

April 22, 2021 ^{Revised}

Aurore Life Sciences Pvt Ltd: Ratings upgraded to [ICRA]BBB+/[ICRA]A2; Outlook revised to Stable and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	30.00	80.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB-(CE) (Negative); Outlook revised to Stable from Negative
Short Term – Fund Based	30.50	90.00	[ICRA]A2; upgraded from [ICRA]A3(CE)
Short Term – Non-fund Based	5.00	5.00	[ICRA]A2; upgraded from [ICRA]A3(CE)
Total	65.50	175.00	

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned.

Rationale

ICRA has taken a consolidated view of Aurore Life Sciences Pvt Ltd (Aurore Life) and Aurore Pharmaceuticals Private Limited (Aurore Pharma), together referred as the Aurore Group/Aurore. Aurore Life had a 67% stake in Aurore Pharma as on December 31, 2020.

The upgrade in ratings factors in the improvement in the operational and financial profile of Aurore Group on the back of strong revenue growth driven by sizeable revenues from the sale of Favipiravir and increasing demand for Aurore's other products (niche products with higher margins). ICRA also notes that the same has resulted in an improvement in its profit margins and credit metrics, and ICRA expects the same to sustain over the medium-term. The company's credit facilities continue to be backed by a corporate guarantee provided by Tenshi Life Sciences Private Limited (Tenshi; rated [ICRA]BBB-(Negative)/ [ICRA]A3); however, the same no longer provides an additional notching support to Aurore's ratings following an improvement in Aurore's own credit profile. In effect, the analytical approach stands changed with the ratings that were earlier backed by third-party explicit support (corporate guarantee provided by Tenshi), are now based on standalone (unsupported) considerations. ICRA notes that Tenshi has divested its total stake in Hydra Active Pharma Sciences Pvt Ltd (HAPS) through which it had held the Aurore Group. Tenshi sold a 50% stake to iLabs Capital LLP in FY2020 while the balance 50% was sold to Mr. Arun Kumar's family office in FY2021. Despite the change in the shareholding, ICRA continues to factor in the strong promoter support on the back of Mr. Kumar's experience of more than three decades. The upgrade in the ratings favourably factors in the Aurore Group's healthy financial profile characterised by strong revenue growth, healthy margins and comfortable credit metrics in 9M FY2021. In 9M FY2021, Aurore Life witnessed revenues of Rs. 404.0 crore, while Aurore Pharma witnessed Rs. 87.5-crore revenues (Rs. 202.7 crore and Rs. 77.8 crore in FY2020, respectively). Aurore Life's operating profit margin (OPM) and net profit margin (NPM) improved to 31.8% and 25.3%, respectively, in 9M FY2021 (4.2% and 0.5%, respectively, in FY2020) on the back of the increasing scale of operations coupled with a favourable product mix. The ratings consider the availability of the US Food and Drug Administration (FDA)-approved 330 KL active pharmaceutical ingredient (API) manufacturing facility in Hyderabad under Aurore Pharma, which provides revenue visibility for the near term.

The ratings remain constrained by the delay in receiving regulatory approvals for Aurore Life's API manufacturing facility in Hyderabad. The ratings are also exposed to various regulatory and market risks, given the Aurore Group's operations in regulated markets. Going forward, the timely receipt of product and facility approvals will remain a key monitorable.

ICRA also notes the recent announcement of the merger of the Aurore Group and HAPS with Solara Active Pharma Sciences Limited, which is promoted by Mr. Kumar's family office. The merger is effective from April 1, 2021 and is expected to be completed by Q4 FY2022. The existing shareholders of the Aurore Group will hold 27% in the merged entity. In the near term, the Aurore Group is likely to utilise Solara's new facility in Vizag for additional manufacturing requirements.

The Stable outlook on the Aurore Group's [ICRA]BBB+ rating reflects ICRA's opinion that Aurore will continue to benefit from its experienced and strong promoter group, the healthy order book position which supports its revenues, and its healthy financial profile with healthy margins and comfortable credit metrics.

Key rating drivers and their description

Credit strengths

Financial profile characterised by strong revenue growth, healthy margins and improved debt metrics in 9M FY2021 – The Aurore Group's financial profile is characterised by strong revenue growth, healthy operating and net margins and improved credit metrics in 9M FY2021. Aurore Life's revenues were Rs. 404.0 crore in 9M FY2021 (Rs. 202.7 crore in FY2020) 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. Additionally, the company derived healthy revenues from the sale of other products in 9M FY2021. Aurore Life's OPM and NPM were 31.8% and 25.3%, respectively, in 9M FY2021 (4.2% and 0.5%, respectively, in FY2020) on the back of the increasing scale of operations, improved capacity utilisation and its product profile (niche products with higher margins). Aurore Pharma's revenues were Rs. 87.5 crore in 9M FY2021 (Rs. 77.8 crore in FY2020) on the back of healthy orders received from Mylan Laboratories and Aurore Life. Going forward, at the Group level, Aurore is expected to witness healthy revenue growth on the back of its healthy order book position. Despite the expected moderation in the profit margins, the OPM and NPM are expected to remain healthy in the near term.

Aurore Life's credit metrics were comfortable in 9M FY2021 with a gearing of 0.6 times as on December 31, 2020 (1.1 times as on March 31, 2020). Aurore Life's TD/ OPBDITA and interest coverage improved to 0.7 times and 13.2 times, respectively, on the back of healthy operating accruals (11.8 times and 1.2 times, respectively, in FY2020). Going forward, the Aurore Group's coverage metrics are likely to remain healthy on the back of expected healthy operating accruals, which are expected to support the accretion to reserves, which, in turn, will support Aurore's capitalisation indicators.

US FDA-approved API manufacturing plant of Aurore Pharma provides revenue visibility for the near term – Aurore Pharma has a US FDA-approved 330-KL API manufacturing facility in Hyderabad, which provides visibility for the Group's revenues. Aurore Life has a ~400-KL API manufacturing facility in Hyderabad, which is yet to receive US FDA approval. Earlier, Aurore Life was dependent on external contract manufacturers for manufacturing APIs while it manufactured intermediates at its own facility. In FY2021, Aurore Life utilised Aurore Pharma's US FDA-approved facility for manufacturing APIs, thereby reducing its dependency on external contract manufacturers. Going forward, a similar arrangement is expected to continue providing visibility for the Group's revenues despite the expected potential delays in the receipt of regulatory approvals for its new facilities owing to the increasing Covid-19 cases.

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. 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. Despite the change in the shareholding, the company will likely benefit from its promoters. Effective April 1, 2021, the Aurore Group was merged with Solara (listed company promoted by Mr. Kumar's family office) with the

merger expected to be completed by Q4 FY2022. ICRA expects the Aurore Group to continue benefiting from the strong promoter background despite the changes in the shareholding of the company.

Credit challenges

Delay in regulatory approvals for manufacturing facility in Hyderabad – Aurore Life completed the Phase 1 capacity expansion of its Hyderabad facility in Q1 FY2021 with available capacity of ~200 KL. However, due to the ongoing Covid-19 pandemic, US FDA approval for the facility has not yet been received. A further delay is expected in receiving the approvals owing to the rising Covid-19 cases in recent times. In FY2021, Aurore Life utilised Aurore Pharma’s 330-KL US FDA-approved facility for manufacturing APIs, thereby catering to regulated markets. Going forward, in the absence of regulatory approval, Aurore is expected to cater to regulated markets with similar arrangements (Aurore Pharma’s facility), thereby providing revenue visibility for the near term.

Exposure to various market and regulatory risks associated with the products developed by the company – In line with the industry, the company faces regulatory concerns in the regulated markets. Further, pricing pressure and intense competition in the API manufacturing 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 in 9M FY2021 and cash balances of Rs. 45 crore as on April 14, 2021. Aurore had a working capital buffer of ~Rs. 15 crore as on March 31, 2021 (against sanctioned limits of Rs. 117.5 crore). The Group has repayment obligations of Rs. 37.3 crore in FY2022, Rs. 44.2 crore in FY2023 and Rs. 45.4 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, existing cash balances 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 December 31, 2020.

About the company

Aurore Life 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. Post R&D, the company outsources manufacturing to other companies, which has impacted its margins in the last few years. To mitigate this, Aurore Life acquired a manufacturing plant in FY2019, where it is currently manufacturing intermediates as it awaits regulatory approvals for manufacturing APIs. The current capacity of the facility is 400 KL. At present, Aurore Life utilises Aurore Pharma's facility for manufacturing 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 Q4 FY2022.

Aurore Pharmaceuticals Private Limited was established in 2017 as Sphery Life Sciences Private Limited. A 34.89% stake in the company was acquired by Tenshi in FY2019 through its step-down subsidiary, HAPS. Following this, the company's name was changed to Aurore Pharmaceuticals Private Limited, in line with its sister company Aurore Life Sciences Pvt Ltd. Aurore Pharma had acquired a US FDA-approved API manufacturing plant from Mylan in H1 FY2019 for a consideration of Rs. 151 crore. As a part of the acquisition agreement, the company will supply only to Mylan for two years after which it is expected to add new customers. Over the near term, Aurore Pharma will provide contract manufacturing services to Aurore Life and Mylan. Over the longer term, Aurore Pharma is expected to cater to regulated markets like the US, Europe and Japan.

Key financial indicators (audited)

Aurore Life	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	105.4	202.7	404.0
PAT (Rs. crore)	-14.9	1.0	102.3
OPBDIT/OI (%)	-12.2%	4.2%	31.8%
PAT/OI (%)	-14.1%	0.5%	25.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.9	1.3
Total Debt/OPBDIT (times)	NM	11.8	0.7
Interest Coverage (times)	NM	1.2	13.2

Source: Company, ICRA research; **Note:** Amount in Rs. crore; All calculations are as per ICRA research; NM – Not meaningful; * Provisional financials
PAT: Profit after Tax; OPBDIT: 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, 2020 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
							Apr 22, 2021	Mar 25, 2020	
1	Term Loans	Long Term	80.00	40.20	[ICRA]BBB+ (Stable)	-	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB(SO) (Stable)	-
2	Fund-based Bank Facilities	Short Term	90.00	--	[ICRA]A2	-	[ICRA]A3(CE)	[ICRA]A3+(SO)/ Provisional [ICRA]A3+(SO)	-
3	Non-fund Based	Short Term	5.00	--	[ICRA]A2	-	[ICRA]A3(CE)	[ICRA]A3+(SO)	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2019 – FY2021	9.5% - 10%	FY2025-26	80.00	[ICRA]BBB+ (Stable)
NA	Fund based	FY2021	9.5% - 10%	--	90.00	[ICRA]A2
NA	Non-fund based	FY2021	9.5% - 10%	--	5.00	[ICRA]A2

Source: Company

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

Corrigendum

Document dated April 22, 2021 has been corrected with revisions as detailed below:

- The 2nd paragraph in page 1 has been revised
- The 2nd paragraph in page 2 has been revised.
- The sub-section, consolidation/ standalone in the table on Analytical Approach in page 3 has been revised

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