

January 24, 2022

Aurore Life Sciences Pvt Ltd: Ratings reaffirmed, and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	80.00	64.67	[ICRA]BBB+ (Stable); reaffirmed
Working Capital Facilities	90.00	155.00	[ICRA]A2; reaffirmed/assigned
Letter of Credit/ Bank Guarantee	5.00	35.00	[ICRA]A2; reaffirmed/ assigned
Unallocated Limits	-	5.33	[ICRA]BBB+ (Stable)/[ICRA]A2; assigned
Total	175.00	260.00	

*Instrument details are provided in Annexure-

Rationale

The ratings continue to factor in Aurore Group's [Aurore Life Sciences Pvt Ltd (Aurore Life) and Aurore Pharmaceuticals Private Limited (Aurore Pharma), together referred as the Aurore Group/Aurore] healthy financial profile characterised by strong revenue growth over the past two years. The healthy product pipeline and order book position of Aurore supports its business profile and provides revenue visibility for the near term. Hydra Active Pharma Sciences Pvt. Ltd. (HAPS; 50% stake in HAPS is held by Mr. Arun Kumar's family office and the balance by iLabs Capital LLP) holds 61.7% in Aurore Life. The merger of Aurore Life and HAPS with Solara Active Pharma Sciences (Solara), which is promoted by Mr. Arun Kumar's family office is effective from April 1, 2021 and is expected to be completed by Q1 FY2023. ICRA continues to factor in the strong promoter support on the back of Mr. Arun Kumar's experience of more than three decades.

The ratings remain constrained by the increase in leverage position in H1 FY2022 due to higher working capital requirements. The debt levels¹ of Aurore Life increased to Rs. 236.8 crore as on September 30, 2021 from Rs. 165.5 crore as on March 31, 2021 due to higher working capital utilisation. The delay in approval of Covid-19 drugs (Molnupiravir) and demand slowdown for Favipiravir following the second wave led to higher inventory levels, in turn increasing the working capital debt levels. While rising Covid-19 cases and receipt of approval for Molnupiravir in December 2021 is likely to support the inventory liquidation, going forward, the timing of the same and subsequent reduction of working capital debt utilisation shall remain a key monitorable for the company's ratings. The company is also exposed to various regulatory and market risks, given the Group's supplies to regulated markets. Going forward, the timely receipt of product and facility approvals will remain a key monitorable.

The Stable outlook reflects ICRA's opinion that Aurore will continue to benefit from its experienced and strong promoter group, the healthy order book position, and its financial profile characterised by strong revenue growth.

¹ Excludes debt from Solara of Rs. 50.0 crore as on September 30, 2021; promoter debt of Rs. 1.3 crore is excluded from debt as on March 31, 2021.

Key rating drivers and their description

Credit strengths

Financial profile characterised by strong revenue growth – The Aurore Group’s financial profile is characterised by strong revenue growth over the past two years. Aurore Life’s revenues stood at Rs. 509.5 crore in FY2021 (Rs. 202.7 crore in FY2020) largely on the back of sizeable revenues from the sale of Favipiravir, which has been recommended by the Indian Council of Medical Research (ICMR) for the treatment of Covid-19 in extreme cases. The revenue growth remained stable with Rs. 258.8 crore in H1 FY2022. Aurore Pharma’s revenues were Rs. 117.4 crore in FY2021 (Rs. 77.8 crore in FY2020) on the back of healthy orders received from Mylan Laboratories and Aurore Life. In H1 FY2022, Aurore Pharma’s revenues improved to Rs. 184.2 crore on the back of additional Favipiravir orders. In the absence of US FDA approval for its Hyderabad facility owing to Covid-19 restrictions, Aurore Life is expected to cater to regulated markets from the US-FDA approved Aurore Pharma’s facility, thereby providing revenue visibility for the near term. Going forward, the revenue growth is expected to be strong on the back of increased sales post receipt of Molnupiravir approval and ramp-up in other non-Covid products.

Aurore Life’s OPM and NPM were 30.6% and 21%, respectively, in FY2021 (4.2% and 0.5%, respectively, in FY2020) on the back of the increasing scale of operations and improved capacity utilisation. The operating margins declined to 16.7% in H1 FY2022 due to substantial increase in raw material prices and lower sales contribution of Favipiravir (which generated higher margins in FY2021). Despite the moderation in the profit margins, the OPM and NPM are expected to remain comfortable in the near term.

Healthy order book position and product pipeline – Aurore Life has healthy pipeline of 40 to 45 products catering to multiple therapeutic areas and has filed 19 Drug Master Files (DMF) in the US and Europe in the last two years, which strengthens its business prospects. As on December 31, 2021, Aurore Life had confirmed orders of ~Rs. 100.0 crore, indicating a healthy order book position for the near term. Going forward, Aurore Life expects to derive revenues from various products on the back of healthy order book position and receipt of new product approvals.

Strong promoter background – Earlier, Tenshi had a 100% stake in HAPS (holding company of Aurore Life); however, in FY2020, it sold a 50% stake to iLabs Capital LLP and the balance 50% to Mr. Arun Kumar’s family office in FY2021. Mr. Kumar is the founder of Strides Pharma Science Limited (rated [ICRA]A+(Stable)/A1) and has more than three decades of experience in the pharmaceutical business. The merger of Aurore Life with Solara (listed company promoted by Mr. Kumar’s family office) effective April 1, 2021 is expected to be completed by Q1 FY2023. ICRA expects the Aurore Group to continue benefiting from the strong promoter background.

Credit challenges

Increase in leverage position in H1 FY2022 due to high working capital requirements – TD²/OPBIDTA of Aurore Life deteriorated to 2.7x as on September 30, 2021 from 1.1x as on March 31, 2021 due to incremental working capital debt and decline in operating profitability in H1 FY2022. High inventory (172 days) and debtor levels (105 days) led to high working capital intensity (NWC/OI) of 65.3% as on September 30, 2021 as against 31.7% as on March 31, 2021. The debtor days increased to 105 days as on September 30, 2021 from 79 days as on March 31, 2021 due to elongated receivable position, mainly from Thailand and Indonesia government agencies. The debtor levels are expected to stabilise by end of the fiscal. The delay in approval of Covid-19 drugs (Molnupiravir) and demand slowdown for Favipiravir following the second wave led to higher inventory of Rs. 202.8 crore as on September 30, 2021. The company is expected to liquidate its inventory by end of March 31, 2022 on the back of rising Covid-19 cases and receipt of approval for Molnupiravir in December 2021. Going forward,

² Excludes debt from Solara of Rs 50.0 crore as on September 30, 2021; promoter debt of Rs 1.3 crore is excluded from debt as on March 31, 2021

the liquidation of inventory and subsequent reduction of working capital debt utilisation shall remain a key monitorable for the company's ratings.

Exposure to various market and regulatory risks associated with the company's products – Akin to other industry players, Aurore is exposed to regulatory scrutiny and uncertainties in the approval pathway for products. Further, volatility in raw material prices, pricing pressure and intense competition in the industry will be important factors for the company's revenue as well as margin trajectory. However, an experienced promoter group with more than three decades of experience in the industry supports operational efficiencies.

Liquidity position: Adequate

The Aurore Group's liquidity position is adequate with healthy fund flow from operations, cash/liquid investments including undrawn working capital limits of ~Rs. 12.0 crore as at December 30, 2021. Average utilisation of the working capital facility was high at ~88% of the total limits sanctioned for March 2021 to December 2021. However, Aurore Life has received additional sanction of Rs. 30.0 crore of working capital limits and Emergency Credit Line Guarantee Scheme (ECLGS) loan of Rs 30.0 crore in December 2021, which support the liquidity buffer. The Group has repayment obligations of Rs. 20.0 crore in H2 FY2022, Rs. 47.0 crore in FY2023 and Rs. 50.0 crore in FY2024 on the existing debt and minimal capex outflow towards the completion of the pending capex and maintenance capex. Aurore's liquidity position is expected to remain adequate over the medium term on the back of expected healthy accruals and strong promoter support.

Rating sensitivities

Positive factors – An upward movement in the ratings could be triggered by the sustained growth in revenues coupled with the sustenance of healthy profit margins. Additionally, an upward movement in the ratings could occur on an improvement in the debt coverage metrics on a sustained basis.

Negative factors – Pressure on the ratings could arise with a sharp deterioration in the credit profile of the company owing to any large debt-funded capex or investments. Additionally, pressure on the ratings could arise on a significant decline in revenues leading to the deterioration of the profit margins on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of Aurore Life and Aurore Pharma, together referred as the Aurore Group/Aurore. Aurore Life had a 67% stake in Aurore Pharma as on March 31, 2021.

About the company

Aurore Life commenced its operations from September 2016 with three independent research and development (R&D) centres in Hyderabad. It targeted domestic and semi-regulated markets like Indonesia, Bangladesh, Iran and Egypt. Post R&D, the manufacturing is typically outsourced to other companies, impacting its margins in the last few years. To mitigate this, Aurore Life acquired a manufacturing plant in FY2019, where it is manufacturing intermediates and active pharmaceutical ingredient (API) for semi-regulated market pending regulatory approvals. The facility has recently received approval from European Medical Agency (EMA) for some products. The current capacity of the facility is 400 KL. At present, Aurore Life utilises Aurore

Pharma's facility for manufacturing some of its own products. The company will be merged with Solara Active Pharma to form India's second largest pure-play API/ contract research and manufacturing services (CRAMS) player with the deal expected to close by Q1 FY2023.

Established in 2017, 67% stake in Aurore Pharma is held by Aurore Life, while Mr. Dayakar Mallu holds the balance stake of 33%. Aurore Pharma acquired a US FDA-approved API manufacturing plant from Mylan in H1 FY2019 for a consideration of Rs. 151.0 crore. In the near term, Aurore Pharma will provide contract manufacturing services to Aurore Life and Mylan. Over the long term, Aurore Pharma is expected to cater to regulated markets like the US, Europe and Japan.

Key financial indicators (audited)

Aurore Life	FY2019	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	105.4	202.7	509.5	258.8
PAT (Rs. crore)	-14.9	1.0	107.0	20.6
OPBDITA/OI (%)	-12.2%	4.2%	30.6%	16.7%
PAT/OI (%)	-14.1%	0.5%	21.0%	8.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.9	1.5	2.0
Total Debt/OPBDITA (times)	NM	11.8	1.1	3.3
Interest Coverage (times)	NM	1.2	11.5	4.1

Source: Company, ICRA research; **Note:** Amount in Rs. crore; All calculations are as per ICRA research; * Abridged Provisional Financials
PAT: Profit after Tax; **OPBDITA:** Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
				January 24, 2022	Apr 22, 2021		Mar 25, 2020	Jul 8, 2019	
1 Term Loans	Long Term	64.67	64.67	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB(SO) (Stable)	-
2 Working Capital Facilities	Short Term	155.00	--	[ICRA]A2	[ICRA]A2	-	[ICRA]A3(CE)	[ICRA]A3+(SO)/ Provisional [ICRA]A3+(SO)	-
3 Letter of Credit/ Bank Guarantee	Short Term	35.00	--	[ICRA]A2	[ICRA]A2	-	[ICRA]A3(CE)	[ICRA]A3+(SO)	-
4 Unallocated Limits	Long Term/Short Term	5.33	--	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Working Capital Facilities	Simple
Letter of Credit/ Bank Guarantee	Very Simple
Unallocated Limited	--

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2019 – FY2021	9.5% - 10%	FY2025-26	64.67	[ICRA]BBB+ (Stable)
NA	Working Capital Facilities	FY2021	9.5% - 10%	--	155.00	[ICRA]A2
NA	Letter of Credit/ Bank Guarantee	FY2021	9.5% - 10%	--	35.00	[ICRA]A2
NA	Unallocated	--	--	--	5.33	[ICRA]BBB+ (Stable)/[ICRA]A2

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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