Hetero Drugs South Africa Pty Limited

May 05, 2025

Rating

Facilities/Instruments	Rating Scale	Amount (ZAR Million)	Rating[1]	Rating Action
Issuer Rating	**National**	**Not applicable**	**CARE (za) A; Stable**	Assigned

Rationale and key rating drivers

The issuer rating of Hetero Drugs South Africa Pty Limited ("**HDSA**") derives strength from its status as a subsidiary of Hetero Labs Limited (HLL) and part of the Hetero Group, its experienced promoters and management team with a long track record in the pharmaceutical industry, and the group's well-established position across multiple therapeutic segments in major regulated markets. The Hetero Group benefits from a well-diversified revenue profile, vertically integrated operations, accredited manufacturing facilities with advanced research and development capabilities, and a strong marketing network. The rating further factors in the group's leading position in the Anti Retro Viral (ARV)/HIV segment with 20% market share, HDSA's strategic importance to the group in South Africa, the rising demand for HIV treatment in South Africa, secured income through contracts with the National Department of Health (NDOH) until FY27 and the diversified and expanding product portfolio. The rating also factors in the company's optimized efficient operating cycle, exclusive sourcing from the parent company's USFDA-approved manufacturing facilities.

However, the rating is constrained by moderate financial performance of HDSA with losses on account of forex losses, regulatory risks associated with operating in the South African pharmaceutical industry, pricing controls that limit pricing flexibility, high reliance on state-awarded contracts, product concentration risk, prolonged drug approval timelines and the foreign currency fluctuations and translation risks.

Analytical approach: Standalone, factoring linkages with the parent company, HLL.

Outlook: Stable

A stable outlook indicates expected stability or retention of the credit ratings in the medium term on account of stable credit risk profile of the entity in the medium term.

Rating Sensitivities

Positive factors that could, individually or collectively, lead to positive rating action/upgrade:

- Significant improvement in the scale of operations and ability to generate profit on sustained basis
- Improvement in overall gearing to below 1x
- Reduction in product and client concentration risk

[1]Complete definitions of the ratings assigned are available at www.careedgesouthafrica.com.

Negative factors that could, individually or collectively, lead to negative rating action/downgrade:

- Government tender not reallocated leading to sharp decline in revenue
- Deterioration in credit profile of the parent entity
- Significant decline in market position on sustained basis
- Additional debt taken by HDSA over and above the envisaged level

BACKGROUND

Hetero Drugs South Africa Pty Limited ("**HDSA**") was incorporated in June 2016, as a private company and is headquartered in South Africa. HDSA is the sole distributor of pharmaceutical products of Hetero Labs Ltd ('**HLL**'- rated CARE A+; Positive / CARE A1+ by CARE Edge Ratings) in South Africa. HDSA is a wholly owned subsidiary of Hetero Labs Ltd, which is the flagship company of the Hetero Group. Hetero group is one of the leading generic pharmaceutical companies and is one of the world's largest producers of anti-retroviral (ARV) drugs for the treatment of HIV/ AIDS. Though HDSA commenced operations in 2016, the company has made significant stride by obtaining the contract from the Government of South Africa through the NDoH.

Management: HDSA is governed by a two-member board of directors comprising of Dr. Vamsi Krishna Bandi and Mr. Bhavesh Bharatkumar Shah. Dr. Vamsi Krishna Bandi, Managing Director of Hetero Group of Companies, oversees the organization's technical, commercial, and supply chain operations. They are assisted by a team of professionals.

Hetero Labs Ltd ("HLL"): HLL is a leading pharmaceutical company specializing in the manufacturing of Active Pharmaceutical Ingredients (APIs) and Finished Dosage Formulations (FDF). It has established its strong leadership in antiretroviral (ARVs) and antiviral therapies. HLL operates ten manufacturing facilities across Andhra Pradesh and Telangana, in addition to a formulation plant in Baddi, Himachal Pradesh. These facilities have received approvals from major global regulatory authorities, including the US FDA, WHO, COFEPRIS (Mexico), ANVISA (Brazil), NOMA (Norway), and SAHPRA (South Africa). HLL has established a strong international presence through a network of over 50 subsidiaries and affiliated companies across regions including the USA, UAE, South Africa, and Thailand. Leveraging its extensive experience, the group currently meets approximately 40% of the global demand for its products. Hetero Labs Limited comprises over 50 subsidiaries and few companies.

Moderate financial performance of HDSA on account of forex losses

HDSA's performance is closely tied to its ability to sell medical drugs in the highly regulated South African market. The NDoH conducts a tender process every three years, where companies bid to supply medical drugs at government-set prices, with no additional margins allowed. Sale of goods amounted to ZAR 1,594 million in 2024 and ZAR 1,630 million in FY25, as per the provisional financials.

It posted net losses of ZAR 7 million in FY24 driven by foreign exchange losses and rising interest expenses. PAT as per provisional financials is ZAR 34 million in FY25.

The company carries no long-term debt but secured a short-term loan of ZAR 71 million in FY25 for working capital, with overall gearing of 1.46x as on March 31, 2025. Interest coverage was 5.96x in FY25.

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Glossary

ARV (Anti Retro Viral)	Medications used to manage and control infections caused by retroviruses, primarily HIV, by inhibiting the virus's ability to replicate in the body.
Therapeutic segment	A category within the pharmaceutical or healthcare industry that groups drugs or treatments based on the medical conditions or diseases they are intended to treat.
USFDA approved	Refers to products, particularly drugs or medical devices, that have been evaluated and authorized for use by the United States Food and Drug Administration, confirming their safety and effectiveness.
Intermediate chemicals	Substances that are used during the production process to manufacture active pharmaceutical ingredients (APIs) or finished chemical products but are not final products themselves.
Finished dosage	The final form of a pharmaceutical product that is ready for consumer use, such as tablets, capsules, or injectable solutions, containing the active ingredients and excipients in measured doses.
Oncology	The branch of medicine focused on the study, diagnosis, and treatment of cancer, including various therapies and pharmaceutical interventions.
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization, used as a measure of a company's operational profitability by excluding non-operating and non-cash expenses.
Working capital	A financial metric indicating a company's short-term liquidity, calculated by subtracting current liabilities from current assets, showing the ability to meet short-term obligations.
Inventory turnover	A ratio that measures how efficiently a company manages its inventory by showing how many times inventory is sold and replaced over a specific period.

Disclosures:

a. Rating criteria and methodology

Rating Methodology: Pharmaceuticals
Rating Methodology: Manufacturing Companies
Notching by factoring linkages in ratings

b. Solicited rating

The rating was assigned at the request of the issuer. CareEdge South Africa confirms that the company has participated in the rating process through virtual meetings.

c. Rating Communication

CareEdge South Africa confirms that the assigned rating has been communicated to the issuer.

d. The information received during the credit rating process from the rated entity includes:

- Audited financials of the issuer for the last 3 years ending FY2024.
- Unaudited financials for FY2025
- Budgeted financial statements for two years for the issuer
- Audited financial statement of Parent Entity for FY2024
- Industry comparative data
- Exchange rate source: Reserve Bank of India

e. **Independence and objectivity**
CareEdge South Africa confirms that the rating was an independent and objective assessment, uninfluenced by any other business activities and based solely on the merits of the rated entity or instrument.

Details of rated facilities – Not applicable
Rating history: Annexure I
Rating Symbols and Definition: Annexure II

Annexure I - Rating History

Sr. No	Name of the Instrument / Bank Facility	Current Ratings			Rating History		
		Type	Amount Outstanding	Rating	Date and Rating Assigned in 2024-2025	Date and Rating Assigned in 2023-2024	Date and Rating Assigned in 2022-2023
1	Issuer rating	National	-	CARE (za) A; Stable	CARE (za) A; Stable April 2025	-	-

Disclaimer

CARE Ratings South Africa (Pty) Limited ("CARE SA")'s ratings are opinions on the likelihood of timely payment of the obligations under the rated facilities and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE SA's ratings do not convey suitability or price for the investor. CARE SA's ratings do not constitute an audit on the rated entity. CARE SA has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE SA does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE SA have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE SA may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE SA is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE SA is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE SA's rating. CARE SA's ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexure II

Issuer Rating - Rating Symbols and Definition

Symbols	Definition
CARE (za) AAA	Issuers with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations in South Africa.
CARE (za) AA	Issuers with this rating are considered to have a high degree of safety regarding timely servicing of financial obligations in South Africa.
CARE (za) A	Issuers with this rating are considered to have an adequate degree of safety regarding timely servicing of financial obligations in South Africa.
CARE (za) BBB	Issuers with this rating are considered to have a moderate degree of safety regarding timely servicing of financial obligations in South Africa.
CARE (za) BB	Issuers with this rating are considered to have a moderate risk of default regarding timely servicing of financial obligations in South Africa.
CARE (za) B	Issuers with this rating are considered to have a high risk of default regarding timely servicing of financial obligations in South Africa.
CARE (za) C	Issuers with this rating are considered to have a very high risk of default regarding timely servicing of financial obligations in South Africa.
CARE (za) D	Issuers with this rating are in default or are expected to be in default soon in South Africa.

CARE SA's Issuer Rating (IR) reflects the overall credit risk of the issuer. The rating scale has been aligned with the long-term instrument rating scale ranging from AAA (Highest Safety) to D (Default).

Modifiers {"+" (plus) / "-"(minus)} can be used with the rating symbols for the categories CARE (za) AA to CARE (za) C. The modifiers reflect the comparative standing within the category.