November 06, 2024

Granules India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – term loan	199.80	150.00	[ICRA]AA- (Stable); reaffirmed
Long-term short-term fund-based/ non-fund-based limits	1,324.00	1,371.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Short-term non-fund-based limits	-	20.00	[ICRA]A1+; reaffirmed
Unallocated limits	226.20	209.00	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	**1,750.00**	**1,750.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Granules India Limited (GIL) factors in its leading market share across its key products like paracetamol, metformin, ibuprofen, guaifenesin and methocarbamol, supported by its integrated manufacturing operations and sizeable manufacturing capacities. The ratings also factor in the increasing revenue share of high-margin segments like finished dosages (FDs) and new products. With an increased pace of new launches by GIL, having rolled out three products in Q4 FY2024, two products in Q1 FY2025 and another three-four launches lined up during the rest of the year, its concentration on the five legacy products is expected to decrease further. GIL's profit margins are further supported by its low-cost manufacturing due to economies of scale and significant backward integration with active pharmaceutical ingredients (APIs) of four of the five key molecules being manufactured in-house. Its ongoing investments towards increasing its backward integration by developing plants for manufacturing PAP[1] and DCDA[2] are also expected to support its margin profile over the medium-to-long term. However, the company is likely to develop these manufacturing units gradually and the associated benefits are expected to materialise gradually.

The ratings also factor in GIL's comfortable capital structure and coverage metrics. The company has undertaken some debt in FY2024 and FY2025 to partially fund its capex towards developing the FD manufacturing facility at Genome Valley, Telangana. Despite this, its overall debt protection metrics are expected to continue to remain comfortable with net debt/ OPBDITA likely to remain in the range of 1.0 to 1.5 times over the near term. The phase I of the manufacturing facility at Genome Valley, with a capacity of 2.5 billion units of FDs, is expected to start contributing to revenues over the next few months, while the phase II with a capacity of 8 billion units is expected to be added in 2026. This is likely to support revenue growth as well as diversify the manufacturing capacities of the company.

The ratings, however, are constrained by GIL's high product concentration in mature molecules, with the five legacy molecules generating 65% of revenues in Q1 FY2025 and 75% in FY2024. However, ICRA notes the steady reduction in product concentration, supported by a healthy pace of new launches and expects a further improvement, aided by new product launches. Further, the ratings factor in the vulnerability of GIL's profitability to intense competition in the industry and volatility in raw material prices. The company has witnessed some moderation in demand, especially for paracetamol, in Europe, due to inventory overstock by customers, which has also resulted in a reduction in its prices. However, GIL has been able to maintain its OPM[3] supported by the increasing contribution of FDs and new products, which are margin accretive. GIL's

[1] *Para-aminophenol*

[2] *Dicyandiamide*

[3] *Operating profit margins*

revenues remained rangebound in Q1FY2025 with consolidated revenues of Rs. 1,179.9 crore against Rs. 1,175.8 crore in Q4 FY2024 while the OPM for the quarter stood at 22.0% against 21.7% in Q4 FY2024.

With North America and Europe driving more than 80% of its revenues, GIL is also exposed to regulatory risks and litigations as well as scrutiny by various agencies like the USFDA[4] and the EU GMP[5]. The company has had a clean track record with minimal observations in prior inspections by the USFDA for over more than a decade. However, in September 2024, GIL's FD manufacturing facility at Gagillapur, Hyderabad, received a Form 483 with six observations from the USFDA. The FD and PFI[6] manufacturing capacities of GIL are concentrated in Gagillapur with the facility accounting for the major portion of GIL's overall PFI and FD capacities. Considering GIL's high revenue concentration towards the US, a successful resolution of the observations raised by the USFDA would remain a key monitorable.

The Stable outlook on the long-term rating indicates ICRA's opinion that GIL would continue to maintain its healthy credit profile, supported by its strong market position across its key molecules, increasing pace of new launches, backward integration of operations and economies of scale translating into healthy internal accrual generation.

Key rating drivers and their description

Credit strengths

Established operational track record and business position in the pharmaceutical industry, supported by global leadership in paracetamol and other key molecules – GIL is an established player in the pharmaceutical industry, with a leadership position in some first line of defence, mature generic molecules like paracetamol, metformin and ibuprofen. For these molecules, GIL has an established market position in the US with established relationships with several reputed players in the market. The company is also trying to improve its market share in these molecules in Europe and the rest of world markets.

Margins supported by backward integration and economies of scale; increasing contribution from margin accretive segments – Over the years, GIL has been able to largely maintain its operating margin (in the range of 18-20%), supported by significant backward integration with in-house manufacturing of four out of five key APIs and economies of scale from its sizeable manufacturing capacities at the Gagillapur and Bonthapally (Telangana) facilities. Its OPM reduced to 19.1% in FY2024 on account of lower profitability in Q1 and Q2 of FY2024, when the business was impacted by the information security incident. However, its OPM has since improved and stood at 22.0% in Q1 FY2025. GIL's margins have also been supported by the increasing contribution of margin accretive segments like FDs and new products to GIL's overall revenues. In Q1 FY2025, the share of FDs to GIL's overall revenues increased to 76% from 65% in FY2024 and 50% in FY2023. The revenue share of the five legacy products also decreased substantially with new products generating 35% of GIL's revenues in Q1 FY2025 against 25% in FY2024 and 15% in FY2023.

Comfortable capital structure and coverage metrics – Steady internal accrual generation and no major increase in debt level in recent years resulted in a comfortable capital structure and coverage metrics, marked by a low gearing of 0.4 times, and total debt/OPBDIT of 1.5 times (net debt/OPBDIT of 1.1 times) as on March 31, 2024 and an interest cover of 8.1 times for FY2024. While the company is expected to avail incremental debt to partly fund the ongoing capex towards the FD manufacturing facility at Genome Valley, its debt protection metrics are expected to continue to remain comfortable, with net debt/ OPBDITA ranging between 1.0 and 1.5 times over the near-to-medium term.

Credit challenges

High product concentration risk in mature molecules, although concentration has reduced over the last year – GIL's top five molecules are first line of defence mature generic molecules. The company is exposed to product concentration risk as these

[4] *United States Food and Drug Administration*

[5] *European Union Good Manufacturing Practice*

[6] *Pharmaceutical formulation ingredient*

molecules accounted for around 65% of its revenues in Q1 FY2024 and 75% in FY2024. However, comfort can be drawn from the increasing contribution from new product launches, which reduced the concentration significantly over the past year. With increased focus on R&D, and the sustenance of a healthy pace of new launches, the concentration is expected to reduce further. However, a few key molecules will continue to contribute meaningfully to the revenues. Moreover, a significant share of GIL's revenue comes from North America and Europe (85% in FY2024), which have witnessed continued pricing pressure in the recent past, which is likely to sustain. However, the risk is mitigated to a certain extent by GIL's leadership for some of these key molecules in its key markets and its backward integrated operations. The FD manufacturing facility of GIL, located at Gagillapur, contributes 26.8 billion units to its overall FD manufacturing capacity of 31.9 billion units (excluding a capacity of 8 billion units under development in Genome valley). However, the expected completion of the phase II in Genome Valley in 2026 would increase diversification of its manufacturing facilities.

Profitability vulnerable to volatility in raw material prices – GIL's profitability continues to be vulnerable to volatility in raw material prices, though its backward-integrated operations provide some comfort. ICRA also notes GIL's capex plan in Kakinada (Andhra Pradesh) for manufacturing KSMs[7] of its key products like paracetamol and metformin, which is expected to further support its profitability against volatility in raw material prices over the medium-to-long term.

Exposure to regulatory risks and litigations; however, GIL has had a successful track record of inspections – Like its peers, GIL remains exposed to regulatory risks and litigations, including scrutiny by agencies like the USFDA and the EU GMP. Considering that the US contributed ~66% to its revenue in FY2024, scrutiny by the USFDA continues to be key for its overall operations. While GIL has had a successful track record with regulatory agencies including the USFDA, timely resolution of the observations raised in the form 483 issued by the USFDA to GIL's Gagilapur (Telangana) facility remains key for GIL to sustain its operational and financial performances.

Environmental and Social Risks

Environmental considerations – GIL does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations regarding the breach of waste and pollution norms, which can lead to an increase in the operating costs and new capacity instalment costs. This may also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation. GIL is developing processes that reduce resources, minimise wastage and eliminate the use of hazardous substances. It is also increasing its share of renewable energy every year by installing solar panels at plant locations. Further, GIL is focusing on exploring green chemistry initiatives such as enzymatic biotransformation, non-halogenated solvent and solvent recovery, among others. It is reducing dependence on groundwater through water conservation techniques like rainwater harvesting, recycling, and effluent water treatment. GIL is also working with its top 10 carbon intensive suppliers to reduce its scope-3 carbon emissions. It has signed an MoU with Greenko for a partnership for supplying power, hydrogen, ammonia, nitric acid and few other chemicals, which will all be carbon free.

Social considerations – GIL faces high industry-wide social risks related to product safety and its associated litigation risks, access to qualified personnel for R&D and process engineering, as well as for maintenance of high manufacturing compliance standards. Further, Government interventions related to price caps/controls also remain social risks for entities in the pharmaceutical industry.

Liquidity position: Adequate

GIL's liquidity position is adequate, supported by healthy cash accruals and unencumbered cash balances and liquid investments of Rs. 381.1 crore and undrawn working capital limits of around Rs. 400 crore as on March 31, 2024. GIL has planned capex of around Rs. 600 crore in FY2025. It has term loan repayments of ~Rs. 100 crore in FY2025 and ~Rs. 50 crore in FY2026. The obligations are expected to be met through a mix of internal accruals and debt.

[7] *Key starting materials*

Rating sensitivities

Positive factors – The long-term rating could be upgraded if the company demonstrates a healthy growth in its revenues and accrual generation and strengthening of its liquidity position and coverage metrics. In addition, improved product diversity would also be considered favourably for a rating upgrade. A specific credit metric for a rating upgrade includes Total debt/OPBDITA of less than 1.0 times, on a sustained basis.

Negative factors – The ratings of the company are likely to be downgraded if there is any significant weakening of its profit margins or an increase in its working capital intensity, resulting in a deterioration in its liquidity profile, on a sustained basis. Any regulatory non-compliance issued to GIL for its products and/or manufacturing facilities, impacting its product launches and thus, its revenues and profitability, would also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Pharmaceutical Sector
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of GIL. As on March 31, 2024, GIL had six subsidiaries, which are enlisted in Annexure-II.

About the company

GIL was incorporated as a private limited company in 1991 and was later converted into a public limited company in 1993. It started as a merchant exporter of bulk drugs like paracetamol, guaifenesin and chloro pheniramine maleate. At present, GIL manufactures APIs, pharmaceutical formulation intermediates (PFIs) and FDs, which are marketed to more than 300 customers across more than 80 countries, primarily in North America, Europe, Asia and Latin America.

GIL has manufacturing plants across Hyderabad, Visakhapatnam and Virginia (US), and R&D centres in Hyderabad and Virginia, with an installed manufacturing capacity of 39,360 TPA of API, 24,640 TPA of PFI and 31.9 billion dosages of FDs.

Key financial indicators (audited)

GIL – Consolidated	FY2023	FY2024	Q1 FY2025*
Operating income	4,511.9	4,506.4	1,179.9
PAT	516.6	405.3	134.6
OPBDIT/OI	20.4%	19.1%	22.0%
PAT/OI	11.4%	9.0%	11.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	-
Total debt/OPBDIT (times)	1.2	1.5	-
Interest coverage (times)	16.5	8.1	-

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

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)	Nov 06, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	150.00	**[ICRA]AA-(Stable)**	28-Sep-23	[ICRA]AA-(Stable)	-	-	-	-
Fund-based/ non-fund based limits	Long term/ short term	1,371.00	**[ICRA]AA-(Stable)/ [ICRA]A1+**	28-Sep-23	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-
Unallocated limits	Long term/ short term	209.00	**[ICRA]AA-(Stable)/ [ICRA]A1+**	28-Sep-23	[ICRA]AA-(Stable)/ [ICRA]A1+	-	-	-	-
Unallocated limits	Short term	-	-	07-Aug-23	[ICRA]A1+	-	-	-	-
Non-fund-based limits	Short term	20.00	**[ICRA]A1+**	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund based – term loan	Simple
Long-term short-term fund-based/ non-fund-based limits	Simple
Non-fund-based limits	Very 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	Term loan 1	January 2020	6M Euribor + 1.0%	January 2026	100.00	[ICRA]AA- (Stable)
NA	Term loan 2	July 2021	6M Euribor + 0.8%	January 2026	50.00	[ICRA]AA- (Stable)
NA	Working capital facilities	NA	NA	NA	1,371.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Non-fund-based limits	NA	NA	NA	20.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	209.00	[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	GIL Ownership	Consolidation Approach
Granules USA Inc	100.00%	Full Consolidation
Granules Consumer Health, Inc.	100.00%	Full Consolidation
Granules Pharmaceuticals Inc	100.00%	Full Consolidation
Granules Europe Limited	100.00%	Full Consolidation
Granules Lifesciences Private Limited	100.00%	Full Consolidation
Granules CZRO Private Limited	100.00%	Full Consolidation

Source: FY2024 annual report

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