

September 12, 2024^(Revised)

Aurore Pharmaceuticals Private Limited: Ratings downgraded to [ICRA]BB- (Stable)/ [ICRA]A4 and removed from Issuer Non Cooperating Category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	91.72	24.29	[ICRA]BB- (Stable); downgraded from [ICRA]BB+ (Stable) and removed from 'Issuer Not Cooperating' category
Long Term – Fund based	22.50	22.50	[ICRA]BB- (Stable); downgraded from [ICRA]BB+ (Stable) and removed from 'Issuer Not Cooperating' category
Short Term – Fund Based/ Non-fund based Interchangeable #	(22.50)	(22.50)	[ICRA]A4; downgraded from [ICRA]A4+ and removed from 'Issuer Not Cooperating' category
Total	114.22	46.79	

*Instrument details are provided in Annexure-I

sub-limit of long-term fund-based

Rationale

ICRA has taken a consolidated view of Aurore Life Sciences Pvt. Ltd. (Aurore Life) and Aurore Pharmaceuticals Private Limited (Aurore Pharma), together known as the Aurore Group/Aurore, for arriving at the ratings, given the operational and financial synergies among the entities.

The rating action takes into account the Group's weak financial profile, characterised by cash losses, high leverage, weak debt metrics, negative net worth and stretched liquidity position. ICRA notes the Group's significant improvement in its operating performance in FY2024, resulting in operating profit margin (OPM) of 11.7%, supported by the scale-up of products approved at the end of FY2023. However, this improvement has not been adequate to restore the Group's financial profile.

The Group has sizeable debt repayments of ~Rs. 190 crore (including short-term debt) in FY2025, which are expected to be funded through the issuance of non-convertible debentures (NCD) amounting to Rs. 250 crore by the end of September 2024. Timely raising of these funds is critical for improving the entity's liquidity position. The Group has experienced significant volatility in earnings over the past few years. Timely receipt of new product approvals and the ability to scale up sales of these products remain critical for improving the Group's earnings. The ratings also consider the entity's high working capital intensity, which, coupled with cash losses, has resulted in a sustained increase in consolidated debt, rising to Rs. 525.7 crore as on March 31, 2024 from Rs. 238.7 crore as on March 31, 2020. Additionally, the ratings take into account the Group's exposure to various industry-wide regulatory and market risks inherent in the pharmaceutical industry. The ratings also factor in the financial support available to the Aurore Group from the promoter (Tenshi) Group, and ICRA expects the promoter Group to continue providing need-based funding support.

The Stable outlook on the long-term rating reflects ICRA's opinion that Aurore Group will be able to improve its earnings, supported by the receipt of new product approvals and will adhere to its repayment obligations in a timely manner.

Key rating drivers and their description

Credit strengths

Financial support from the promoter Group supporting Aurore Group's funding requirements: The Aurore Group benefits from being a part of the Tenshi Group, which has been providing need-based funding support to the entity. In FY2024, the Group received sizeable funds of ~Rs. 120 crore from the promoters to help meet its funding requirements. The Group received an additional Rs. 70 crore in the current financial year from the Tenshi Group. ICRA expects Tenshi Group to continue providing need-based funding support to Aurore Group, and this is a key monitorable.

Product approvals are expected to support revenue growth: The Group witnessed a revenue decline of ~43% in FY2023, owing to the waning demand for Covid-related products and lower revenues for non-Covid products, as regulatory approvals for some products were pending. However, the Group started receiving approvals from the end of FY2023, which supported the significant YoY revenue growth of 47% in FY2024 to Rs. 472.3 crore. This was supported by the sale of products like Erdosteine, Pinaverium, Valacyclovir, among others. The Aurore Group has received approvals for additional few products, the sales of which will support the Group's revenue growth. Timely receipt of new product approvals and the ability of the Group to scale up sales of these products remain critical for the improvement in its earnings.

Credit challenges

Weak financial profile characterized by cash losses, high leverage, weak debt metrics, negative net worth and stretched liquidity position: The Group's debt metrics remain weak, even though it reported revenue growth of ~47% in FY2024 with improvement in OPM to 11.7% against operating losses in FY2023. The total debt of Aurore Group increased from Rs. 475.3 crore as on March 31, 2023, to Rs. 525.7 crore as on March 31, 2024. The company also raised short-term debt of Rs. 120 crore through NCDs and from other related parties to meet the funding requirements in FY2024. The Group has further raised debt of ~Rs. 115 crore in the current fiscal comprising Rs. 40.0 crore of NCDs from existing lenders and Rs. 75.0 crore of ICDs from Tenshi. The leverage of the Group remains high, with a total debt/OPBITDA of 9.5x as on March 31, 2024, and its net worth remains negative owing to the accumulated cash losses.

High refinancing risk due to significant debt repayments: The Group faces high refinancing risk with repayment obligations of ~Rs. 190 crore (including short-term debt) due in FY2025. The same is expected to be funded through the issuance of an NCD amounting to Rs. 250 crore by the end of September 2024. Timely raising of these funds is critical for improving the liquidity position of the entity. Further, the Group has scheduled repayment of Rs. 44.6 crore in FY2026 and Rs. 31.4 crore in FY2027. Timely infusion of funds to meet the funding requirements (including debt repayment) will remain a key monitorable going forward.

Volatility in earnings over the last several years: The Group has faced significant volatility in earnings over the past few years. In FY2021, it witnessed significant revenue growth and marginal growth was realised in FY2022, supported by sale of Covid products, following which revenues declined substantially in FY2023. However, in FY2024, the company again witnessed a substantial revenue growth of ~47%, supported by the increased sales of non-Covid products like Erdosteine, Pinaverium, Valacyclovir, among others. Accordingly, the Group, after reporting a strong OPM of 29.9% in FY2021, reported operating losses in FY2022 and FY2023. The Group's improved operating performance (on the back of increase in non-covid revenue) in FY2024 led to an enhancement in OPM of 11.7%.

High working capital intensity of operations on account of elevated debtors and inventory: As on March 31, 2023, the Group's inventory days increased to 261 days compared to 133 days as on March 31, 2022. This was mainly due to the sales return of products like Celecoxib, and the cancellation of orders from some customers due to delays in approvals. The same improved to 198 days as on March 31, 2024, however, it remains high. Besides, debtor days also increased to 160 days as on March 31, 2024, from 82 days as on March 31, 2022. As on March 31, 2024, the working capital intensity remained high at 21.3% due to elevated inventory and debtor days.

Exposure to various market and regulatory risks associated with the Group's products: Akin to other industry players, Aurore Group 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 driving the Group's revenues as well as margin trajectory.

Liquidity position: Stretched

The Group's liquidity position is stretched on the back of negative fund flow from operations (after considering interest cost) and large debt repayments, while it had marginal free cash and bank balance of ~Rs. 0.8 crore and a limited buffer in its working capital facilities of ~Rs. 7 crore as on June 30, 2024. The average utilisation of the working capital facility was high at ~97% of the total limits sanctioned for the period from June 2023 to June 2024. The Group has total debt repayment obligations of ~Rs. 190 crore in FY2025 (including short-term debt). The same is proposed to be funded through the Rs. 250 crore NCD being raised. Going forward, the Group has repayment obligations of Rs. 44.6 crore in FY2026 and Rs. 31.4 crore in FY2027. It has a minimal capex outflow of Rs. 15 crore per annum for maintenance operations. Overall, the Group receives funding support from the Tenshi group, as and when required, and the timely infusion of funds from the promoter Group will remain key monitorable going forward.

Rating sensitivities

Positive factors – The rating could be upgraded in case of a significant improvement in the liquidity position and capital structure of the Group supported by material deleveraging, driven by sustained improvement in earnings and/or sizeable equity infusion.

Negative factors– Pressure on the ratings could arise if the company is unable to sustain the improved performance and/or non-liquidation of existing inventory results in a deterioration of the Group's credit profile. Additionally, any delayed infusion of funds to meet the Group's funding requirements (including debt repayments) will also impact the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Aurore Life Sciences Private Limited. As on March 31, 2024, it had two subsidiaries which are mentioned in Annexure II.

About the company

Aurore Life Sciences Private Limited commenced its operations in September 2016 with three independent research and development (R&D) centres in Hyderabad, targeting domestic and semi-regulated markets like Indonesia, Bangladesh, Iran and Egypt. The company acquired Eshwar Pharmaceuticals Ltd.'s (Eshwar) GMP-approved manufacturing plant in FY2019 in Kazipally, Hyderabad, where it produces intermediates and active pharmaceutical ingredients (API) for semi-regulated markets. The present capacity of the facility is 388 KL. As on March 31, 2024, Hydra Active Pharma Sciences (HAPS, a Tenshi

Group company), holds a 62% equity stake in Aurore Life, while the balance is held by its erstwhile promoter, Mr. Rajender Rao, and a few others.

Aurore Pharmaceuticals Private Limited was established in 2017 as Sphery Life Sciences Private Limited. It provides contract manufacturing services to formulation manufacturers. As on date, Aurore Life holds a 100% stake in Aurore Pharma.

Key financial indicators*

Standalone	FY2023	FY2024
Operating income	322.1	472.3
PAT	-135.7	-31.5
OPBDIT/OI	-19.2%	11.7%
PAT/OI	-42.1%	-6.7%
Total outside liabilities/Tangible net worth (times)	-9.4	-7.1
Total debt/OPBDIT (times)	-7.7	9.5
Interest coverage (times)	-1.3	0.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, *Consolidated numbers are not audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)						Chronology of rating history for the past 3 years					
			FY2025			FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sep 12, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	24.29	[ICRA]BB-(Stable)	28-JUN-2024	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	-	-	09-JUN-2022	[ICRA]BBB (Negative)	22-APR-2021	[ICRA]BBB+(Stable)
				-	-	-	-	24-MAR-2023	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	-	-
Long term-cash credit-fund based	Long Term	22.50	[ICRA]BB-(Stable)	28-JUN-2024	[ICRA]BB+(Stable) ISSUER NOT COOPERATING	-	-	09-JUN-2022	[ICRA]BBB (Negative)	22-APR-2021	[ICRA]BBB+(Stable)
				-	-	-	-	24-MAR-2023	[ICRA]BB+(Stable) ISSUER NOT	-	-

									COOPERA TING		
Short term- others- interchan geable*	Short Term	(22.50)	[ICRA]A4	28- JUN- 202 4	[ICRA]A4+ ISSUER NOT COOPERA TING	-	-	09- JUN- 2022	[ICRA]A3+	22- APR- 2021	[ICRA]A2
				-	-	-	-	24- MAR- 2023	[ICRA]A4+ ISSUER NOT COOPERA TING	-	-

*- Interchangeable with fund based/non-fund based

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Fund-based bank facilities	Simple
Fund based/ non-fund based	Very Simple

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2019	10.85% - 11.6%	FY2025-26	24.29	[ICRA]BB- (Stable)
NA	Fund based	FY2021	4.5% - 11.75%	--	22.50	[ICRA]BB- (Stable)
NA	Fund based/ non-fund based*	FY2021	4.5% - 11.75%	--	(22.50)	[ICRA]A4

Source: Company, *- Interchangeable with fund based/non-fund based

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

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

Company Name	Ownership	Consolidation Approach
Aurore Pharmaceuticals Private Limited	100.0%	Full Consolidation
Empyrean Life Sciences Private Limited	100.0%	Full Consolidation

Source: Company: ownership as on date

Corrigendum

Rationale dated September 12, 2024, has been corrected with revisions as detailed below:

In the Key Financial Indicators table, PAT/OI (%) has been corrected.

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