March 27, 2024

Adcock Ingram Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits – Working Capital#	(30.00)	(30.00)	[ICRA]A+ (Stable); reaffirmed
Long-term Non-fund Based Limits#	(15.0)	(15.0)	[ICRA]A+ (Stable); reaffirmed
Short-term – Fund-based Working Capital	55.00	55.00	[ICRA]A1+; reaffirmed
Short-term Non-fund Based Limits#	(15.0)	(15.0)	[ICRA]A1+; reaffirmed
Total	**55.00**	**55.00**	

**Instrument details are provided in Annexure-I; #Sub-limit of short-term fund-based limits*

Rationale

The reaffirmation in ratings continues to factor in Adcock Ingram Limited's (AIL/ the company) long track record, strong contract manufacturing capabilities and robust relationships with its joint venture (JV) investors who are also its customers. The company enjoys strong operational and financial flexibility since it is a JV between its experienced JV investors, Medreich Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+) and Adcock Ingram Holdings Limited (Adcock Holdings). While Medreich has an extensive track record in the contract research and manufacturing (CRAMS) space, Adcock Holdings continues to have a strong position in the South African private healthcare market. AIL's financial profile remains strong, characterised by healthy margins, debt metrics and liquidity position.

The company witnessed revenue growth of 9.7% with revenues increasing to Rs.464.8 crore in FY2023 supported by stable revenues from Adcock Holdings and iNova, mainly contributed by volume growth. AIL's operating margin improved to 25.8% in FY2023 from 21.4% in FY2022 on the back of lower raw material prices. However, during 9M FY2024, the company's revenue declined by ~21% to Rs. 299.6 crore (on a standalone basis) mainly on account of delayed procurement of Codeine, a key raw material for the company, on account of delays in renewal of Codeine Gazette by the Government of India (GOI). Despite decline in revenues, the operating margin improved to 27.1% in 9M FY2024 (on a standalone basis) on the back of lower raw material prices. While delay in regulatory approvals for Codeine procurement is expected to impact the revenue growth of the company to a certain extent in FY2024, the same is expected to revive in FY2025 on the back renewal of Codeine Gazette until December 2024 and secured procurement quota for CY2024. Moreover, the partial commencement of commercial operations for the greenfield capacity is also expected to support the revenue growth.

The ratings also take into account the relatively moderate scale of AIL's operations, its high customer and geographical concentration with most of its revenues coming from its top two customers. Although its affiliation with Adcock Holdings is a positive and supports business operations, any weakness/adverse regulatory changes or pricing-led competition in the South African pharmaceutical market impacting Adcock Holdings' performance could impact AIL's performance. The ratings also consider the susceptibility of the company's revenues and margins to any adverse forex movements as it derives majority of its revenues from overseas markets.

ICRA notes that the construction of the greenfield facility for manufacturing effervescence-based drugs was completed in June 2023 and it has received approval from South African Health Products Regulatory Authority (SAHPRA). With incremental revenues from this facility following the commencement of commercial operations, the scale of the company is expected to improve and, thus, timely ramp up operations at the facility remains a monitorable. ICRA also notes that the company has paid a final dividend of Rs. 85 crore for the current fiscal in Q4 FY2024 and the same is higher than past trends as the company did not pay any dividend in FY2023. Going forward, the dividend payout is expected to remain in line with past tends (prior to

FY2023) and any higher-than-expected dividend payout and impact of the same on the company's liquidity position and debt metrics will be a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that, going forward, the company's revenue growth will be supported by stable volume from its JV partners and partial commencement of operations of its greenfield facility, while maintaining its healthy margins. Further, the debt metrics and liquidity position of the company are expected to remain healthy supported by strong accruals.

Key rating drivers and their description

Credit strengths

Strong and experienced JV partners, with whom AIL enjoys strong financial and operational flexibility – AIL enjoys strong operational and financial flexibility, given its experienced JV partners. While Medreich (a wholly-owned subsidiary of Meiji Seika Pharma Co. Limited) has an extensive and proven track record in the CRAMS space, Adcock Holdings enjoys a strong brand recall and healthy market position in the South African private healthcare market. The company forms an important part of Adcock Holdings' manufacturing set up as it depends on AIL for meeting its oral solid manufacturing requirements for over the counter (OTC) and public/Government tender business. Consequently, Adcock Holdings contributed around 66% and 51% of AIL's revenue in FY2023 and H1 FY2024, respectively. Thus, by virtue of its strong business relationship with Adcock Holdings, AIL has enjoyed an assured revenue stream over the years and ICRA expects the same to sustain, going forward.

Strong financial profile characterised by healthy margins and robust debt metrics – The company's credit metrics continue to remain healthy, given its healthy cash accruals and limited dependence on debt. Although the company has availed a foreign currency term loan of ~Rs. 50.0 crore to partially fund its greenfield capex, the impact of the same on the company's debt metrics remained minimal. The company's gearing, TD/OPBDITA and interest coverage stood at 0.1 times, 0.5 times and 604.4 times, respectively, in FY2023. Going forward, ICRA expects the company's debt metrics to remain strong in the absence of any further debt-funded capex supported by healthy accruals. Moreover, the company's unutilised working capital limit of Rs. 57.5 crore provides cushion to its liquidity, further supporting its financial profile.

Established track record coupled with strong contract manufacturing ability – The company has an extensive track record in the contract manufacturing space; and with an installed capacity of ~470 crore tablets and capsules per annum, its facility is certified by various leading regulatory bodies such as the Medicines and Healthcare products Regulatory Agency (MHRA) of the UK, Therapeutic Goods Administration (TGA) of Australia, the National Agency for the Safety of Medicines and Health (ANSM) of France, SAHPRA, the Pharmacy & Poisons Board (PPB) of Kenya, the Tanzania Food and Drugs Authority (TFDA), and the National Agency for Food and Drug Administration and Control (NAFDAC) of Nigeria. ICRA notes that the construction of the greenfield facility was completed in June 2023 and it has received approval from SAHPRA, supporting the company's long-term business prospects.

Credit challenges

Moderate scale of operations, timely ramp up of new facility critical for further scale up– AIL has an assured revenue stream since it primarily caters to the manufacturing requirements of Adcock Holdings. The company has a relatively moderate scale of operations with revenue of Rs. 464.8 crore in FY2023. Although the construction of its greenfield capacity was completed in June 2023, its commencement was delayed due to delayed audit from SAHPRA, and the company is currently working with its customers for test batches. With incremental revenues from this facility following the commencement of commercial operations, the scale of the company is expected to improve and, thus, timely ramp up of operations at the facility remains a monitorable.

Exposure to raw material price volatility to an extent – The company's profitability remains vulnerable to packaging and freight costs in addition to volatility in raw material prices as witnessed in FY2022. Although AIL has a cost-plus margin arrangement with its parent, Adcock Holdings, it is able to pass on raw material price escalations to its parent to a large extent, with some lag. The impact of the fluctuating raw material prices on the company's profitability remains a monitorable.

High customer and geographical concentration risks; revenues vulnerable to unfavourable forex movements – AIL derived ~85% of its revenues from its top two customers in FY2023 and H1 FY2024, with significant dependence (~50-66%) on Adcock Holdings, followed by the Australian iNova Pharmaceuticals (~18-34%). Consequently, it is exposed to high geographical concentration risk as ~70-75% of its revenues are generated from the South African market. Therefore, any weakness/adverse regulatory change in the South African market is likely to exert pressure on the company's revenues. However, customer-wise revenue concentration is expected to improve to a certain extent following the commercial start of its greenfield capacity, as ~50% of the capacity is expected to be available for external sales. ICRA also notes that the company has low therapeutic diversification with a key focus on pain management, which drives almost 70-80% of its revenues, followed by multivitamins (15-20%). The company has considerable exposure to forex fluctuation as most of its revenues come from exports. However, as AIL transacts with the parent in Dollar terms, to insulate itself from the fluctuation in the South African local currency, and since it imports around 50-60% of its raw material in Dollars, the risk is mitigated to a certain extent on the back of partial natural hedge.

Regulatory risks as is prevalent in the pharmaceutical sector – Adcock Holdings operates in a highly competitive and fragmented industry with inherent regulatory risks. The South African generic formulation and OTC industry faces stiff competition from numerous multinational corporations (MNCs) as well as established domestic brands. The intense competition could restrict Adcock Holdings' revenue growth and pricing flexibility, which could have a cascading impact on the revenue prospects of AIL. As is prevalent in the industry, the company remains exposed to similar risks in its other end-consumer markets. Additionally, due to narcotic properties of Codeine, a key raw material, its import is based on a yearly Gazette issued by the GOI, which allows its import based on allotted quota. Thus, any delays in Gazette renewal by the GOI, as witnessed during the current fiscal, could impact the revenues of the company.

Liquidity position: Strong

AIL's liquidity position remains strong, with free cash and liquid investments of ~Rs. 102.5 crore (at standalone level) as on December 31, 2023, with its sanctioned working capital limit of Rs. 57.5 crore remaining unutilised during the 12-month period ended in December 2023. The capex for the greenfield capacity was completed in June 2023 and the company is expected to incur only maintenance capex during FY2025 and FY2026. The same was funded by a mix of internal accruals and foreign currency term loan of Rs. 50.0 crore and the company has a repayment obligation of ~Rs. 2.7 crore, ~Rs. 10.9 crore and ~Rs. 13.6 crore in FY2024, FY2025 and FY2026, respectively, for the same. The company has paid the final dividend of Rs. 85 crore for the current fiscal in Q4 FY2024 and the same is higher than past trends as the company did not pay any dividend in FY2023 due to funding requirement for the greenfield capex. Going forward, the dividend payout is expected to remain in line with past tends (prior to FY2023) and any higher-than-expected dividend payout and its impact on the company's liquidity position and debt metrics will be a key monitorable.

Rating sensitivities

Positive factors – An upward movement in the rating could happen with a substantial increase in the scale of operations along with improvement in product and customer diversity, as well as an improvement in the earnings and profitability indicators on a sustained basis.

Negative factors – Pressure on the ratings could arise the with weakening of business linkages with the JV partners and a sharp deterioration in the credit profile of the company owing to reasons including debt-funded capex. Additionally, pressure on the ratings could arise due to a significant decline in revenues leading to a deterioration in the profit margins on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of AIL.

About the company

Established in 2007, AIL is a JV between the South African firm, Adcock Ingram Holdings Limited, and Medreich Limited. AIL was formed with the primary objective of manufacturing pharmaceutical formulations for Adcock Holdings. Medreich holds a 50.07% stake in the company, while Adcock Holdings holds the balance.

AIL's facilities are primarily dedicated to manufacturing generic drugs for Adcock Holdings for the South African market. In addition to catering to Adcock Holdings, AIL provides outsourced formulation manufacturing services to Medreich. In addition to its captive customers (JV partners), the company also provides contract manufacturing services (CMS) to some of its external customers. AIL is currently operating with a manufacturing facility in Bengaluru.

Key financial indicators (audited)

AIL (Consolidated)	FY2022	FY2023	9M FY2024*
Operating income	423.7	464.8	299.6
PAT	59.8	80.5	60.6
OPBDIT/OI	21.4%	25.8%	27.1%
PAT/OI	14.1%	17.3%	20.2%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.1
Total debt/OPBDIT (times)	0.5	0.5	-
Interest coverage (times)	475.5	604.4	405.5

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional standalone financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec,31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 27, 2024	Jan 30, 2023	Oct 29, 2021	Sep 2, 2020
1	**Fund-based working capital#**	Long term	(30.0)	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	**Non-fund based limits#**	Long term	(15.0)	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
3	**Fund-based limits – Working capital**	Short term	55.0	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	**Non-fund based limits#**	Short term	(15.0)	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

 # Sub-limit of short-term fund-based limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Limits – Working Capital #	Simple
Long-term Non-fund Based Limits#	Very Simple
Short-term Fund-based Limits – Working Capital	Simple
Short-term Non-fund Based Limits#	Very Simple

 # Sub-limit of short-term fund-based limits

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#**	NA	NA	NA	(30.0)	[ICRA]A+ (Stable)
NA	**Non-fund based limits#**	NA	NA	NA	(15.0)	[ICRA]A+ (Stable)
NA	**Fund-based limits – Working capital**	NA	NA	NA	55.0	[ICRA]A1+
NA	**Non-fund based limits#**	NA	NA	NA	(15.0)	[ICRA]A1+

Source: Company; # Sub-limit of short-term fund-based limits

Annexure II: List of entities considered for consolidated analysis

Company Name	AIL Ownership	Consolidation Approach
Adcok Ingram Pharma Private Limited	100.00%	Full Consolidation

Source: Company

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
·91 22 6114 3435
mythri.macherla@icraindia.com

Gaurav Kanade
+91 22 6114 3469
gaurav.kanade@icraindia.coms

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

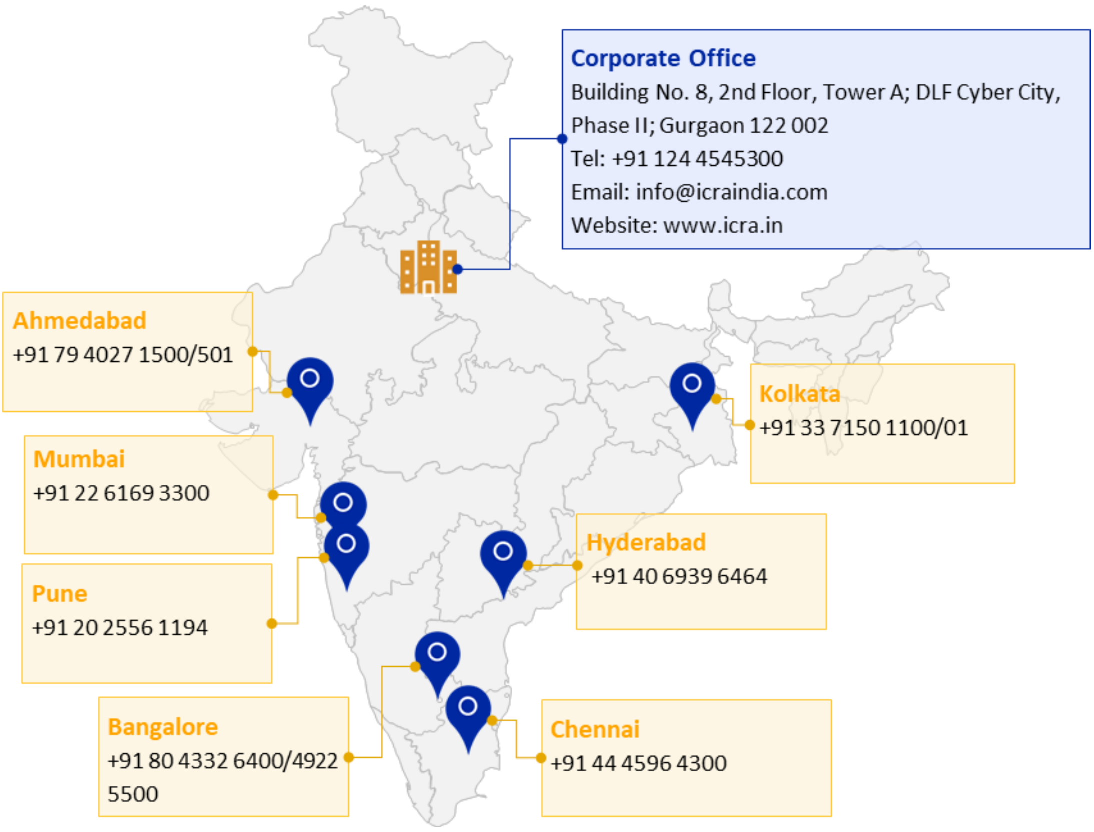
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.