

May 15, 2020

## Pure & Cure Healthcare Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	107.00	107.00	[ICRA]A+(Stable); Reaffirmed
Term Loans	95.32	56.18	[ICRA]A+(Stable); Reaffirmed
Fund-based - Working Capital Facilities	10.00	10.00	[ICRA]A1+; Reaffirmed
<b>Total</b>	<b>212.32</b>	<b>173.18</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings reaffirmation of Pure & Cure Healthcare Private Limited (PCHPL) continues to factor in the stable operational performance of PCHPL and its strong linkages with its parent entity, Akums Drugs & Pharmaceutical Limited (ADPL). PCHPL continued to register a healthy growth in revenues in FY2020, aided by the established track record of the Akums Group (PCHPL's parent Group) as a leading contract manufacturer for major pharmaceutical companies. Strong customer relationships and product development strengths have enabled the company to sustain its market share, despite the increase in competitive intensity post the implementation of the Goods and Services Tax (GST), which led to dilution of excise exemption benefits at its key manufacturing sites. The ratings note PCHPL's continued diversified customer profile, which includes leading pharmaceutical companies. It continues to focus on gaining incremental business and increase its share of exports to further diversify its revenue profile.

Besides the operational synergies, PCHPL also enjoys financial support from ADPL (unsecured loans of ~Rs. 74.9 crore as on March 31, 2020), which help it limit its dependence on external borrowings. PCHPL continues to benefit from healthy financial risk profile, characterised by a conservative capital structure and healthy debt coverage indicators. Further, the company has also benefitted from the infusion of Rs. 320.0 crore private equity (PE) funds in ADPL, by a Singapore-based healthcare focussed PE firm, Quadria Capital (QC), in November 2019. The funds were utilised to repay the Group's working capital borrowings (~Rs. 240.0 crore) and clear its tax related dues (~Rs. 20.0 crore). The management plans to utilise the rest to fund its growth plans. While PCHPL's cash accruals are likely to be sufficient to meet its funding requirement over the medium term, the availability of ADPL's financial support provides comfort.

The COVID-19 pandemic in China had led to disruptions in the supply chain of the pharmaceutical industry during January–February 2020. However, with the gradual lifting of lockouts in China, the API supply chain is gaining normalcy. Further, the ongoing pandemic continues to impact the Indian pharmaceutical industry owing to the nationwide lockdown affecting the transportation and logistics of key raw materials and products. Nevertheless, as the demand prospects of the industry continue to remain healthy, this has had a limited impact on ADPL's performance during the period, aided by its comfortable inventory position of API requirements. Going forward, the impact of the pandemic on the demand prospects in the pharmaceutical sector are likely to remain limited. ICRA would continue to assess the same as more clarity emerges.

The ratings remain constrained by moderation in the company's operating profitability as its OPBITDA margins reduced by around 130bps to 13.3% in FY2020 from 14.6% in FY2019, owing to increase in competitive headwinds post GST implementation, which led to dilution of excise exemption benefits at its key manufacturing sites. The impact of any regulatory interventions (such as the expansion of the National List of Essential Medicines, or NLEM, and ban on certain

formulations) on the prospects of the contract manufacturing business in India remains a concern and would continue to be monitored. Nonetheless, the industry's long-term growth prospects are expected to remain healthy driven by increased penetration and product launches, which are likely to provide strong growth opportunities for PCHPL and the Akums Group.

ICRA maintains a stable outlook on PCHPL's ratings as the company is expected to continue to benefit from the established relationships with its customers. It is also expected to record a healthy revenue growth over the medium term, while maintaining a strong financial risk profile. Access to financial support from its parent entity, ADPL, is expected to help support the company's credit profile.

## Key rating drivers and their description

### Credit strengths

**Financial support from parent** - PCHPL is a wholly owned subsidiary of ADPL, a leading contract manufacturer in the country. The company was set up to shift the non-beta lactum business from one of ADPL's units, post expiry of the excise exemption benefits. Besides the operational synergies, PCHPL also enjoys financial support from ADPL (loans and advances of Rs. 74.9 crore as on March 31, 2020), which has helped it limit its dependence on external borrowings. As of March 31, 2020, PCHPL had a total external debt of Rs. 106.0 crore over Rs. 143.4 as of March 31, 2019. While PCHPL's cash accruals are likely to be sufficient to meet its funding requirement over the medium term, the availability of ADPL's financial support provides comfort.

**Healthy financial risk profile** - PCHPL's capital structure remains comfortable with limited reliance on external debt and healthy cash accruals (estimated gearing of 0.6 time as on March 31, 2020). A moderate operating profitability, coupled with a conservative capital structure, helped the company maintain healthy debt coverage indicators, with estimated interest coverage of 6.1 times, NCA/Total Debt of 38.0% and Total Debt/OPBDIT of 1.9 times in FY2020. Over the medium term, with repayment of its term loans funded from PE infusion at ADPL and anticipated healthy cash accruals, the company's financial risk profile is anticipated to improve further.

**Diversified customer profile results in limited customer concentration risk** - The Akums Group maintains strong relationships with its clientele, which comprises pharmaceutical companies with strong market presence. PCHPL's client base is well-diversified across established pharmaceutical entities, with its top 10 customers generating ~36% of its revenues during April–December in FY2020. Additionally, repeat contracts with most of its customers and the long development periods involved in the industry (owing to site audits, process validations and technology transfers) provide comfort.

### Credit challenges

**Exposure to highly competitive generic pharmaceutical industry** – The company remains exposed to intense competition owing to the fragmented generic pharmaceutical market. Further, the increase in competitive headwinds, post the elimination of benefits available in excise/tax-free zones after GST implementation has led to pressure on margins. In FY2020, the company's OPBITDA margins reduced by ~130bps to 13.3% from 14.6% in the previous year. However, its ability to sustain its market share with well-established customer relationships and continued advancements in technological capabilities provide comfort.

**Low geographic diversity** – PCHPL has remained focused on the domestic generic pharmaceutical business with nearly all its revenue being generated from the domestic market. However, the management is looking forward to increasing the Group's share of exports in the near-to-medium term by penetrating into the regulated international pharmaceutical market.

**Exposure to regulatory changes may curtail growth of the domestic pharmaceutical market** - The growth of the domestic pharmaceutical industry has been impacted to an extent by regulatory interventions/policies, such as the ban on fixed dose combinations (FDCs). Regulatory changes like the expanded National List of Essential Medicines (NLEM) could continue to have a negative bearing on the growth prospects of the industry and may constrain the Group's revenue growth prospects. Overall, even as demand in the pharmaceutical industry is likely to remain healthy, led by an increasing spend on healthcare and various government launched healthcare policies, increased regulatory interventions remain a concern.

### Liquidity position: Adequate

PCPHL's liquidity position remains adequate, characterised by positive retained cash flows (Rs. 16-20 crore in FY2020) and moderate utilisation of Rs. 107.0 crore working capital limits (average utilisation of ~25-27%). PCHPL is expected to have debt repayments of ~Rs. 41.7 crore and capex of ~Rs. 12-15 crore in FY2021 (capex plans remain flexible and may be revised lower in line with demand), which remain adequately funded through available sources of cash. Further, significant financial support extended by the parent entity in the form of unsecured loans provides comfort.

### Rating sensitivities

**Positive triggers** – The rating of the company could be upgraded if there is an upliftment in the parent's (i.e., ADPL's) credit profile. Significant improvement in the company's business risk profile, while it continues to maintain its strong credit metrics, could also trigger an upgrade.

**Negative triggers** – PCPHL's ratings could be downgraded if there is a deterioration in the parent's credit profile or the linkages between the entities are weakened. Additionally, deterioration in the company's credit/liquidity profile could also trigger a rating downgrade.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Pharmaceutical Industry</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a>
Parent/Group Support	The rating assigned to PCHPL factors in the moderate likelihood of its parent, ADPL, extending financial support to it because of the close business linkages between them. ICRA also expects ADPL to be willing to extend financial support to PCHPL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

### About the company

Incorporated in 2005, PCHPL was established to manufacture pharmaceuticals products out of a manufacturing facility in Haridwar (Uttarakhand), which enjoyed excise duty exemption till March 2020. In May 2013, the company was acquired by ADPL, thus becoming a 100% subsidiary of the latter. Post the acquisition, the management of ADPL shifted the manufacturing facility of PCHPL to a separate plot of land and set up units compliant with various international manufacturing practices. The upgraded plant commenced commercial production from July 2014.

The company has capacities to manufacture tablets, capsules, soft gelatin, dry syrups, liquid orals, pre-filled syringes, and eye and ear drops, among other similar products. The promoters of the Akums Group have significant experience in the

pharmaceutical industry through multiple entities involved in manufacturing and marketing pharmaceutical products. In addition to its facility in Haridwar (Uttarakhand), the company also has a smaller facility in Guwahati (Assam).

### Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	623.5	680.5
PAT (Rs. crore)	52.2	43.8
OPBDIT/OI (%)	16.5%	14.6%
RoCE (%)	22.7%	18.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.2
Total Debt/OPBDIT (times)	1.9	2.0
Interest Coverage (times)	5.4	4.9
DSCR	4.7	2.6

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					15-May-2020	-	27-Feb-2019	01-Mar-2018
1	Fund-based- Working Capital Facilities	Long Term	107.00	-	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Term Loans	Long Term	56.18	44.89	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Fund-based- Working Capital Facilities	Short Term	10.00	-	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

Amount in Rs. crore

### 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 [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	49.00	[ICRA]A+ (stable)
NA	Cash Credit	NA	NA	NA	58.00	[ICRA]A+ (stable)
NA	Term Loans	April 2019	-	Jun 2020	6.66	[ICRA]A+ (stable)
NA	Term Loans	April 2019	-	Sep 2021	34.52	[ICRA]A+ (stable)
NA	Term Loans	Aug 2018	-	Feb 2021	15.00	[ICRA]A+ (stable)
NA	Fund-based Overdraft Facility	NA	NA	NA	10.00	[ICRA]A1+

Source: Pure & Cure Healthcare Private Limited

### Annexure-2: List of entities considered for consolidated analysis – NA

## Analyst Contacts

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Shamsher Dewan**

+91 124 4545 328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Rohan Kanwar Gupta**

+91 1244545808

[rohan.kanwar@icraindia.com](mailto:rohan.kanwar@icraindia.com)

**Nikita Batra**

+91 124 4545835

[nikita.batra@icraindia.com](mailto:nikita.batra@icraindia.com)

## Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jyantac@icraindia.com](mailto:jyantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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