India Ratings Affirms Aurobindo Pharma's Bank Facilities at 'IND AA+'; Outlook Stable

Dec 20, 2023 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has affirmed Aurobindo Pharma Ltd's (APL) bank facilities at 'IND AA+'. The Outlook is Stable. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits*	-	-	-	INR44,575 (reduced from INR48,300)	IND AA+/Stable/IND A1+	Affirmed
Non-fund-based working capital limits@	-	-	-	INR15,750 (reduced from INR16,640)	IND A1+	Affirmed

*Include two-way interchangeability of the fund-based limits (up to INR1,200 million) to non-fund-based limits
@Include two-way interchangeability of the non-fund-based limits (up to INR1,654 million) to fund-based limits

Analytical Approach: Ind-Ra continues to take a consolidated view of APL and its subsidiaries and joint ventures to arrive at the ratings. The company's subsidiaries and step-down subsidiaries in India and overseas are engaged in the manufacturing and selling of active pharmaceutical ingredients (APIs) and finished dosages.

Key Rating Drivers

Recovery in Revenue, but Weak Consolidated Operating Performance: APL's consolidated revenue rebounded with 6% yoy growth in FY23 (FY22: negative 5.3% (ex-Natrol: negative 1% yoy); FY21: 7.3%), on account of sales growth across geographies except Europe. Its US business grew 4.8% yoy (FY22: negative 9.8% yoy) to INR116.5 billion, led by new launches. APL's oral solid dosage (OSD) segment accounted for 68% of its US sales, followed by injectables (25%) and over-the-counter (6%) in FY23. In FY23, its growth markets grew 31.1% yoy to INR19.7 billion, antiretroviral segment increased 14.5% yoy to INR9.5 billion and API segment expanded 9.5% yoy to INR38.5 billion, led by higher demand, new product launches and increased traction in existing base business. However, the European business revenue declined 0.8% yoy, due to adverse currency movements. Ind-Ra observes that more than 52% of volume sold in Europe was sourced from its Indian manufacturing plants in FY23.

APL's consolidated EBITDA margins declined 370bp to 15.0% in FY23 (FY22: 18.7%; FY21: 21.5%), due to a decline in gross margins (an adverse product mix; down 220bp yoy to 54.6%), higher input costs, increased freight rates, additional expenses related to (INR600 million) rescheduling, and elevated pricing pressure in the US.

During 1HFY24, the company's revenue grew 17.5% yoy to INR140.7 billion, led by strong growth across geographies and segments while EBITDA margin increased 311bp yoy to 18.2%, led by a moderation in pricing pressure, softening of raw material prices and niche launches in the US.

Injectable/Specialty OSD Business to Remain Key Growth Driver for US Business: APL derives almost half of its overall revenue from the US market. With the US market being margin accretive for the company, the majority of its EBITDA is derived from this segment, exposing the company to adverse regulatory actions and pricing pressures. However, the pricing pressure in the US market moderated to mid-single digit in 1HFY24 (against high single to low double digit in FY22-FY23), helping the company post sales growth as well as EBITDA margin expansion. Ind-Ra does not expect the pricing scenario to remain benign in the near-to medium term in the US market, as the demand and supply situation normalises. However, the agency expects volume growth in the OSD business to continue as the company is launching over 40 products over the next 12 months. In terms of injectables, APL cumulatively filed 215 abbreviated new drug application (ANDAs) in 1HFY24 (FY22: 175) while 59 (56) ANDAs have been pending for approvals.

Ind-Ra expects the injectable and specialty including oncology and hormonal oral business (FY24: USD560 million) to benefit from a better demand environment and limited competition in the US. Ind-Ra believes APL's injectables business will drive the revenue growth and EBITDA margin of the US segment in the medium term.

Focus on Higher Value Differentiated Portfolio: APL's research and development (R&D) expenses reduced 5.7% yoy to INR14.1 billion in FY23 (FY22: INR15.8 billion) but overall R&D spend on complexity of products would remain high. It had filed 47 ANDAs in FY23 (FY22: 52) including 41 injectables (30) in the US. The company has around 50-60 complex products under pipeline, which are in initial filing stages of development/filing. The key areas of investments include peptides, depot injection, biosimilars, topicals, transdermal, inhalers, nasals and vaccines. Ind-Ra expects these areas to sustain sales growth momentum in the developed markets over the long term. In biosimilars (CuraTeQ Biologics Pvt Ltd), the company has a strong platform which will continue to enable it to have higher yields versus peers. In FY23, APL completed clinical trials for three biosimilars. The management indicated that the company is planning to file its three biosimilars: Pegfilgrastim, Filgrastim and Trastuzumab before January 2024. New revenue streams of biosimilars would start over the next one-to-two years (current pipeline of 14 biosimilars).

Healthy Consolidated Credit Profile: APL's consolidated fund flow from operations (FFO) was 14.2% of sales in FY23 (FY22: 14.8%), adjusted net leverage (net debt/EBITDA) was at 0.20x (negative 0.38x) and the gross interest coverage (operating EBITDA/gross interest expense) was 26.47x (90.19x). Ind-Ra expects the consolidated FFO-adjusted net leverage to be become stable over the near term, although it would depend on the impact of any acquisitions on the net debt levels or the effect of adverse regulatory actions on the profitability.

Furthermore, the management has stated that it is not pursuing any large-ticket acquisition, although it would continue to pursue opportunities to strengthen its portfolio or enhance technical capabilities through mid-size opportunities. Although APL's acquisitions over FY13-FY19 (barring Apotex International Inc) were margin-accretive and the company has demonstrated its ability to stabilise operations, Ind-Ra believes a debt-funded acquisition could impact its debt metrics and profitability till the stabilisation of the operations and unlocking of synergies. Ind-Ra will assess the impact of the mergers and acquisitions on a case-to-case basis and review the ratings accordingly.

Liquidity Indicator - Superior: APL's utilisation of the working capital limits was comfortable at about 56.5% during the 12 months ended November 2023. Given slower operating performance, higher inventory, and dividend pay-out, the free cash flow generation turned negative at INR9.1 billion in FY23 (FY22: INR14.7 billion). It incurred capex of INR28.9 billion in FY23 (FY22: INR32.9 billion) while cash and cash equivalents were stable at INR45.5 billion in FY23. APL's debt repayment to start from FY26.

Regulatory Risks: Ind-Ra believes the United States Food and Drug Administration's (USFDA) scrutiny of Indian pharma companies' manufacturing facilities (API or formulations) is part and parcel of the industry, considering Indian companies strong positioning in the US generic market. Given APL's high exposure to regulated markets

(US: 47% of sales; Europe: 26%), Ind-Ra believes the company remains exposed to any adverse regulatory action. Overall USFDA inspections to Indian facilities are still below the pre-COVID-19 levels while Ind-Ra highlights that the USFDA inspection has been rising gradually. The resolution of any pending issues on key facilities will remain a key monitorable.

Standalone Profile: On a standalone basis, the company recorded revenue of INR50.6 billion in 1HFY24 (FY23: INR84.5 billion; FY22: INR112.9 billion), with an EBITDA margin of 19.1% (17.8%, 13.1%). Most of the international sales are conducted through various subsidiaries in respective geographies. It had a total debt of INR40.7 billion at end-1HFY24 (FY23: INR40.7 billion), comprising majority of working capital debt and lease obligations. It had a cash balance of INR0.68 billion at end-1HFY24 (FYE23: INR0.75 billion). The standalone net leverage was 2.7x in FY23 (FY22: 1.3x) and the interest coverage was 20.2x (87.0x).

Rating Sensitivities

Positive: Strengthening of the business risk profile including geographic diversification of the EBITDA, a traction in its specialty pipeline as envisaged and a resolution of regulatory non-compliances across all units, along with sustained operating EBITDA margins, sustainable free cash flow generation while maintaining the strong credit profile with the consolidated FFO-adjusted net leverage remaining below 1.25x, all on a sustained and consolidated basis, could lead to a positive rating action.

Negative: Lower financial flexibility at the group level/higher-than-expected encumbrances and/or adverse regulatory actions, leading to revenue volatility and an adverse impact on the profitability and cash generation and/or higher-than-expected debt-funded acquisitions, resulting in the consolidated FFO-adjusted net leverage exceeding 1.50x, all on a sustained and consolidated basis, could result in a negative rating action.

Company Profile

Hyderabad-headquartered APL is a vertically integrated pharmaceutical formulations manufacturer. It has 14 formulation manufacturing facilities globally with three in the US, one each in Brazil and Portugal and 11 API manufacturing facilities. The facilities have regulatory approvals from major international agencies.

FINANCIAL SUMMARY - CONSOLIDATED

Particulars (INR million)	FY23	FY22
Net sales (INR billion)	248.6	234.6
Operating EBITDA (INR billion)	37.2	43.9
Operating EBITDA margins (%)	15.0	18.7
Operating EBITDA/finance cost (x)	26.5	90.2
Net adjusted debt/operating EBITDA (x)	0.20	-0.39
Source: Ind-Ra, APL		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch			
	Rating Type	Rated Limits (million)	Rating	20 October 2023	20 October 2022	4 August 2021	3 July 2020
Issuer rating	Long term	-	-	WD	IND AA+/ Stable	IND AA+/ Stable	IND AA+/Stable
Fund-based working capital limits	Long-term /Short-term	INR44,575	IND AA+/Stable/IND A1+	-	IND AA+/Stable/IND A1+	IND AA+/Stable /IND A1+	IND AA+/Stable/IND A1+
Non-fund-based working capital limits	Short-term	INR15,750	IND A1+	-	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

Primary Analyst
Krishnanath Munde
Associate Director
India Ratings and Research Pvt Ltd
Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East,Mumbai - 400051
+91 22 40001768
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Mitali Dalvi
Analyst
022 40356133

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER