May 23, 2025

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)	(19.90)	[ICRA]A+ (Stable); reaffirmed
Long-term – Non-fund based limits#	(15.00)	(15.00)	[ICRA]A+ (Stable); reaffirmed
Short-term – Fund-based working capital	55.00	42.40	[ICRA]A1+; reaffirmed
Short-term – Non-fund based limits#	(15.00)	(15.00)	[ICRA]A1+; reaffirmed
Long-term/short-term – Unallocated	-	12.60	[ICRA]A+ (Stable)/[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 ratings reaffirmation continues to factor in Adcock Ingram Limited's (AIL/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 flexibilities on the back of its experienced JV investors, Medreich Limited (rated [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's revenue declined by 9.8% in FY2024, primarily due to delayed procurement of codeine, a key raw material for the company, on account of delay in renewal of Codeine Gazette by the Government of India (GoI). AIL's operating margin, despite decline in revenues, improved to 27.7% in FY2024 compared to 25.8% in FY2023, supported by lower raw material prices. While delay in regulatory approvals for codeine procurement impacted the revenue growth of the company to a certain extent in FY2024, AIL started maintaining buffer inventory of codeine from FY2025 to avoid any future disruptions. During FY2025, the revenues declined marginally by 1.8% to Rs. 413.4 crore (on a standalone basis) due to general slowdown in the South Arican market and delay in planned product launches. However, AIL's operating margin improved further to 31.2% (on a standalone basis) in FY2025, supported by various efficiency measures adopted by the company such as relatively higher sourcing of raw materials from domestic vendors, increasing reliance on low-cost renewable energy and a more efficient manpower sourcing policy reducing employee expenses. Going forward, AIL's revenue growth and margins are expected to be supported by continued revenues from its JV partners, increased utilisation of the greenfield facility, and launch of new products that was delayed in FY2025.

The ratings also consider 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, under its wholly-owned subsidiary, Adcock Ingram Pharma Private Limited (AIPPL), for manufacturing effervescence-based drugs was completed in June 2023. It received approval from the South African Health Products Regulatory Authority (SAHPRA) in December 2023 and commenced commercial operations from March 2024. During FY2025, the new facility recorded a turnover of around Rs. 49 crore and witnessed breakeven at EBIT level. With incremental revenues from this facility, AIL's overall scale of operations is expected to improve and, thus, timely ramp up of operations at the facility remains a monitorable.

ICRA also notes that the company paid a final dividend of Rs. 85 crore for FY2024, which is higher than past trends. While the company did not pay any dividend in FY2025, the dividend payout is expected to remain in line with past tends going forward, 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 the company's revenue growth will be supported by stable supplies to its JV partners and increasing capacity utilisation of the new greenfield facility, while maintaining 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

Experienced JV partners with whom AIL enjoys strong financial and operational flexibilities – AIL enjoys strong operational and financial flexibilities, 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 the over the counter (OTC) and public/Government tender businesses. Consequently, Adcock Holdings contributed 62.4% and 66.4% of AIL's revenue in FY2024 and FY2025, respectively. Thus, a strong business relationship with Adcock Holdings has led to AIL's 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 be healthy, given its strong cash accruals and limited dependence on debt. The company's gearing, TD/OPBDITA and interest coverage stood at 0.1 times, 0.5 times and 333.0 times, respectively, in FY2024. 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. 42.4 crore as of April 2025 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 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 and Medicines Control Council (MCC), 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 greenfield facility has received approval from SAHPRA, supporting the company's long-term business prospects.

Credit challenges

Moderate scale of operations, further ramp up of new facility critical for improvement in scale of operations –The company has a relatively moderate scale of operations with revenue of Rs. 413.4 crore in FY2025 (at a standalone level). That said, AIL has an assured revenue stream as it primarily caters to the manufacturing requirements of Adcock Holdings. Although the construction of its greenfield capacity was completed in June 2023, its commencement of operations was delayed to March

2024 due to delayed audit from SAHPRA. With incremental revenues from this facility, the scale of the company is expected to improve and, thus, timely ramp up of operations at the facility remains a monitorable.

High customer and geographical concentration risks – AIL derived around 87% and 83% of its revenues from its top two customers in FY2024 and FY2025, respectively, with significant dependence on Adcock Holdings. Consequently, it is exposed to high geographical concentration risk as more than 70% 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 ramp up of its greenfield capacity, as about 50% of the capacity is expected to be available for external sales. The company is also planning to start sales to the Australian market in FY2026, where it will be suppling to iNova Pharmaceuticals, to improve geographical diversification.

ICRA also notes that the company has low therapeutic diversification with a key focus on pain management, which drives 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 fluctuations in the South African local currency, and as it imports 50-60% of its raw material in US dollars, the risk is mitigated to a certain extent on the back of partial natural hedge.

Exposure to raw material price volatility; revenues vulnerable to unfavourable forex movements – The company's profitability remains vulnerable to packaging and freight costs in addition to volatility in raw material prices. 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. The revenue for FY2024 was impacted due to the delay in procurement of codiene, a key raw material for the company, on account of delay in renewal of Codeine Gazette by the Government of India (GoI). Previously, the company maintained 3-4 months of inventory for codeine. However, after witnessing disruptions in operations due to unavailability in FY2024, the company is now holding relatively higher inventory of codeine to avoid any disruption to its operations. This led to increased inventory holding for the company as on March 31, 2025. The inventory days have increased to around 128 in FY2025 from around 56 in FY2024 and are expected to remain elevated, going forward.

Regulatory risks 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 FY2024, could impact the revenues of the company.

Liquidity position: Strong

AIL's liquidity position remains strong, with free cash and liquid investments of Rs. 139.7 crore (at standalone level) as on March 31, 2025, with its sanctioned working capital limit of Rs. 42.4 crore remaining unutilised during the 12-month period ended in April 2025. The capex for the greenfield capacity was completed in June 2023 and the company is expected to incur only upgradation and maintenance capex during FY2026. The capex for the greenfield capacity was funded by a mix of internal accruals and foreign currency term loan of Rs. 50.0 crore and the company has repayment obligations of around Rs. 13.7 crore and Rs. 11.0 crore in FY2026 and FY2027, respectively. Going forward, the dividend payout is expected to remain in line with past trends. Any higher-than-expected dividend payout and its impact on the company's liquidity position and debt metrics will be key monitorable factor.

Rating sensitivities

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

Negative factors – Pressure on the ratings could arise, due to weakening of business linkages with the JV partners and a sharp deterioration in the credit profile of the company owing to factors including debt-funded capex. Additionally, pressure on the ratings could arise with a significant decline in revenues resulting in deterioration of the profit margins or any higher-than-expected dividend payout impacting the company's liquidity position and debt metrics on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit 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. Along with its captive customers (JV partners), the company also provides contract manufacturing services (CMS) to some of its external customers. AIL is currently operating with two manufacturing facilities in Bengaluru. AIL's facilities have received approval from leading global regulatory bodies such as South African Health Products Regulatory Authority (SAPHRA), UK Medicines and Healthcare products Regulatory Agency (MHRA), Australia Therapeutic Goods Administration (TGA), France Agency for Food, Environmental and Occupational Health & Safety (ANSES), Kenya Pharmacy and Poisons Board (PPB), etc.

Key financial indicators (audited)

AIL (Consolidated)	FY2023	FY2024	FY2025*
Operating income	464.8	419.4	413.4
PAT	80.5	81.7	105.1
OPBDIT/OI	25.8%	27.7%	31.2%
PAT/OI	17.3%	19.5%	25.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.3	0.1
Total debt/OPBDIT (times)	0.5	0.5	-
Interest coverage (times)	604.4	333.0	257.8

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore *Standalone Provisional Financials*
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 (FY2026)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	May 23, 2025	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023
					-	Mar 27, 2024	Jan 30, 2023
1	**Fund-based working capital#**	Long term	(19.90)	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
2	**Non-fund based limits#**	Long term	(15.00)	**[ICRA]A+ (Stable)**	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**
3	**Fund-based limits – Working capital**	Short term	42.40	**[ICRA]A1+**	-	**[ICRA]A1+**	**[ICRA]A1+**
4	**Non-fund based limits#**	Short term	(15.0)	**[ICRA]A1+**	-	**[ICRA]A1+**	**[ICRA]A1+**
5	**Unallocated**	Long term/Short term	12.60	**[ICRA]A+ (Stable)/ [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
Long Term/ Short Term-Unallocated	Not Applicable

#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	(19.90)	[ICRA]A+ (Stable)
NA	Non-fund based limits#	NA	NA	NA	(15.00)	[ICRA]A+ (Stable)
NA	Fund-based limits – Working capital	NA	NA	NA	42.40	[ICRA]A1+
NA	Non-fund based limits#	NA	NA	NA	(15.00)	[ICRA]A1+
NA	Unallocated	NA	NA	NA	12.60	[ICRA]A+(Stable)/[ICRA]A1+

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

Annexure II: List of entities considered for consolidated analysis

Company name	LTHL ownership	Consolidation approach
Adcok Ingram Pharma Private Limited	100.00%	Full consolidation

Source: Company

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