

October 09, 2024

## Maxcure Nutravedics Ltd.: Long-term rating upgraded to [ICRA]AA(Stable); short-term rating 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	-	-
Short-term – non-fund based working capital limits	115.00	-	-
Long-term/short-term – fund based/non-fund based working capital limits	-	174.00	[ICRA]AA(Stable); upgraded from [ICRA]AA-(Stable) and short term Rating [ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated limits	-	9.00	[ICRA]AA(Stable); upgraded from [ICRA]AA-(Stable) and short term Rating [ICRA]A1+; reaffirmed
<b>Total</b>	<b>183.00</b>	<b>183.00</b>	

\*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 among them.

The rating action for ADPL factors in the strengthening of its financial risk profile, aided by equity infusion from its recently concluded initial public offering (IPO), healthy internal accrual generation and steady revenue growth. ADPL raised ~Rs. 680 crore of funds through a fresh issue, resulting in expansion of its net worth (also expanded from removal of put option liability), reduction in its reliance on debt and strengthening of its debt protection metrics. Coupled with its strong performance in the CDMO<sup>1</sup> business and improvement in its domestic branded generics and exports businesses, offsetting the relatively muted performance in the API<sup>2</sup> and trade generics businesses, this has strengthened the credit profile of the company.

ADPL's consolidated revenue grew by 14.3% to Rs. 4,180.7 crore in FY2024 and by 5.1% to Rs. 1,019.1 crore in Q1 FY2025 on a YoY basis. Moreover, ADPL's operating profit margin<sup>3</sup> (OPM) also improved to 11.6% in FY2024 and 12.2% in Q1 FY2025 from 8.2% in FY2023 followed by some improvement in the OPM from its CDMO and marketing businesses and reduction of operating losses from its API business. This resulted in healthy cash accruals and reduction in the leverage levels in FY2024, as reflected by total debt/OPBDITA of 1.2 times as on March 31, 2024 against 2.1 times as on March 31, 2023. Moreover, out of the equity of Rs. 680 crore, raised through the IPO, ADPL would utilise Rs. 387 crore shall be utilised towards partial repayment/prepayment of existing debt, leading to a further improvement in its coverage and leverage indicators. The ratings also continue to factor in ADPL's strong market position in the CDMO industry, its sizeable manufacturing capacities and wide product portfolio. Leveraging on the same, the company has been able to establish long relationships with its customers, which include reputed domestic and multinational pharmaceutical companies.

<sup>1</sup> Contract development and manufacturing operations

<sup>2</sup> Active pharmaceutical ingredients

<sup>3</sup> Excluding the impact of fair value changes

The ratings continue to remain constrained by vulnerability of ADPL's profitability to volatility in raw material prices and competition in the industry. Additionally, the company has made sizeable investments (including loans and advances) in its marketing (includes trade generics and domestic sales/exports of branded formulations) and API businesses, wherein it is yet to generate material returns. While the API business has remained loss making in the recent years, there has been a steady reduction in the same with scaling up of revenues. ADPL has also consolidated the trade generics business, which has resulted in some improvement in the OPM from this segment. Increase in profitability of its API and marketing businesses would remain key monitorables.

ADPL also continues to remain exposed to legal and regulatory risks, including scrutiny by regulatory agencies, product liability matters, inclusion of more drugs under NLEM<sup>4</sup> and other commercial matters. ICRA has also noted two summonses received by the company and/or its Directors from the Directorate of Enforcement (ED) in the recent years. While ED has not taken any adverse action in these matters, ICRA would continue to monitor the developments therein.

The Stable outlook for the long-term rating reflects ICRA's expectation that the company will continue to benefit from its established business position and long relationships with its key customers, enabling it to generate healthy internal accruals.

## Key rating drivers and their description

### Credit strengths

**Leading contract manufacturer in generic pharmaceutical industry** – ADPL is a leading contract manufacturer, having a share of 30.2% by value in the Indian domestic CDMO market<sup>5</sup>. It also has a 10.0% share by value in the total addressable Indian domestic CDMO market. The company has 12 formulations manufacturing units with a combined production capacity of around 49.6 billion units per annum, having commercialised more than 4,000 formulations across more than 60 dosage forms. As of March 31, 2024, Akums obtained 1,448 trademarks across various dosage forms and formulations. Further, as of March 31, 2024, Akums secured 927 DCGI approvals and five patents. In addition to the contract manufacturing business, the Akums group is also increasing its footprint in the marketing business, with rising presence in exports and branded generics and is also present in the trade generics and API businesses. While the current scale of these businesses is lower, relative to the Group's overall revenues, the same has healthy growth opportunities over the long term.

**Diversified customer profile, which includes reputed pharma companies** – The Akums Group enjoys good relationships with its customers, including several established domestic and multinational pharmaceutical and wellness companies. It has a diversified customer base, serving more than 1,500 customers in FY2024 and 38 out of its 50 largest customers in FY2024 were having relationship of more than five years with the company. Its top 10 CDMO clients contributed 39.3% to its revenues from the CDMO business in FY2024 (38.9% in FY2023), reflecting adequate customer diversification.

**Healthy financial profile** – ADPL's revenue grew by 14.3% to Rs. 4,180.7 crore in FY2024 from Rs. 3,656.6 crore in FY2023 and its OPM improved to 11.6% in FY2024 from 8.2% in FY2023, leading to a healthy improvement in its cash accruals during the year. Further, ADPL concluded its IPO in August 2024 with a primary issue size of ~Rs. 680 crore. In line with the objectives of the offer, proceeds worth Rs. 387 crore are expected to be used for partial repayment/ prepayment of the Group's debt, which will result in a significant improvement in its leverage and coverage indicators in the current fiscal. Moreover, with expectations of continued strong cash accruals, supported by steady performance of its CDMO business, ADPL is likely to continue to maintain a comfortable capital structure, healthy debt coverage indicators and an adequate liquidity position.

### Credit challenges

**Profitability vulnerable to competitive pressure and raw material price volatility** – ADPL's profitability continues to be vulnerable to pricing pressure as it is present in a very competitive industry. However, the contract manufacturing business

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<sup>4</sup> National list of essential medicines

<sup>5</sup> Company data from Frost & Sullivan report

has generated stable operating profit margins over the past few years. ADPL's profitability is also exposed to fluctuations in raw material prices, which continue to impact the OPM of its API business.

**Low geographical diversity with exports generating a limited share of revenues** – The Group primarily caters to the domestic market with domestic sales historically driving more than 90-95% of its revenues. While the domestic business is expected to continue to remain its mainstay, exports are likely to rise gradually with focus on increasing its footprint in emerging markets. In FY2024, exports grew to Rs. 269.6 crore from Rs. 231.70 crore in FY2023, accounting for 6.5% of ADPL's consolidated revenues.

**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 (including the API business) over the past few years to diversify its profile and add more growth levers. These subsidiaries have been accepting loans and advances (primarily from the parent entity) 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 performances. Nevertheless, the Group has consolidated the businesses of its marketing entities, which is expected to strengthen their performance to some extent while the API business, which continues to remain under losses, is also expected to gradually improve. In the meanwhile, 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 Akum Group's liquidity remains **adequate**, characterised by healthy cash flow from operations, cash and liquid investments of Rs. 277.1 crore and working capital buffer of ~Rs. 340 crore as on March 31, 2024. The company is expected to incur a capex of Rs. 200-250 crore per annum between FY2025 and FY2027, primarily towards development of manufacturing units in Jammu and towards regular replacement and maintenance capex, expected to be funded partially through debt and partially through internal accruals.

### Rating sensitivities

**Positive factors** – Strengthening of the company's business risk profile, aided by material diversification in the form of gain in business from exports or a healthy scale-up in revenue and profits from the API and marketing businesses, while maintaining strong credit metrics and healthy liquidity position, would be favourably considered for a long-term rating upgrade.

**Negative factors** – The ratings could be downgraded in case of a significant decline in revenues and accrual generation or a deterioration in the credit profile and liquidity position, owing to debt-funded capex or a stretch in the working capital cycle. Specific credit metrics that may trigger ratings downgrade would include Total Debt/ OPBDITA of more than 1.0 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for entities in Pharmaceuticals</a>
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, 2024, the company had 14 subsidiaries and one step down subsidiary, 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.

Incorporated in 2004, ADPL is a leading contract manufacturer of formulations for domestic as well as multinational pharmaceutical and wellness companies in India. ADPL has 12 manufacturing facilities in Uttarakhand and Himachal Pradesh for its formulations manufacturing business and three manufacturing units in Punjab and Haryana for its API manufacturing business. These manufacturing units are housed under ADPL and its various subsidiaries. The Group has commercialised more than 4,000 formulations across more than 60 dosage forms.

In FY2020, the company raised Rs. 500 crore from Quadria Capital in exchange for a 15.09% stake, of which Rs. 320.0 crore was infused into the company and the balance was paid to the promoters against sale of shares. Subsequently, ADPL came out with an IPO in August 2024.

### Key financial indicators (audited)

ADPL – Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	3,656.6	4,180.7	1,019.1
PAT	98.0	0.8	61.2
OPBDIT/OI	8.2%	11.6%	12.2%
PAT/OI	2.7%	0.0%	6.0%
Total outside liabilities/Tangible net worth (times)	3.5	3.7	-
Total debt/OPBDIT (times)	2.1	1.2	-
Interest coverage (times)	6.5	9.6	9.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; \*provisional numbers

Note: Numbers are not adjusted for fair value changes

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for past three years

Instrument		Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Oct 09, 2024	Sep 08, 2023	June 30, 2022	June 09, 2021
1	Fund-based/ non-fund based working capital limits	Long term/ Short term	174.00	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-
2	Unallocated Limits	Long term/ Short term	9.00	[ICRA]AA (Stable)/ [ICRA]A1+	-	-	-
3	Fund-based limits	Long term	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)

4	Non-fund based working capital facilities	Short term	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
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## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term short-term fund based/ non fund based working capital limits	Simple
Unallocated limits	NA

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	Working capital limits	NA	NA	NA	174.00	[ICRA]AA(Stable)/[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	9.00	[ICRA]AA(Stable)/[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
<b>SUBSIDIARIES</b>		
Akumentis Healthcare Limited	91.49%	Full Consolidation
Qualymed Pharma Private Limited	100%	Full Consolidation
Akums Healthcare Limited	100%	Full Consolidation
Burroughs Wellcome 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
<b>STEP DOWN SUBSIDIARIES</b>		
Medibox Pharma Private Limited	100%	Full Consolidation

Source: ADPL Q1 FY2025 results

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.

\*Hived off on April 1, 2024

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