Orchid Pharma Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Facilities	427	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Short-term Bank Facilities	50	CARE A4+ (A Four Plus)	Assigned
Total Bank Facilities	**477 (Rs. Four hundred seventy seven crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Orchid Pharma Limited (Orchid) take into account the change in management and control of the company post the restructuring under National Company Law Tribunal (NCLT)-approved process. While the rating draws comfort from the new promoter's experience in the pharmaceutical industry and infusion of funds to aid the operations of the company, the ratings are constrained by the low capacity utilisation of the company's facilities and moderate debt coverage indicators. The ratings are also constrained by the concentrated product portfolio, exposure to the regulatory risk and substantial dependence on imports from China for raw materials.

The ratings draw strength from the accredited manufacturing facility of the company, well-reputed and geographically diversified customer base with presence in the regulated markets.

Rating Sensitivities

Positive Factors

- Scaling up of operations of Orchid with consistent capacity utilization above 50%
- Sustainable operating margins with PBILDT margins in excess of 20%
- Successful and timely monetising of non-core assets at the expected value, i.e., Rs.150 crore by end of March 2021

Negative Factors

- Any negative regulatory observations resulting in disruption of operations
- Any impact on the working capital management with respect to inventory availability

Detailed description of the key rating drivers

Key Rating Weaknesses

Concentrated product portfolio:

The major products of Orchid remain Cephalosporin-based APIs. In Orchid, Cephalosporin APIs contribute 90% to the total revenues in FY20 (refers to the period April 1 to March 31). The products find application in the manufacturing of anti-bacterial, anti-biotic and anti-inflammatory formulations, thereby creating high exposure to single acute therapy segment.

Low capacity utilisation:

The strained liquidity position of Orchid in the past has significantly impacted the operating levels of the units, leading to the company's output remaining at sub break-even levels. The capacity utilisation in the period 2018-2020 has continued to remain below 30% resulting in accumulated losses and cash crunch, further plummeting the level of operations. The new promoters have paid off the secured and unsecured creditors under the resolution plan approved by NCLT and have infused additional funds to the extent of Rs.40.00 crore into the company in order to ensure phased scaling up of operations. The main API plant has operated at a CU of around 30% for the last three months under the new management.

Exposure to regulatory risk:

The pharmaceutical industry is highly regulated and requires various approvals, licenses, registrations and permissions for conducting business activities. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies across countries and authorities, usually taking a minimum of six months to several years from the date of application. Any delay or failure in getting approvals for new product launch could adversely affect the business prospect of the company.

Significant dependence on China imports for raw materials: Orchid imports nearly 60% of its raw material requirements, majority of them from China. The dependence on import of key starting material (KSM) has increased from around 48% of the total purchases in FY18 to 62% in FY20. The increasing import dependency can be attributed primarily to the availability of low-cost raw materials, however, the high dependency on China for raw material procurement remains a concern in the present tense geo-political environment with China.

Key Rating Strengths

More than three decades of experience of the promoters in the pharmaceutical industry

The new promoters, the Dhanuka group, have presence in the agrochemical and pharmaceutical industries. Their experience in the pharmaceutical business comes from two companies, viz., Dhanuka Laboratories Limited (DLL) and Synmedic Laboratories. DLL operates in the API space with Cephalosporin API business accounting for 85% of the total operating income in FY20. DLL primarily operates in the non-regulated/semi-regulated markets, and acquisition of Orchid is expected to help expand the presence of the group in the regulated market space for Cephalosporin. Synmedic Laboratories, a partnership firm, operates in the formulation segment, and exports finished pharmaceutical formulations to the non-regulated markets. DLL holds a small stake in Otsuka Chemical India Pvt Ltd, where Mr. Manish Dhanuka is a director and is engaged in the manufacture of GLCE, a key raw material for manufacture of Cephalosporin and is a major supplier for Orchid.
Mr Manish Dhanuka, the Managing Director of OPL, is a chemical engineer from IIT Delhi, completing his masters in chemical Engineering from University of Akron, USA. After completing his education, he worked with Ranbaxy Labs Ltd, before starting DLL. He has more than 26 years' experience in the pharmaceutical industry.

Accredited, state–of-the-art manufacturing facility with approvals from regulated markets:

OPL has four plants with the main plant at Alathur, Chennai, being the API manufacturing unit. This plant is certified by USFDA, MHRA –UK, EDQM, and GMP for manufacture of Cephalosporin-based APIs. The Alathur API unit contributes to more than 90% to the total revenues of the company. The company has two other smaller units in Alathur which are into manufacturing of formulations for the non-regulated and domestic markets. The fourth plant is at Irrungatukotai (IKKT), Chennai, which is a non-cephalosporin formulation unit certified by USFDA. The new promoters propose to sell this unit with the aim to focus on the core API manufacturing business.

Reputed and geographically diversified customer base: Orchid being an EOU, major portion of the revenues of Orchid are from exports and the company enjoys a well-diversified geographic presence across the globe. The top 10 clients of Orchid contribute to 44% of the total revenues and geographically, the company does not have exposure of more than 10% to any particular geography.

COVID impact and Q1FY21 performance:

The operations at the unit was closed down due to the country-wide lockdown from March 24, 2020 till April 20, 2020. The company has reported Income from Operations of Rs.120.43 crore in Q1FY21 as against Rs.140.57 crore in Q1FY20. The Operating Profit (PBILDT) for Q1FY21 was Rs.20.57 crore as against operating loss of Rs.7.07 crore for the corresponding period in the previous year. The company reported cash accruals of Rs.6.99 crore for the Q1FY21.

Liquidity - Adequate

There are no scheduled debt repayments for FY21 and repayment for the term loan shall commence from FY22 onwards. The company at present does not have any working capital facilities and the cash accruals generated from operations are utilised for working capital. In Q2FY21, with realisations from current assets, the company has pre-paid Rs.37.00 crore of the term loan availed. As on August 31, 2020, the company had cash and cash equivalent of Rs.65.00 crore.

Analytical approach: Consolidated. The consolidated balance sheet of Orchid Pharma Ltd includes the following subsidiaries. The revenue contribution of these subsidiaries to the consolidated revenue is 3.52% and there are no debt in the subsidiaries.

Name of companies	% of holding
Orchid Europe Limited, UK	100%
Orchid Pharmaceuticals Inc. USA	100%
Bexel Pharmaceuticals Inc. USA	100%
Orchid Pharmaceuticals SA(Proprietory)Limited, South Africa	100%
Diakron Pharmaceuticals Inc. USA	76.65%

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's Methodology for manufacturing companies]
[Rating Methodology- Pharmaceuticals Sector]

Criteria for Short term instruments
Financial ratios - Non-Financial Sector
Liquidity analysis - Non-Financial sector
Rating Methodology – Consolidation and Factoring Linkages in Ratings

About the Company

Orchid Pharma Limited (Orchid), established in 1992, is an integrated pharmaceutical company with presence in bulk drug manufacturing and formulations. The major product of the company is Cephalosporin-based Active Pharmaceutical Ingredient (API). The company was acquired by Dhanuka Laboratories Limited (DLL) under Corporate Insolvency Resolution Process (CIRP) by The National Company Law Tribunal (NCLT) and the Resolution Plan has been implemented w.e.f. March 31, 2020. Orchid, at present, has four manufacturing facilities in Chennai. The API unit at Alathur and the unit for formulations at Irungatukottai (IKKT) are USFDA certified, while the 2 formulations unit in Alathur cater to exports to non-regulated markets and the domestic market.

Brief Financials (Rs. crore)

Year ended/ As on	FY19 (A)	FY20 (A)
Income from operations	599.98	508.04
PBILDT	-11.21	-23.39
PAT	69.42	-131.04
Overall gearing (times)	NM	0.67
Interest coverage (times)	NM	NM

A: Audited; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last 3 years: Please refer Annexure-2

Covenants of rated instrument/ facility: Not Applicable

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

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	-	-	March 2026	427.00	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	50.00	CARE A4+

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-Term Loan	LT	-	-	1)Withdrawn (02-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Sep-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (17-Apr-17)
2.	Fund-based - ST-EPC/PSC	ST	-	-	1)Withdrawn (02-Sep-20)	1)CARE D; ISSUER NOT COOPERATING* (03-Sep-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (17-Apr-17)
3.	Fund-based - LT-Term Loan	LT	427.00	CARE BB+; Stable	-	-	-	-
4.	Non-fund-based - ST-BG/LC	ST	50.00	CARE A4+	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Non-fund-based - ST-BG/LC	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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