to support their working capital requirement. The % increase in debtor level during FY19 remained higher than % growth in total operating income. Further, due to incremental working capital requirement, CRPL had operating cash flow of around Rs.19 crore during FY19 as against net profit of Rs.34.74 crore and Gross Cash Accruals of Rs.47.60 crore. Limited free operating cash flow restricts the financial flexibility. CRPL's ability to generate adequate operating cash flows to fund the equity portion of its ongoing capex and meet additional/ incremental working capital requirement is crucial from credit perspective.

Implementation and stabilization risk associated with large size partially debt funded ongoing capex: CRPL is setting up new "EU- GMP" compliant formulation manufacturing facility (at Bhayla, Taluka Bavla, Dist.: Ahmedabad) at estimated cost of Rs.85 crore (including cost of land) which is expected to be funded through term debt of Rs.50 crore and balance through internal accruals. Earlier the project cost was envisaged at Rs.60 crore to be funded through term debt of Rs.25 crore and balance through internal accruals. However, due to change in project scope, the estimated cost of project has increased. CRPL has already incurred cost of around Rs.22 crore up to August 2019 which was funded entirely through internal accruals. The construction of new manufacturing facility is expected to be completed by March 31, 2020 and commercial production is expected to start from October 2020. Although the new manufacturing facility is aimed at catering export demand from European and some other developed markets, it will also cater to domestic formulation requirement of CRPL as it currently procures around 45% of its formulations through contract manufacturing. Any major delay in receiving product approval from the new manufacturing facility may adversely impact the envisaged return on the capital invested. Apart from the project term loan, the company expects all incremental working capital and routine capex requirement to be funded through internal accruals and reliance on external borrowings is envisaged to remain low. However, any major increase in debt level compared to envisaged debt shall remain critical 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. 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 branded generic formulations in domestic market which exposes it to intense competition and pressure on selling price. Further, with receding opportunities in major markets like U.S, U.K. and Europe, slew of Indian companies are shifting their focus to the domestic market, thereby increasing competition in the domestic formulation market.

Liquidity Analysis: CRPL's liquidity remains healthy marked by current ratio and quick ratio of 2.61 times and 2.29 times respectively as on March 31, 2019. Utilization of fund based working capital limits also remained low at around 30% during trailing 12 months ended July 2019 providing adequate cushion to its liquidity. Further, it maintains healthy cash and cash equivalent of around Rs.40 crore as March 31, 2019 and around Rs.46 crore as on June 30, 2019 which also provides liquidity cushion in case of any exigency.

Analytical approach Standalone

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's methodology for Manufacturing companies]
[CARE's methodology for Pharmaceutical companies]
[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 of formulations. CRPL established WHO-CGMP approved manufacturing plant in Solan (Himachal Pradesh) in 2007. Since then, CRPL has expanded 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 to compulsory convertible preference share (CCPS) of CRPL for Rs.100.00 crore to be converted into equity capital within 3 years. However, the conversion timelines is further extended to another period of 3 years upto July 2022 through mutual consent. The company management has articulated that these CCPS do not entail any committed return for the PE firm on its exit nor there is any obligation on the company for its buyback.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total Operating Income	403.20	510.97
PBILDT	36.77	67.36
PAT	25.01	34.74
Overall Gearing (times)	0.04	0.06
Interest Coverage (times)	57.17	67.05

A – Audited

CRPL earned total operating income of Rs.146 crore with PBILDT margin of 16.68% during Q1FY20.

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 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+
Fund-based - LT-Term Loan	-	-	April 2024	50.00	CARE A-; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-LT/ST	LT/ST	25.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (20-Aug-18)	-	-
2.	Fund-based - LT-Term Loan	LT	50.00	CARE A-; Stable	-	-	-	-

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
Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Mr. Krunal Modi
Contact no. – +91-79-4026 5614
Mobile no. - +91-85111 90084
Email ID- krunal.modi@careratings.com

Business Development Contact
Mr. Deepak Prajapati
Contact no. – +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**