Emcure Pharmaceuticals Limited

February 10, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	845.25	CARE AA-; Stable [Double A Minus; Outlook: Stable]	Reaffirmed
Short- term Bank Facilities	70.00	CARE A1+ [A One Plus]	Reaffirmed
Long term / Short term bank facilities	387.00	CARE AA-; Stable /CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)	Reaffirmed
Total Facilities	**1,302.25 (Rupee One Thousand Three Hundred Two Crore and Twenty Five lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The ratings assigned to the bank facilities of Emcure Pharmaceuticals Limited (EPL) (CIN-U24231PN1981PLC024251) 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, comfortable consolidated financial risk profile of the Emcure Group marked by growing scale of operations, and stable profitability during FY16 (refers to the period April 1 to March 31).

The ratings are constrained by the moderate capital structure and debt coverage indicators on account of on-going debt funded capital expenditure (capex) across the group companies as well as debt funded acquisitions, cost incurred on revamp of processes at its plants in the wake of the 'import alert' by United States Food and Drugs Administration (USFDA) impacting profit margins especially during H1FY17, intense competition in the generic formulations industry along with regulatory risk inherent in the pharmaceutical industry.

The ability of the group to further increase its scale of operations by expanding its footprint in regulated markets and across therapeutic segments and stabilize the operations of the recently acquired companies, while improving its capital structure and debt coverage indicators, improvement in the profit margins and efficient management of working capital on the back of 'import alert' issued by USFDA are the key rating sensitivities.

The outlook may be revised to 'Negative' if EPL is unable to resolve the pending regulatory issue within the envisaged time frame, as the resolution is critical for new product launches and achieving the sales growth in medium term. The outlook may also be revised to 'Negative' if there is any significant deterioration in the capital structure, which may result from unanticipated debt funded capital expenditure and/or debt funded acquisitions.

Detailed description of the key rating drivers

The Emcure group was promoted by Mr Satish Mehta (MD & CEO) who is a first generation entrepreneur. The company has a track record of over 3 decades in the pharmaceuticals industry. The Emcure group consists of the flagship company Emcure Pharmaceuticals Limited and its 13 subsidiaries and 7 indirect subsidiaries.

The group has a healthy mix of exports and domestic sales, exports accounting for about 60% of total sales. The group has a wide geographical presence with sales primarily to regulated markets like USA and UK. The group has a strong sales and marketing team both within India and outside the country. Leading customers of the group in the international market include Teva, Pfizer, Sandoz, Bristol Myers Squibb (BMS).

The company has been launching new products every year and has been acquiring companies for expansion of markets in different territories.

During FY16 (refers to the period April 1 to March 31) , the consolidated net sales of EPL increased by about 15% to Rs.4366.06 crore as compared to Rs.3784.73 crore during FY15 majorly backed by growth in sales of its US based

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

subsidiary - Heritage Pharmaceuticals Inc (HPI). During FY16, PBILDT margin improved to 25.25% as compared to 23.16% on account of change in product-sales mix which included higher volumes of branded and critical products and reduction in raw material cost in spite of higher operating costs.
The capital structure of the company saw moderation during FY16 on account of increase in debt levels to fund acquisition of the companies as well as capital expenditure (capex) at its new plant in Sanand (Gujarat) as well as expansion and automation at its plants in Hinjewadi and Kurkumbh (Pune). EPL's long term debt to equity ratio (consolidated) increased to 1.08x as on March 31, 2016, as against 0.75x as on March 31, 2015. Overall gearing stood at 1.37x as on March 31, 2016 as against 1.13x as on March 31, 2015.

Analytical approach: Consolidated
CARE has considered consolidated financials of the Emcure Group including ECL and its 13 direct and 7 indirect subsidiaries on account of exposure of EPL to group companies in terms of corporate guarantee and similar line of business and management. Furthermore, the majority of the subsidiaries of EPL are engaged in the trading and marketing of products manufactured by EPL across various geographies. As a result of inter group transactions, consolidated view has been considered.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
CARE's methodology for Pharmaceutical sector
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector

About the Company
Emcure Pharmaceuticals Limited (EPL) was incorporated in April 1981 and is engaged in manufacturing of pharmaceuticals products (mainly formulations) either on Loan License or Principal to Principal basis.
EPL is a vertically integrated company with a major thrust in areas of manufacturing and marketing of formulations (own brands) along with Active Pharmaceutical Ingredients (APIs), Contract Research and Manufacturing Services (CRAMS) as well as Research & Development (R &D) through its six R&D centers.
For FY16 (refers to the period April 1 to March 31), the Emcure group's consolidated total income stood at Rs.4366.06 crore and a PAT of Rs.515.82 crore against a total income of Rs. 3784.73 crore and a PAT of Rs.261.06 crore in FY15. The standalone total income of EPL stood at Rs.2172.38 crore and a PAT of Rs.317.96 crore during FY16.
During H1FY17 (provisional) (refers to the period April 1 to September 30), the group has achieved a total income of Rs.2216.29 crore as against Rs.2202.70 crore in H1FY16.
Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

Rating History for 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.*

Name: Ms Leena Marne
Tel: 020-4000 9019
Cell: + 91 77380 03771
Email: leena.marne@careratings.com

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

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-Term Loan	-	-	February 2021	796.22	CARE AA-; Stable
Non-Fund Based - ST-BG/LC	-	-	-	70.00	CARE A1+
Fund Based - LT/ ST-Working Capital Demand loan	-	-	-	255.00	CARE AA-; Stable/ CARE A1+
Fund Based/Non Fund Based-LT/ST	-	-	-	132.00	CARE AA-; Stable/ CARE A1+
Non-Fund Based - LT-Letter of credit	-	-	-	49.03	CARE AA-; Stable

Annexure-2: Rating History of last three years

		Current Ratings			Chronology of Rating history			
Sr. No.	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	796.22	CARE AA-; Stable	-	1)CARE AA- (09-Mar-16) 2)CARE AA- (19-Jan-16) 3)CARE AA- (Under Credit Watch) (23-Jul-15)	1)CARE AA- (27-Jan-15) 2)CARE AA- (10-Oct-14) 3)CARE A+ (03-Apr-14)	1)CARE A+ (05-Jul-13)
2.	Non-Fund Based - ST-BG/LC	ST	70.00	CARE A1+	-	1)CARE A1+ (09-Mar-16) 2)CARE A1+ (19-Jan-16) 3)CARE A1+ (Under Credit Watch) (23-Jul-15)	1)CARE A1+ (27-Jan-15) 2)CARE A1+ (10-Oct-14) 3)CARE A1 (03-Apr-14)	1)CARE A1 (05-Jul-13)

3.	Fund Based - LT/ ST-Working Capital Demand loan	LT/ST	255.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA- / CARE A1+ (09-Mar-16) 2)CARE AA- / CARE A1+ (19-Jan-16) 3)CARE AA- / CARE A1+ (Under Credit Watch) (23-Jul-15)	1)CARE AA- / CARE A1+ (27-Jan-15) 2)CARE AA- / CARE A1+ (10-Oct-14) 3)CARE A+ / CARE A1 (03-Apr-14)	1)CARE A+ / CARE A1 (05-Jul-13)
4.	Fund Based/Non Fund Based-LT/ST	LT/ST	132.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA- / CARE A1+ (09-Mar-16) 2)CARE AA- / CARE A1+ (19-Jan-16) 3)CARE AA- / CARE A1+ (Under Credit Watch) (23-Jul-15)	1)CARE AA- / CARE A1+ (27-Jan-15) 2)CARE AA- / CARE A1+ (10-Oct-14)	-
5.	Non-Fund Based - LT-Letter of credit	LT	49.03	CARE AA-; Stable	-	1)CARE AA- (09-Mar-16) 2)CARE AA- (19-Jan-16) 3)CARE AA- (Under Credit Watch) (23-Jul-15)	1)CARE AA- (27-Jan-15)	-

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

Mr. Saikat Roy
Mobile: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691