

June 30, 2022

Maxcure Nutravedics Ltd.: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term– Fund Based Working Capital Limits	40.00	68.00	[ICRA]AA- (Stable); Reaffirmed and assigned for enhanced limits
Short-term– Non-fund Based Working Capital Limits	55.00	115.00	[ICRA]A1+; Reaffirmed and assigned for enhanced limits
Total	95.00	183.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Akums Drugs & Pharmaceuticals Limited (ADPL) and its subsidiaries (together referred to as the Akums Group), Pure & Cure Healthcare Private Limited (PCHPL), Malik Lifesciences Private Limited (MLPL) and Maxcure Nutravedics Ltd. (MNL), while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The reaffirmation of the ratings factors in the strong operational performance of the Akums Group, aided by its established relationships with pharmaceutical majors along with leading market share in the contract manufacturing space in the country. While the company's operations were impacted in Q1 FY2022 by Covid-19 led disruptions, it recorded more than 35% YoY growth in its overall revenues (~Rs. 3,680.3 crore in FY2022, provisional financials), on the back of a healthy demand for its contract manufacturing operations. The operating profitability of the company's contract manufacturing operations was healthier, aided by economies of scale and cost efficiency measures. The company, thus, continued to maintain healthy margins, leading to significant cash accruals. Additionally, its marketing business benefitted from various cost efficiency measures and reported an operating profit in FY2021 for the first time since its inception. ICRA expects the company to continue to report moderate to healthy revenue growth over the medium term, with the demand in the domestic pharmaceutical market expected to remain steady.

The ratings continue to favourably factor in the healthy financial risk profile of the company, characterised by comfortable capitalisation (TD/TNW stood at 0.7x as on March 31, 2022) and coverage metrics (TD/OPBITDA stood at 1x for FY2022). In addition, the company continues to maintain adequate liquidity in the form of cash and liquid investments of more than Rs. 65 crore and working capital buffer of Rs. 125 crore (as on March 31, 2022), which provides additional comfort.

The ratings remain constrained by the significant investments of the entity in the marketing segment, material returns from which are only likely over the medium term. The company continues to remain exposed to regulatory risks, which may curtail growth of the domestic pharmaceutical market and moderate its revenue growth prospects. ADPL benefits from a diversified customer profile, with a predominant share of its business being derived from domestic pharmaceutical companies. While it continues to focus on gaining incremental business and increase its share of exports to further diversifying its revenue profile, the same is expected to take some time to contribute in a meaningful way. The company has acquired five manufacturing facilities over the past couple of years to enhance its business profile and manufacturing capacity, most of which are yet to turn profitable. ICRA will continue to monitor any additional acquisitions/investments by the company; and its impact on ADPL's credit profile would remain a rating sensitivity.

In November 2019, Quadria Capital (QC), a healthcare focussed private equity (PE) firm from Singapore purchased a 15.1% stake in the company for a total consideration of approximately Rs. 500.0 crore, of which ~Rs. 180.0 crore was paid to the promoters for secondary share purchase and ~Rs. 320.0 crore was invested in the company. In relation to the stake purchase,

the agreement had a clause, according to which the company would have to buyback the stake from QC (put option with the PE for the entire ~Rs. 500 crore infusion), in case it was unable to provide an exit to the PE via an IPO/secondary sale by March 2024. Given the same, the calculated payable amount (in relation to the buyback) is being shown as a liability on the company's books. This liability is remeasured every year and with a significant improvement in operational profile, the liability under the put option has more than doubled since the time of investment. The same is getting expensed through the P&L, leading to net losses for the company in FY2022. While the indicative timing for the PE exit is some time away, ICRA would continue to monitor the events, with any significant cash outflow from the company in this regard remaining a key rating monitorable.

The Stable outlook for the long-term rating reflects ICRA's expectation that ADPL would continue to maintain healthy credit profile over the medium term, aided by a steady demand outlook for the pharmaceutical sector and ADPL's well-established customer relationships for its contract manufacturing business. A gradual improvement in earnings from the marketing business and the inorganically acquired entities are expected to support the overall credit profile.

Key rating drivers and their description

Credit strengths

Leading contract manufacturer in generic pharmaceutical industry with a strong clientele – ADPL provides contract manufacturing services to the pharmaceutical industry. Its ability to develop a wide variety of new formulations/delivery systems has enabled it to offer a large product portfolio and emerge as one of the largest contract manufacturers in the country. The company additionally benefits from its healthy customer relationships with leading pharmaceutical players such as Cipla Limited, Abbot Healthcare Private Limited and Sun Pharmaceuticals Industries Limited, among others, who form a strong clientele for the Group.

Healthy capital structure and debt coverage indicators – ADPL's financial risk profile is characterised by healthy cash accruals and comfortable debt coverage indicators. The company's capital structure was strengthened post the receipt of ~Rs. 320.0 crore in November 2019, through equity infusion by QC. ICRA notes that the remeasurement of put option clause every year, which is expensed through the P&L of the company, has a negative impact on its net worth. Led by outlay towards acquisitions undertaken during FY2022 as well as an increase in scale of operations leading to higher working capital requirements, the company's debt levels have increased significantly in FY2022 (~Rs. 394.5 crore as of March 31, 2022 over ~Rs. 130.0 crore as of March 31, 2021). The same has led to a moderation in the capitalisation (TD/TNW stood at 0.7x as on March 31, 2022) and coverage metrics (TD/OPBITDA stood at 1x for FY2022, provisional financials). Given its future capex plans, the company's dependence on external debt is expected to further increase; nevertheless, the financial risk profile is expected to continue to remain healthy over the near to medium term.

Diversified customer profile leading to limited customer concentration risk – The Group has maintained strong relationships with its clientele of pharmaceutical majors. The company's client base is well diversified with its top 10 customers driving less than 35% of its revenues in FY2022. Additionally, repeat contracts with most of its customers and the long development period involved in the industry owing to site audits, process validations, and technology transfers, provide comfort.

Credit challenges

Exposure to highly competitive and regularised generic pharmaceutical industry – Most of ADPL's contract manufacturing business entails the production of generic formulations for various pharmaceutical companies. Despite being exposed to competitive headwinds, post the elimination of benefits available in excise/tax-free manufacturing zones with GST implementation, the company has reported strong improvement in operating profitability over the past two fiscals (OPM improved from 7.6% in FY2020 to ~11.3% in FY2022, provisional financials), aided by operating leverage benefits and cost efficiency measures. Additionally, its ability to sustain the market share with well-established customer relationships provides comfort.

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 such as the expanded National List of Essential Medicines (NLEM) could continue to have a negative bearing on the growth prospects of the industry. 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. Nevertheless, the elimination of tax benefits and stricter regulations led to consolidation of vendors, which has benefited ADPL in gaining marketing share.

Low geographical diversity with exports generating a limited share of revenues – ADPL's share of revenue from exports has remained primarily stable over the years, but at low levels of around 2-4%. At present, the company exports primarily to the semi-regulated markets of Vietnam, Malaysia, Venezuela and the Philippines, among others. However, the management is looking forward to increasing its share of exports over the near to medium term by penetrating the regulated international pharmaceutical market and, consequently, has applied for EU GMP approval for some of its manufacturing facilities. The presence of QC is likely to aid the company's initiatives in this regard.

Significant investments in various marketing subsidiaries/inorganic acquisitions, returns from which will take time to improve – ADPL's management has created several separate marketing companies, over the years, to diversify its business profile. It has been extending loans and advances to these subsidiaries to meet their working capital as well as loss funding requirements. While the marketing entities turned operationally profitable in FY2021, material returns from these marketing forays are only likely over the medium-term. Further, the company has acquired five manufacturing facilities over the past 2-3 years and has been investing in these facilities to refurbish the same. The turnaround of these facilities leading to contribution at the bottom line is expected to take some time as most of these plants had remained non-operational for quite some time. Even as the company's profitability and return indicators are expected to remain constrained to an extent because of the aforementioned investments, they are expected to remain at healthy levels.

Liquidity position: Adequate

ADPL's liquidity remains adequate, characterised by healthy cash flow from operations, cash and liquid investments of more than Rs. 65 crore and working capital buffer of Rs. 125 crore as on March 31, 2022. The company is expected to incur a sizeable capex of ~Rs. 450-500 crore in FY2023, primarily towards addition of capacities through greenfield projects/acquisitions. Nevertheless, the company's debt repayment obligations remain limited at Rs. 6.7 crore p.a. for the next three years as per the existing debt as on March 31, 2022. Incremental drawdowns of term loans towards capex would entail additional repayments in addition to the amounts mentioned above. ICRA expects the company to comfortably meet its capex requirements through a mix of internal accruals and additional borrowings.

Rating sensitivities

Positive factors – A strengthening of the company's business risk profile, aided by material diversification in the form of gain in business for exports or a healthy scale-up in revenue and profits from the marketing business, while maintaining strong credit metrics, would be favourably considered for an upward movement in ratings.

Negative factors – ADPL's ratings could be downgraded if the company's operational and financial performance weakens with the increase in competition in the domestic market. Significant deterioration in the Group's credit/liquidity profile led by debt-funded capex/acquisition could also trigger a rating downgrade. Specific credit metrics that may trigger a rating downgrade would include Total Debt/ EBITDA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach- Consolidation Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	ICRA has taken a consolidated view of ADPL and its subsidiaries – PCHPL, MLPL and MNL, while assigning the credit ratings, given the common management and significant operational and financial linkages among the entities. For arriving at the ratings, ICRA has considered the consolidated financials of ADPL. As on March 31, 2021, the company had 22 subsidiaries and an associate company, which are all enlisted in Annexure II.

About the company

Incorporated in 1994, Maxcure Nutravedics Limited is a wholly-owned subsidiary of ADPL. Initially, the company traded raw materials and packing materials used in the pharmaceutical industry. Later, it was acquired by ADPL and, in 2010, a manufacturing facility was set up for nutraceuticals, food supplements, herbal and Ayurvedic formulations, and veterinary feed supplements. MNL generates most of its revenues from the trading segment (more than 80%) and the rest from the manufacturing segment.

Key financial indicators (audited)

ADPL Consolidated	FY2021	FY2022*
Operating income	2,725.0	3,680.3
PAT	123.1	-304.3**
OPBDIT/OI	10.8%	11.3%
PAT/OI	4.5%	-8.3%
Total outside liabilities/Tangible net worth (times)	1.4	4.3
Total debt/OPBDIT (times)	0.4	1.0
Interest coverage (times)	43.6	24.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional financials; **remeasured of liability pertaining to put option held by the private equity, has led to losses

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					June 30, 2022	June 9, 2021	May 15, 2020	-	
1	Fund-based bank facilities	Long term	68.0	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A- (Stable)	--	
2	Non-fund based- Working Capital Facilities	Short term	115.0	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A2+	--	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based- Working Capital Facilities	Simple
Non-fund based-Working Capital Facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund based- Working Capital Facilities	NA	NA	NA	68.00	[ICRA]AA- (Stable)
	Non-fund based- Working Capital Facilities	NA	NA	NA	115.00	[ICRA]A1+

Source: Company;

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	ADPL Ownership	Consolidation Approach
Abbott Pharma limited	100%	Full Consolidation
Akumentis Healthcare Limited	91.50%	Full Consolidation
Akums Lifesciences Limited	100%	Full Consolidation
Akums Healthcare Limited	100%	Full Consolidation
Akum Impex LLP	99.98%	Full Consolidation
Amazing Research Laboratories Ltd	100%	Full Consolidation
Delcure Lifesciences Ltd	100%	Full Consolidation
Malik Lifesciences (P) Ltd	100%	Full Consolidation
Maxcure Nutravedics Ltd	100%	Full Consolidation
May & Baker Pharmaceuticals Ltd	100%	Full Consolidation
Nicholas Healthcare Ltd	100%	Full Consolidation
Plenteous Pharmaceuticals Ltd	100%	Full Consolidation
Pure & Cure Healthcare (P) Ltd	100%	Full Consolidation
Unosource Pharma Ltd	99.89%	Full Consolidation
Upadrish Reserchem LLP	99.93%	Full Consolidation
Sarvagunaushdhi (P) Ltd	100%	Full Consolidation
Avha Lifesciences (P) Ltd.	100%	Full Consolidation
Medibox Digital Solutions (P) Ltd	83.91%	Full Consolidation
Dhanwantri Vedaresearch LLP	90%	Full Consolidation
Ziven Lifesciences Limited	100%	Full Consolidation
Parabolic Research Labs Limited	100%	Full Consolidation
Cure Sure Pharma	91.5%	Full Consolidation
AUSL Pharma	40%	Equity Method

Source: Annual Report

Note: ICRA has taken a consolidated view of Akums Drugs & Pharmaceuticals Limited and its subsidiaries – Pure & Cure Healthcare Private Limited, Malik Lifesciences Private Limited and Maxcure Nutravedics Limited.

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