January 19, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF EMCURE PHARMACEUTICALS LIMITED AND REMOVES THEM FROM 'CREDIT WATCH'

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	729.86	CARE AA- (Double A Minus]	Reaffirmed, removed from credit watch
Short-term Bank Facilities	78	CARE A1+ (A One Plus)	Reaffirmed, removed from credit watch
Long-term/Short-term Bank Facilities	322	CARE AA-/CARE A1+ (Double A Minus/ A One Plus)	Reaffirmed, removed from credit watch
Total Facilities	**1129.86 (Rupees One Thousand One Hundred Twenty Nine crore and Eighty Six lakh only)**		

CARE Ratings uses the CARE's rating methodology for pharmaceutical sector for assessing the overall credit profile of Emcure Pharmaceuticals Limited.

Rating Rationale

The reaffirmation of the ratings of bank facilities of Emcure Pharmaceuticals Limited (EPL) (CIN-U24231PN1981PLC024251) takes into account the comfortable consolidated financial risk profile of the Emcure group marked by growth in the total operating income and improvement in the capital structure during FY15 (refers to the period April 01 to March 31). Furthermore, it also takes into account stabilization of operations of the group companies in various geographies.

The removal of 'credit watch' takes in to account and lower than envisaged impact of US-Food and Drug Administration (USFDA) ban on the Hinjewadi plant of EPL on the consolidated revenue and profitability of the group during H1FY16 (refers to the period April 1 to September 30) with the impact offset by growth in sales and profitability of other segments.

The ratings continue to derive strength from experience and long track record of the promoters of over three decades and accredited manufacturing facilities along with diversified product portfolio with new launches and long-term contracts with the pharmaceutical majors.

The ratings are, however, constrained by the intense competition in the generic formulations industry along with regulatory risk inherent in the pharmaceutical industry. The ratings further take a note of the ongoing debt funded capital expenditure (capex) in group companies and debt funded acquisitions of two Canadian pharmaceuticals companies.

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

The ability of the group to further increase its scale of operations by expanding its footprint in regulated markets and therapeutic segment, while maintaining its leverage and debt coverage indicators, improvement in the profitability margins and efficient management of working capital management on the back of US FDA ban are the key rating sensitivities.

Background

EPL was incorporated in April 1981 by Mr Satish Mehta and is engaged in the manufacturing of formulations and Active Pharma Ingredients (API). The company has four manufacturing facilities in Pune and one in Jammu. These facilities are accredited by regulatory authorities such as US Food and Drug Administration (USFDA), Therapeutic Goods Administration (TGA) - Australia, Canada Food & Drug Administration, etc, and are also compliant with the Current Good Manufacturing Practices (CGMP). Furthermore, the company has three dedicated Research and Development (R&D) facilities for APIs and formulations.

The group is vertically-integrated with major thrust on manufacturing and marketing of formulations (own brands) as well as APIs, Contract Research and Manufacturing Services (CRAMS) and R&D activity. The group's branded formulation business caters to the regulated as well as the semi regulated markets. The group has presence in most of the chronic therapeutic segments such as Cardiology, Nephrology, Anti-HIV, and Neurology and also has presence in acute segments such as Anti-infective, Pain Management, Dermatology, Gynecology and Pediatrics.

On April 29, 2011, EPL acquired Heritage Pharmaceuticals Inc. (HPI) through its subsidiary Emcure Pharmaceuticals Holding USA (Emcure Holding). The acquisition was through a reverse merger of Emcure Holding and Heritage Pharma Holdings Inc (holding company of HPI). Also, during December 2012, EPL acquired worldwide rights of 'BiCNU', a branded oncology product from Bristol Myers Squibb (BMS), a US-based company.
During April 2014, the group acquired a marketing company named Tillomed Holdings Limited in Europe along with its subsidiary Tillomed Laboratories Limited for an acquisition price of GBP 8.7 million. Furthermore, during November 2015, Emcure group acquired two Canada-based pharmaceuticals companies [ie, International Pharmaceutical Generics Limited (IPG) and Marcan Pharmaceuticals Inc (Marcan)] through its 100% subsidiary Emcure Pharmaceuticals Canada Inc. {Special Purpose Vehicle (SPV) formed in August 2015} for total consideration of around Canadian Dollar (CAD) 125 million to be paid over a period of five years.
The Emcure group (as on March 31, 2015) consists of twelve direct subsidiaries and six indirect (step down) subsidiaries located at various regulated and emerging markets including USA, UK, Dubai, Nigeria, Brazil, South Africa, Mexico, Peru, Turkey and Canada. It has liquidated its subsidiary located at Singapore (Emcure Pharmaceuticals Singapore PTE Ltd) with effect from February 2015. Furthermore, majority of the subsidiaries of EPL are engaged in trading and marketing of products manufactured by EPL across various geographies.

For FY15 (refers to the period April 1 to March 31), the Emcure group's consolidated total income stood at Rs.3,784.73 crore and a PAT of Rs.261.06 crore against a total income of Rs.2,906.0 crore and a PAT of Rs.267.94 crore in FY14. The lower PAT in FY15 is on account charging of one time exceptional item (prior period product development cost) amounting to Rs. 243 crore. The standalone total income of EPL stood at Rs.2,059.88 crore and a PAT of Rs.206.67 crore during FY15.

During H1FY16 (provisional) (refers to the period April 1 to June 30), the group has achieved a total income of Rs.2,188.34 crore as against Rs.1,866.95 crore in H1FY15.

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