

September 08, 2023

Maxcure Nutravedics Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – fund-based working capital limits	68.00	68.00	[ICRA]AA- (Stable); reaffirmed
Short-term – non-fund based working capital limits	115.00	115.00	[ICRA]A1+; reaffirmed
Total	183.00	183.00	

*Instrument details are provided in Annexure-I

Rationale

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

The rating reaffirmation factors in Akums Group's established business position as a leading contract manufacturer of pharmaceutical products in India, enjoying established relationships with its diversified clientele of leading domestic and multinational pharmaceutical companies and wellness players. Despite registering flattish revenues of Rs. 3,656.6 crore in FY2023 on account of a higher base in FY2022, on a consolidated basis, ADPL has grown at a CAGR of 18.7% over FY2019 to FY2023 supported by scaling up its manufacturing volumes and widening its product and client bases. The Group's capital structure and coverage metrics have remained comfortable over the years aided by steady accretion to reserves. However, the Group's debt levels have also increased in recent years due to capex and acquisitions undertaken to strengthen manufacturing capabilities and backward integration into the active pharmaceutical ingredient (API) business. Coupled with some decline in operating margins (primarily due to slower than anticipated turnaround of the recently acquired API business), this led to some moderation in debt coverage metrics in FY2023. However, these metrics are expected to strengthen over the near to medium term aided by higher revenue growth and improvement in margins (already witnessed in Q1 FY2024) on the back of steady scaling up of its contract manufacturing operations and gradual turnaround of the API business, and some reduction in debt levels. Any further investments/ acquisition will continue to remain a rating sensitivity and will be monitored on a case-to-case basis.

The ratings continue to remain constrained by significant investments (including loans and advances) made by ADPL in its marketing segment, material return generation from which are likely to take some time. However, ICRA notes that the Group is in the process of consolidating the businesses of its marketing entities, which is expected to strengthen their performance to some extent. The Group also continues to remain exposed to regulatory risks, which may curtail growth of the domestic pharmaceutical market and moderate its revenue growth prospects. The ratings also factor in the vulnerability of the Group's profitability to volatility in raw material prices and competitive pressures.

Quadia Capital (QC), a healthcare focused private equity (PE) fund, had acquired 15.1% stake in ADPL in November 2019. The stake purchase agreement had a put option, according to which, ADPL would have to buy back the stake from QC, in case it was unable to provide an exit to QC via an initial public offering (IPO)/ secondary sale. Accordingly, the payable amount is recognised as a liability on ADPL's balance sheet and remeasured every year. Any developments regarding the PE exit and any cash outflow on this account shall remain a key rating sensitivity. ICRA has also noted the Group's plans to come out with an IPO and will continue to monitor the developments in this regard.

The Stable outlook for the long-term rating reflects ICRA's expectation that the Akums Group will continue to benefit from its strong operational profile and long-standing relationships with its key customers. Coupled with improvement in the performance of its marketing subsidiaries/ inorganic acquisitions, this is expected to support revenue growth and accrual generation over the near to medium term.

Key rating drivers and their description

Credit strengths

Leading contract manufacturer in generic pharmaceutical industry – Akums Group is a leading contract manufacturer in the domestic generic pharmaceutical industry having 11 formulations manufacturing units with a combined production capacity of around 64 billion formulation units per annum. It has a manufacturing share of more than 12.5% of the total drugs consumed in India. In addition to the contract manufacturing business, the Group is also increasing its footprint in the branded and trade generics markets and API business. While the current scale of these businesses is lower than the Group's overall revenues, they have healthy growth opportunities over the long term.

Diversified customer profile, which includes reputed pharma companies – Akums Group enjoys well-established relationships with its customers, who include several established domestic and multinational pharmaceutical and wellness companies. Its client base is well diversified with its top 10 customers contributing 17.2% to its revenues in FY2023 (33.2% in FY2022). Comfort can also be drawn from some level of customer stickiness for the Group.

Comfortable capital structure and coverage indicators – On a consolidated basis, the Group has a strong financial risk profile aided by a comfortable capital structure and coverage indicators. Steady increase in net worth supported by accretion to reserves has led to a gearing of 0.9 time as on March 31, 2023. There was some moderation in the debt metrics in FY2023 (net debt/ OPBDITA of 1.6 times over 0.7 time for FY2022) owing to debt-funded capex and some contraction in operating margins. However, the coverage indicators are expected to strengthen in FY2024 with improvement in scale and profitability, and reduction in debt levels.

Credit challenges

Profitability vulnerable to competitive pressures and raw material price volatility – While the Akums Group is a leading contract manufacturer in India, its profitability continues to be vulnerable to pricing pressure on account of being present in a highly competitive industry. However, the contract manufacturing business has generated stable operating profit margins over the past few years. The Group's profitability is also exposed to fluctuations in raw material prices, while operating margins of its API business continued to remain under pressure in FY2023 owing to higher raw material prices and sub-optimum capacity utilisation.

Low geographical diversity with exports generating a limited share of revenues – The Group primarily caters to the domestic generics market with domestic sales typically driving 96-98% of its revenues. While the domestic business is expected to continue to remain its mainstay, exports are likely to rise gradually with increased focus on increasing its footprint in emerging markets. While the company exports primarily to the semi-regulated markets of Vietnam, Malaysia, Venezuela and the Philippines, among others, it is trying to increase its presence in high-value, semi-regulated markets of Latin America, West Asia, North Africa and Eastern Europe.

Significant investments in various marketing subsidiaries/inorganic acquisitions, returns from which will take time to improve – The Group's flagship company, ADPL, has made significant investments in its marketing subsidiaries and acquisitions over the past few years to diversify its profile and add more growth levers. It has been extending loans and advances to these subsidiaries to meet their working capital requirements and loss funding. While some of them have witnessed a marked improvement in their performance over the past few years, there have also been partial write-offs of these loans and advances because of their weak performance. Nevertheless, the Group is in the process of consolidating the businesses of its marketing entities, which is expected to strengthen their performance to some extent. Moreover, the API facility acquired by ADPL continued to report operational losses in FY2023 on account of headwinds in the industry (high raw material prices) and sub

optimal capacity utilisation. ADPL continues to invest in these entities for turning around their performance. While gradual improvement is expected in this regard, any meaningful contribution to ADPL’s performance may take some time. However, ADPL’s overall performance is likely to remain healthy, supported by the strong performance of its contract manufacturing business, which continues to remain the main contributor to its revenue and profitability.

Liquidity position: Adequate

The Group’s liquidity remains adequate, characterised by healthy cash flow from operations, cash and liquid investments of Rs. 150.0 crore and working capital buffer of ~Rs. 170 crore as on March 31, 2023. The company is expected to incur a capex of ~Rs. 250-300 crore p.a. between FY2024 and FY2026, primarily towards investments in recent acquisitions, and replacement and maintenance capex. Additionally, the Group has a scheduled debt repayment of Rs. 40-45 crore in FY2024 and FY2025. The capex and debt repayment obligations are expected to be primarily funded through internal accruals.

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 a rating upgrade.

Negative factors – ADPL’s ratings could be downgraded if the company’s operational and financial performances weaken with increasing 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 downgrade would include Total Debt/ OPBDITA greater than 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceuticals Companies
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, 2023, 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	FY2022	FY2023
Operating income	3,680.3	3,656.6
PAT	-251.1*	98.0*
OPBDIT/OI	11.3%	8.2%
PAT/OI	-6.8%	2.7%
Total outside liabilities/Tangible net worth (times)	3.9	3.5
Total debt/OPBDIT (times)	1.0	2.1
Interest coverage (times)	24.9	6.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Sep 8, 2023	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]AA-(Stable)	[ICRA]A-(Stable)
2 Non-fund based-Working Capital Facilities	Short term	115.0	-	[ICRA]A1+	[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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based-Working Capital Facilities	NA	NA	NA	68.00	[ICRA]AA- (Stable)
NA	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's Ownership	Consolidation Approach
Akumentis Healthcare Limited	91.50%	Full Consolidation
Akums Lifesciences Limited	100%	Full Consolidation
Akums Healthcare Limited	100%	Full Consolidation
Burroughs Welcome Pharmacia Private Limited	99.93%	Full Consolidation
Amazing Research Laboratories 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 Private Limited	100%	Full Consolidation
Unosource Pharma Ltd	100%	Full Consolidation
Upadrish Reserchem LLP	99.93%	Full Consolidation
Sarvagunaushdhi Private Limited	100%	Full Consolidation
Medibox Digital Solutions (P) Ltd	100%	Full Consolidation

Source: ADPL 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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Branches



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