Hetero Drugs South Africa Pty Limited
11 June 2026

Rating

Facilities/Instruments	Rating Scale	Amount (ZAR million)	Rating[1]	Rating action
Issuer Rating	**National**	**Not applicable**	**CARE (za) A; Stable**	Reaffirmed

Rationale

The issuer rating assigned to Hetero Drugs South Africa Pty Limited ("**HDSA**") continues to derive strength from its parent i.e. Hetero Labs Limited (**HLL**; Rated CARE AA-; Stable/ CARE A1+). The rating also factors HDSA being strategic important to HLL, parent's established track record, operational expertise, and global presence in the pharmaceutical industry. The company also benefits from the group's vertically integrated operations, strong research and development capabilities, well-established presence across regulated markets with majority of its manufacturing units having approval from regulators like United States Food and Drug Administration (USFDA), European and other globally renowned authorities.

The rating is further supported by HDSA's healthy demand visibility driven by the high prevalence of HIV patients in South Africa and sustained government-led treatment programmes. The company is also strengthening its position through a gradually expanding and diversified product portfolio, including entry into adjacent segments such as oncology and over-the-counter products, which is expected to reduce dependence on a single therapeutic category over time.

Additionally, the support is derived from favourable credit terms extended by the parent, which aid the working capital requirement, as well as exclusive sourcing from the parent's USFDA-approved manufacturing facilities, ensuring quality and supply stability. While the acquisition of a majority stake in Barrs Pharmaceuticals is currently underway, HDSA has already commenced sales through Barrs, which is expected to strengthen its local market presence and support continuity of supply in key therapeutic areas despite its exclusion from National Department of Health (NDOH) tenders. These strengths are further underpinned by the experienced management team's ability to effectively navigate regulatory requirements, public sector tenders, and market operations.

However, the rating continues to be constrained by HDSA's moderate financial performance in FY25, reflected in thin operating margins and losses arising from foreign exchange fluctuations. The rating takes into consideration regulatory risks associated with operating in the South African pharmaceutical industry including compliance with South African Health Products Regulatory Authority (SAHPRA) requirements and approval timelines as well as pricing controls under the Single Exit Price mechanism that limit pricing flexibility, high reliance on state-awarded contracts which exposes it to renewal risks, product concentration risk albeit gradually moderating with portfolio expansion and the foreign currency fluctuations and translation risks. The working capital profile remains moderately stretched, with dependence on supplier credit and short-term funding, which may exert pressure on liquidity under adverse conditions.

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

Rating sensitivities: Factors likely to lead to rating actions

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

- Improvement in credit risk profile of the parent i.e. HLL.
- Improvement in Scale of Operations and EBITDA margins.
- Improvement in credit risk profile with overall gearing improving below 1x.
- Diversification of revenue sources and reduction in product or client concentration.

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

- Significant deterioration in credit risk profile of the parent i.e. HLL.
- Inability to supply ARV drugs through Barrs Pharmaceuticals leading to a sharp decline in revenue.
- Significant erosion of market share in the ARV/HIV segment or other key therapeutic areas.
- Additional debt over and above planned levels, stressing liquidity and leverage metrics.
- Additional liability related to acquisition of Barrs Pharmaceutical leading to deterioration in the credit metrics.

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

CARE SA has factored in strong linkages in the form of continued and expected operational, managerial and financial support from the parent company i.e. HLL.

Outlook: Stable

The Stable Outlook reflects expectations that HDSA will maintain its revenue base through continued supply of ARV/HIV products following the acquisition of Barrs Pharmaceuticals, supported by growth in private-sector and export sales, rising demand within the HIV treatment segment, and ongoing support from the parent company. The outlook also incorporates expectations of stable operating performance despite moderate standalone financial metrics and the regulatory risks inherent in the South African pharmaceutical industry.

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 AA-; Stable / CARE A1+ by CARE Edge Ratings – September 2025) 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 expanded its presence by obtaining the contract from the Government of South Africa through National Department of Health (NDOH).

Hetero Labs Ltd ("HLL"), incorporated in 1989, is the flagship company of the Hetero Group. It is a leading pharmaceutical company specializing in the manufacturing of Active Pharmaceutical Ingredients (APIs) and Finished Dosage Formulations (FDFs), with established leadership in antiretroviral (ARV) and antiviral therapies. The company is led by B. Parthasaradhi Reddy and remains privately held, with ownership controlled by the promoter group and their associates.

At the standalone level, HLL operates ten accredited manufacturing facilities across India, including three API units and seven formulation units located in Telangana, Andhra Pradesh, Himachal Pradesh, and Karnataka. Seven of these facilities are approved by the USFDA, enabling access to highly regulated markets such as the United States.

The company has built a diversified portfolio of over 500 products across APIs and formulations, with a presence in more than 20 therapeutic areas. Revenue is largely driven by high-growth segments, led by antiretroviral (ARV) therapies (28% in FY25), followed by cardiovascular (15%), oncology (14%), central nervous system (11%), and antiviral treatments (9%). HLL has established a strong international presence through a network of around 75 subsidiaries and affiliated companies, supporting operations across key markets including the United States, Latin America, and other emerging economies. The company has also diversified its therapeutic focus beyond ARVs, with the ARV segment now contributing approximately 28% of overall revenue.

Moderate operating performance, albeit with improvement in FY26

HDSA reported a marginal decline in revenue of 2%, from ZAR 1,594 million in FY24 to ZAR 1,562 million in FY25. Despite the moderation in revenue, the company's operating performance improved, with EBITDA recovering to ZAR 15 million in FY25 from near breakeven levels in FY24, primarily supported by lower cost of sales. Consequently, the EBITDA margin improved to 0.97% in FY25. The company also reported a PAT of ZAR 6 million in FY25 compared to a net loss of ZAR 7 million in FY24, although earnings continued to remain modest relative to the scale of operations. While the improvement in profitability is positive, it is from a relatively low base.

As per the management accounts, total operating income for FY26 is estimated at around ZAR 1,961 million, reflecting growth of approximately 25% over FY25. EBITDA and PBT are estimated at around ZAR 36 million and ZAR 20 million, respectively, in FY26.

HDSA's ability to sustain and improve profitability, particularly through effective cost management and the realisation of integration benefits from the Barrs acquisition, will remain critical for strengthening earnings, reducing leverage, and supporting liquidity over the medium term.

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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.
Active Pharmaceutical Ingredient (API)	API is the main substance in a medicine that produces the intended therapeutic effect. It is the active part of the drug that actually treats or prevents a disease. E.g. in painkiller tablet, the API might be paracetamol which reduces the pain and fever. There are other inactive ingredients namely excipients e.g. fillers, binders or coatings which do not treat the condition.
Generic formulation	Generic formulation is a medicine that contains the same API as the original drug with same strength, dosage form and route of administration. They are usually cheaper as they do not require the same research and development and marketing costs as the original branded drugs. It uses the same API to create a more affordable version of the original drug.

Disclosures

a. Rating criteria and methodology

Rating Methodology: Pharmaceutical sector
Notching by factoring linkages in ratings
Financial ratios – Non-Financial Sector
CARE's Policy on Default Recognition

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 FY2025.
- Draft financials for FY2026 (estimated figures)
- Budgeted financial statements for FY2027
- Audited financial statement of Parent Entity for FY2025
- 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.

f. **Details of rated facili**ties – Not applicable

g. **Rating history:** Annexure I

h. **Rating Symbols and Definitions:** 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
1	Issuer Rating	National	-	CARE (za) A; Stable	CARE (za) A; Stable (April 2025)

Annexure II

Rating Symbols and Definition

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.

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About CARE Ratings South Africa (Pty) Limited:

CARE Ratings South Africa (Pty) Limited (CareEdge South Africa) is incorporated in 2023 to provide credit ratings and related services in South Africa. CARE SA is a wholly owned subsidiary of CARE Ratings Africa (Private) Limited (CareEdge Africa), which is a part of CareEdge Group based in India. In October 2024, CareEdge South Africa has received its license from the Financial Sector Conduct Authority (FSCA) of South Africa, allowing it to conduct and issue credit ratings for corporate bonds, sovereign ratings, financial institutions, structured finance, and green and sustainability-linked bonds.

CARE SA provides Ratings of various instruments such as Bonds, Money Market Instruments, Bank Deposits, Structured Finance and Bank Facilities. CareEdge South Africa also does Issuer Rating (Banks, Corporates, NBDTIs & Insurance companies), ESG Ratings, and Second Party Opinion Reports.

About CareEdge Group
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