Corona Remedies Private Limited

October 20, 2020

Ratings

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

Details of instruments/facilities 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, established presence in the domestic pharmaceutical formulation market along with diversified product portfolio spanning multiple therapeutic segments and its wide marketing and distribution set-up. The ratings also continue to derive strength from healthy growth in its scale of operations along with steady expansion of its operating profitability (PBILDT) margin during the three years ended FY20 (FY refers to the period of April 01 to March 31); albeit its profitability remains moderate due to its high employee and Selling and Distribution (S&D) cost. The ratings further continue to derive strength from its low leverage, comfortable debt coverage indicators, healthy return ratio and adequate liquidity.

The above rating strengths are, however, constrained by CRPL's increasing working capital intensity restricting its operating cash-flows despite healthy cash accruals, stabilization risk associated with large size partly debt funded ongoing capex, its high dependency upon contract manufacturing, presence in price controlled and competitive domestic pharmaceutical formulation business and inherent regulatory risk associated with the pharmaceutical industry. CARE also takes cognizance of the investment by Private Equity (PE) investors in form of Compulsory Convertible Preference Share (CCPS) in CRPL.

Rating Sensitivities

Positive Factors

- Growth in scale of operations along with maintaining its PBILDT margin and ROCE of around 15% and 25% respectively
- Gross operating cycle not exceeding 120 days
- Maintain its current low leverage and adequate liquidity

Negative Factors

- Significant increase in working capital intensity with gross operating cycle exceeding 180 days
- Large size acquisition/capex or any other event resulting in significant adverse impact on its capital structure and debt coverage indicators

Outlook: Positive

The outlook on the long-term rating of CRPL has been revised from 'Stable' to 'Positive' on CARE's expectation of improvement in its business and financial risk profile in the medium term marked by steady growth in its scale of operations and improvement in its profitability margin along with controlled working capital requirement resulting in healthy cash flow generation. The outlook may be revised to 'Stable' if there is a sizable decline in CRPL's profitability or significant stretch in its working capital requirement or material adverse impact on its debt coverage indicators due to large size acquisition/capex or any other event.

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 decades experience in medicine practice and looks after general administration and export operations of CRPL. Mr. Nirav Mehta and Mr. Ankur Mehta, sons of Dr. Kirtikumar Mehta, are also Directors in CRPL. Mr. Nirav Mehta (B.Pharm, MBA) has marketing experience of more than fifteen years in the domestic pharmaceutical formulation industry. Mr. Ankur Mehta (B.Sc, MBA) looks after purchase, production and finance functions of CRPL for more than a decade. Further,

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

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 more than 300 products under its 72 brands across various therapeutic segments like Vitamins/Nutrients, Hormones, Gastroenterology, Cardiovascular System (CVS), Anti-Infective, Gynaecology, Respiratory System, etc. Top 5 therapeutic segments contributed around 43% of CRPL's total sales during FY20. Share of chronic therapeutic segments in its total sales has also gradually increased from 37% during FY13 to 67% during FY19 (company has considered Hormones, Gynaecology and Vitamins as chronic/sub-chronic segments). Higher share of chronic therapeutics in overall revenue generally provides better revenue stability and profitability margins for a pharmaceutical company. Further, top 10 brands of CRPL contributed nearly 45-50% of its total revenue during past three year's ended FY20 depicting fairly diversified product portfolio. CRPL had acquired three formulation brands (Dilo, Stelbid and Vitneurin) from Glaxosmithkline (GSK) and two formulation brands (Obimet and Thyrocab) from Abbott India during FY17 and FY18 respectively for a sum of Rs.55 crore. CRPL has been able to register healthy growth in the sales of these acquired brands along with improvement in gross margin, which also demonstrates CRPL's marketing and distribution capabilities.

Wide marketing and distribution network: The strength of CRPL's marketing staff has steadily increased to around 2,500 personnel as on March 31, 2020 from 929 personnel as on March 31, 2015. This large marketing team is spread across India, covering more than 1,30,000 unique doctors, more than 2,00,000 pharmacies and around 1,800 retailers. Furthermore, 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. With its gradual foray in to various parts of the country, the share of Western India in CRPL's overall sales mix has reduced from 71% in FY17 to 59% in FY20 resulting greater geographical diversification.

Consistent growth in scale of operations along with steady expansion of its operating profitability (PBILDT) margin: CRPL's total operating income (TOI) which grew at a compounded annual growth rate (CAGR) of 28% during the trailing five years ended FY20 witnessed growth of 18% on Y-o-Y basis due to benefits of operating leverage on the back of growth in its scale of operations, increasing productivity of its large sales force, expansion in geographical reach and increased contribution from acquired brands of GSK and Abbott India. During 5MFY21, CRPL's total income moderated by 16% on Y-o-Y basis as the sales was adversely impacted due to very low outpatient turnout during Q1FY21 on account of outbreak of Covid-19 pandemic. As majority of the sales of CRPL is prescription driven, the lower outpatient turnout during the pandemic had impacted its sales. However, the monthly sales of the company have already reached to pre-Covid levels during July and August 2020.
Furthermore, CRPL's PBILDT and PAT grew at CAGR of around 107% and 89% during last three years ended FY20 on account of consistent growth in its TOI and steady expansion of the PBILDT margin. CRPL's operating profitability (PBILDT) margin improved by 203 bps during FY20 on Y-o-Y basis due to steady improvement in the gross margin on account of change in product mix, increasing share of own manufacturing and economies of scale; albeit PBILDT margin remains at moderate level. Further, PBILDT margin is expected to remain better during FY21 on Y-o-Y basis as marketing expenses and travelling cost are likely to remain low for the year.

Low leverage and comfortable debt coverage indicators along with healthy return ratio: Overall gearing ratio of CRPL remained low at around 0.17x as on March 31, 2020 (0.06x as on March 31, 2019) despite increase in its total debt to fund its ongoing capex. CARE has treated compulsory convertible preference shares (CCPS) held by PE investors in CRPL as quasi equity. CRPL had undrawn term-loan of around Rs.30 crore as on March 31, 2020 which it plans to draw during FY21 to complete its ongoing capex. However, despite drawl of entire term-loan of Rs.50 crore, CRPL's capital structure is expected to remain comfortable (below 0.5x) in near to medium term on account of its healthy net-worth base. Further, CRPL funds majority of its incremental working capital requirement through internal accruals which also bodes well for the stability of the capital structure. CRPL's interest coverage ratio and total debt/GCA remained very comfortable at 86.55x and 0.67 years respectively during FY20 (67.05x and 0.26 years respectively during FY19) due to its healthy profitability.
CRPL's Return on Capital Employed (ROCE) remained healthy at around 29.38% during FY20 (26.53% during FY19). CRPL operates on an asset light business model marked by fixed asset turnover ratio (including intangible assets and acquired land for the proposed facility) of around 6x during FY20. Asset light business model along with improvement in profitability margins resulted in consistent improvement in its return indicators during the last three years ended FY20.

Key Rating Weaknesses
Increasing working capital intensity restricting operating cash flows: Operations of CRPL continue to remain working capital intensive marked by gross operating cycle days of 115 during FY20 (compared with 95 days in FY18 and 109 days in FY19). Increase in its working capital intensity was mainly fuelled by higher average collection period of around 92 days

during FY20 (compared with 51 days in FY18 and 77 days in FY19). Before implementation of GST, the company was operating under C&F agent model where stock lying in the premise of C&F agent was reflected as inventory on the books of CRPL. However, post implementation of GST, the company switched to super distributor model which led to increase in its average collection period along with some decline in the average inventory days. However, as the company operates at a gross margin of around 72% and inventories are recorded at cost, increase in its average collection period was more pronounced than decline in its average inventory holding period. Apart from this, due to its growing nature of business in different geographies, CRPL needs to extend higher credit period to its new customers. Furthermore, imposition of lockdown from March 25, 2020 also adversely impacted its collection efficiency during March 2020.
Increasing working capital intensity has also adversely impacted its operating cash-flow which remained at around Rs.42 crore (cumulative for last three years ended FY20) compared with Gross Cash Accruals of Rs.148 crore (cumulative for last three years ended FY20). Limited operating cash flow restricts the company's financial flexibility. However, despite limited cash flow from operations, CRPL's reliance on external debt has remained low as majority of its incremental working capital requirements are being funded through reserves/ internal accruals.

(Rs. Crore)

Particulars	FY18	FY19	FY20	Cumulative for FY18-FY20
Gross Cash Accruals	31.39	47.60	69.32	148.31
Cash flow from Operation	(14.98)	19.27	36.93	41.22

As articulated by the company management, there would not be any major incremental investment in working capital (mainly in debtors) as the company now operates with optimum collection period. On the contrary, management expects gradual improvement in collection period which would release cash from operations going ahead. 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.

High dependence on contract manufacturing along with relatively low focus on R&D: CRPL continues to have high dependence on various contract manufacturers for sourcing its formulations despite gradual reduction in it over the past few years. The share of formulations acquired through contract manufacturing remains at around 50% of the total sales during FY20. Although the contract manufacturing keeps business model asset light and reduces the operational leverage, it also poses a supply chain risk, issues related to quality control and resultant reputation risk. However, company largely gets low value-added formulation products through contract manufacturers. Also, the spend on R&D has remained low at less than 1% of its total sales over last three years ended FY20 which may adversely impact its ability to develop and launch higher margin new products.

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 being funded through term debt of Rs.50 crore and balance through internal accruals. The company has already incurred capex of Rs.41.47 crore till March 31, 2020 which was funded through term loan of Rs.20.04 crore and remaining was funded through internal accruals. Further, the remaining capex of Rs.43.53 crore is expected to be completed by January 2021. The capacity of its new manufacturing facility is expected to be 2.5x of its existing manufacturing facility. Although, the commencement of the commercial operations for the European market may take 2 to 3 years as the process of plant approval is lengthy, CRPL plans to manufacture formulations for the domestic market in its new manufacturing facility which will reduce its dependence on the contract manufacturing. Further, successful foray into European markets would enable the company to gradually expand its presence in the more lucrative regulated markets. However, any delays in setting up new manufacturing facility or delays in the plant approval from the new manufacturing facility may adversely impact the envisaged returns on the capital invested.

Exposure to inherent regulatory risk associated with pharmaceutical industry: 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) must 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. However, as articulated by the company, currently CRPL derives less than 10% of its revenue from products covered under DPCO.

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.

Liquidity: Adequate
Liquidity of CRPL remains adequate due to its steadily growing cash accruals which stood at Rs.69 crore and positive cash flow from operations of around Rs.37 crore during FY20 (Rs.19 crore during FY19). Moreover, low average utilization of its fund based working capital limits of around 33% (including overdraft against fixed deposits) during trailing 12 months ended June 30, 2020 and cash and cash equivalent of around Rs.66 crore as on March 31, 2020 also provides cushion to its liquidity. CRPL's expected cash accruals, undrawn term-debt limit (around Rs.30 crore) and unencumbered cash and cash equivalent are expected to remain well above its requirement of funds for capex (Rs.44 crore), incremental working capital and term-debt repayment (Rs.6.45 crore) during FY21. Its adequate liquidity is also evidenced by the fact that CRPL did not avail any moratorium from its lenders for the repayment of its term debt instalment or payment of interest on working capital limits. However, if CRPL undertakes buy-back of equity shares/ CCPS held by PE investors at any time in the future, it may adversely impact its liquidity and credit metrics.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' 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
Liquidity Analysis of Non-financial sector entities

About the Company
Incorporated in August 2004 and based out at Ahmedabad, CRPL is engaged in manufacturing and marketing of branded generic formulations. CRPL established WHO-CGMP approved manufacturing plant in Solan (Himachal Pradesh) in 2007. Since then, CRPL has expanded its brand portfolio to 72 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 crore.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	510.97	603.77
PBILDT	67.36	91.84
PAT	34.74	59.40
Overall Gearing (times)*	0.06	0.17
Interest Coverage (times)	67.05	86.55

*A – Audited; * calculated by treating CCPS as quasi equity*

As per the provisional results for 5MFY21, CRPL has earned total income of Rs.213.39 crore with PBILDT margin of 23.05% compared with total income of Rs.255.32 crore with PBILDT margin of 18.03% during 5MFY20 (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

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-; Positive / CARE A2+
Fund-based - LT-Term Loan	-	-	April 2024	50.00	CARE A-; Positive

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based-LT/ST	LT/ST	25.00	CARE A-; Positive/ CARE A2+	-	1)CARE A-; Stable / CARE A2+ (24-Sept-19)	1)CARE A-; Stable / CARE A2+ (20-Aug-18)	-
2.	Fund-based - LT-Term Loan	LT	50.00	CARE A-; Positive	-	CARE A-; Stable (24-Sept-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based – LT/ST -Cash Credit	Simple
2.	Fund-based - LT-Term Loan	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.*

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