December 27, 2024

Aurigene Pharmaceutical Services Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – term loan	380.00	380.00	[ICRA]AA+(CE)(Stable); reaffirmed
Total	**380.00**	**380.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB+

**Instrument details are provided in Annexure-I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]AA+(CE)(Stable) rating

The rating for the term loan facility of Aurigene Pharmaceutical Services Limited (APSL) is based on the strength of the corporate guarantee furnished by its parent, Dr. Reddy's Laboratories Limited (DRL; rated [ICRA]AA+(Stable)). The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, DRL.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the guarantor has been translated into the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenure of the rated instrument and has a well-defined pre-default invocation and payment mechanism. Given these attributes, the guarantee provided by DRL is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]AA+(CE)** against the rating of [ICRA]BBB+ without explicit credit enhancement. If the rating of the guarantor changes in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- If change of control occurs in respect of the borrower, it will be an event of default and repayment of the loan might be accelerated
- Financial covenants (applicable to DRL; consolidated) – Minimum DSCR of greater than or equal to 1.2 times and Debt/EBIDTA of less than 4.5 times

Key rating drivers and their description

Credit strengths

Well diversified geographical reach, strong presence in key generic markets globally – DRL has an established presence in the generics business across North America and Europe as well as in the branded generics markets across India and other emerging markets. Its key markets include North America (accounted for 48% of DRL's revenues in H1 FY2025), India (17%), Europe (7%) and emerging markets (17%). The NAG[1] business has been witnessing healthy double-digit revenue growth since FY2023 on account of new product launches and volume gains in the base business. DRL continues to focus on limited competition drugs with a particular focus on injectables and biosimilars, which are likely to support its performance in the region. It is also expected to continue a heathy growth momentum across some other key geographies, supported by a robust pipeline of new launches and focus on developing its core business.

Integrated presence across value chain with backward integration into APIs – The PSAI[2] business of DRL generated 10% of its H1 FY2025 revenues. The API[3] business, in addition to external partners, supplies to DRL's own generic business. This backward integration presents a significant cost advantage to DRL and supports its overall margin profile. Moreover, DRL remains focused on enhancing the level of backward integration further, which is expected to support its margins.

Strong R&D capabilities supporting development of strong generic product pipeline in key markets – DRL continues to spend up to 8-9% of its revenues on R&D. The R&D spend stood at 8.2% and 8.6% of revenues in FY2024 and H1 FY2025, respectively. DRL's efforts in R&D are focused on developing complex and differentiated formulations/injectables, first-to-file products and biosimilar compounds. As of September 30, 2024, DRL had 80 filings pending approval with the US FDA[4], which includes 75 ANDAs[5] and five NDAs[6] filed under section 505(b)(2). Out of these 75 ANDA filings, 44 are Paragraph IV filings and DRL believes that it is the first to file with respect to 22 of these filings.

Healthy financial profile, characterised by robust credit metrics and strong liquidity – Despite some increase in the working capital utilisation post the acquisition for NRT brands from Haleon for GBP 458 million, DRL has been able to maintain a healthy credit profile, marked by robust leverage and coverage indicators with an interest coverage of 31.9 times in H1 FY2025 and total debt/OPBDITA of 0.6 times and total outside liabilities/tangible net worth of 0.4 times as on September 30, 2024. Moreover, DRL is expected to maintain its healthy financial profile, underpinned by strong accrual generation, low leverage levels and strong liquidity position.

Credit challenges

Ongoing investigations, pending resolution of product litigations as well as exposure to regulatory risks – Like its peers, DRL's operations continue to remain exposed to the risks of scrutiny by various regulatory agencies including the USFDA, US SEC[7] and US DoJ[8]. DRL's ability to maintain a healthy launch momentum in the US and other key geographies remain dependent on successful closure of the outstanding observations and any future inspection by such regulatory agencies. However, comfort can be drawn from its successful track record of regulatory inspections in recent years. Besides, DRL is yet to resolve the ongoing industry-wide investigation by the anti-trust division of the US DoJ on price fixing and price collusion allegations. Further, there are ongoing investigations with respect to allegation of violation of anti-corruption laws in the US and other product and patent related matters. Like many of its peers, the company has also been named as a defendant in antitrust suits

[1] *North America Generics*
[2] *Pharmaceutical Services and Active Ingredients*
[3] *Active Pharmaceutical Ingredients*
[4] *United States Food and Drug Administration*
[5] *Abbreviated New Drug Applications*
[6] *New Drug Applications*
[7] *United States Securities and Exchange Commission*
[8] *United States Department of Justice*

regarding the settlement of patent litigations of Revlimid. The outcomes of these matters are unascertainable at the moment and would be monitored on a case-to-case basis.

Base US pharmaceutical generics business remains competitive; regular product introductions expected to mitigate risk to an extent – The US generic market has remained competitive with continued pricing pressure across various product categories, impacting the performance of Indian pharmaceutical companies present in this segment. However, regular product launches (including first to file products) and increased focus on complex generics mitigate the impact to an extent for DRL. DRL launched lenalidomide in the US in September 2022 and the product has since been a key revenue driver for its NAG portfolio. However, the patent of Revlimid is set to expire in January 2026, which would increase the competition in the market, and may impact the revenues of DRL's NAG business. Thus, the company's ability to continue to launch new products in the US and ramp up its specialty/complex generics product portfolio would remain key for the continued growth of its revenues from the NAG business.

Liquidity position:

For the [ICRA]BBB+ rating – Adequate

APSL's liquidity position is **adequate**, supported by cash, cash equivalents and liquid investments of Rs. 345.7 crore and undrawn working capital limits of around Rs. 50 crore. The company has no external debt repayment obligations till FY2026. While it has a sizeable repayment of Rs. 380 crore in June 2026, ICRA expects APSL to partly refinance this liability. The company also enjoys strong parentage as it is a step-down subsidiary of DRL. APSL's parent infused equity of Rs. 650 crore in H1 FY2025 and is expected to continue to receive support for future funding needs in case of any capacity enhancement requirement.

For the [ICRA]AA+ (CE) rating – Strong

DRL's liquidity position remains **strong**, supported by a healthy generation of cash flow from operations. It had cash, cash equivalents and liquid investments of Rs. 5,093.1 crore and sizeable cushion in the form of undrawn lines of credit of Rs. 3.300 crore (at a standalone level) as on September 30, 2024. The cash flow generation of the company is also expected to remain strong over the near-to-medium term, supported by revenue growth across major geographies. DRL is likely to incur an annual capex of Rs. 1,500-2,000 crore (excluding that towards any inorganic expansion), which is expected to be funded by internal accruals.

Rating sensitivities

Positive factors – The rating would remain sensitive to any change in the credit profile of the guarantor (DRL).

Negative factors – Pressure on APSL's rating could arise in case of weakening of the credit profile of DRL. Additionally, lack of adherence to the terms of payment structure, as defined in the Corporate Guarantee deed and addendum, can also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	The rating for the term loan of Rs. 380.0 crore is based on the unconditional, irrevocable and continuing guarantee from DRL that covers all the repayment obligations of the term loan
Consolidation/Standalone	Standalone

About the company

Incorporated on September 16, 2019, APSL is a subsidiary of Aurigene Oncology Limited (AOL) and a step-down subsidiary of DRL. Effective June 1, 2020, the Contract Research, Development, and Manufacturing Organization (CDMO) division of the Custom Pharmaceutical Services segment of DRL as well as Discovery Service division of AOL was transferred to APSL.

APSL was formed to service the needs of innovator customers in the areas of medicinal chemistry and biology and contract development and manufacturing services for clinical and commercial needs. DRL intends to position APSL as a global leader in offering end-to-end integrated solutions across discovery, development, and manufacturing. With the consolidation of the Discovery Services and the CDMO divisions, APSL offers end-to-end services to its customers, ranging from discovery, development, scale-up supplies and contract manufacturing. This also enables a flow of projects from drug discovery into development and leads to synergies between the customer base at CDMO division and discovery services, enabling the organisation to be a one-stop shop offering turnkey solutions to its customers.

APSL has established relationships with reputed global innovator pharmaceutical companies, which provide it with a continued revenue visibility. It continues to maintain a healthy order book, supported by recurring contracts executed for its key customers. It has two existing facilities and is setting up another facility in Genome Valley, Hyderabad for R&D and small-scale GMP[9] manufacturing of large molecules, which would provide APSL with a significant growth opportunity over the medium-to-long term.

APSL's scale of operations is moderate with revenues of Rs. 442.7 crore in FY2024 and Rs. 268.8 crore in H1 FY2025. However, revenues are growing in high double digits with a YoY growth of 33.9% and 32.0% in FY2024 and H1 FY2025, respectively, supported by a healthy demand across both segments. As many innovator and biotech companies are based in regulated markets, especially in the US, these markets continue to contribute significantly to APSL's revenues. In FY2024, the US drove 62% of APSL's revenues, which is in line with the trend in the industry.

APSL's net worth and liquidity improved significantly in H1 FY2025 on account of equity infusion of Rs. 650.0 crore from its parent, AOL. The funds were used to repay inter-company loans of Rs. 220.0 crore from DRL and AOL and the remaining amount will be used towards ongoing capex, which include renovation at APSL's facility in Miyapur, Hyderabad, construction of the facility in Genome Valley, Hyderabad in addition to some improvements in the facility in Bengaluru, Karnataka. The outstanding term loan of Rs. 380.0 crore is repayable in a single tranche in FY2027. If APSL's accrual generation does not scale up materially by then, ICRA expects the repayment to be partly refinanced or funded through support from its parents, AOL and DRL. The company also faces increasing competition as global companies are expanding their presence in discovery services and CDMO. Considering a significant portion of its business is driven by overseas markets, APSL also remains vulnerable to forex fluctuations.

Key financial indicators (audited)

APSL – Standalone	FY2023	FY2024
Operating income	330.7	442.7
PAT	12.8	(3.2)
OPBDIT/OI	23.2%	18.7%
PAT/OI	3.9%	(0.7%)
Total outside liabilities/Tangible net worth (times)	(1.8)	(2.6)
Total debt/OPBDIT (times)	7.1	8.8
Interest coverage (times)	1.9	1.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; all ratios as per ICRA calculations

[9] *Good Manufacturing Practices*

About the guarantor

DRL was incorporated by its Promoter and Founder Chairman, Late Dr. K. Anji Reddy, as a private limited company on February 24, 1984. The company was subsequently converted into a public limited on December 6, 1985, and was listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE) in August 1986, as well as on the New York Stock Exchange (NYSE) on April 11, 2001. As on September 30, 2024, the promoters and the promoter Group held a 26.64% stake in the company.

DRL offers a portfolio of pharmaceutical products and services, including generics, APIs, custom pharmaceutical services, biosimilars and differentiated formulations. It has three divisions—global generics (accounted for 88% of revenues in FY2024), PSAI (11%) and others (1%). The major therapeutic areas of focus for the company include central nervous system, gastro-intestinal, oncology, cardiovascular and pain management, with the US, India, West Europe, Russia and the CIS[10] nations being its major markets.

DRL has nine API manufacturing facilities, of which six are in India, one in Mexico, one in the US and one in the UK. It also has 13 formulations manufacturing facilities in India, and one each in the US and China. In addition, the company has one biologics facility in India and eight technology development and R&D centres in India and overseas.

Key financial indicators (audited)

DRL – Consolidated	FY2023	FY2024	H1 FY2025
Operating income	24,669.7	28,011.1	15,734.3
PAT	4,470.3	5,563.3	2,722.3
OPBDIT/OI	26.5%	28.3%	27.5%
PAT/OI	18.1%	19.9%	17.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.4
Total debt/OPBDIT (times)	0.2	0.3	0.6
Interest coverage (times)	45.8	46.4	31.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current rating (FY2025)			chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs crore)**	**27-Dec-24**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loans	Long Term	380.00	**[ICRA]AA+(CE) (Stable)**	Oct 09, 2023	[ICRA]AA+ (CE) (Stable)	-	-	-	-
Non-convertible debentures	Long Term	-	**-**	July 20, 2023	[ICRA]AA+ (CE) (Stable) Withdrawn	July 28, 2022	[ICRA]AA+ (CE) (Stable)	July 29, 2021	[ICRA]AA+ (CE) (Stable)

[10] *Commonwealth of Independent States*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – term loan	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	**Term loan**	June 2023	Quarterly T-Bill rate + Spread	June 2026	380.00	[ICRA]AA+(CE) (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis- Not applicable

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