

August 13, 2025

Natural Capsules Limited: Ratings downgraded to [ICRA]BB+(Stable)/ [ICRA]A4+

Summary of rating action

| Instrument [^] | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|--------------------------------------|-------------------------------------|---|
| Long Term-Fund Based-Term Loan | 30.00 | 30.00 | [ICRA]BB+(Stable); downgraded from [ICRA]BBB-(Stable) |
| Long Term - Fund Based – Cash Credit | 27.50 | 27.50 | [ICRA]BB+(Stable); downgraded from [ICRA]BBB-(Stable) |
| Short Term – Fund Based | 2.50 | 2.50 | [ICRA]A4+; downgraded from [ICRA]A3 |
| Short Term – Non-Fund Based | 2.80 | 2.80 | [ICRA]A4+; downgraded from [ICRA]A3 |
| Total | 62.80 | 62.80 | |

[^] Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has considered the consolidated financials of Natural Capsules Limited (NCL) and its subsidiaries, including Natural Biogenex Private Limited (NBPL).

The downgraded ratings reflect the pressure on NCL's revenues and profits in FY2026. This is attributed to the slower-than-projected ramp-up of its new steroid active pharmaceutical ingredients (API) facility, which is being set up under its 69.23% subsidiary, NBPL. The API facility obtained the Consent for Operation (CFO) and Authorization from the Karnataka State Pollution Control Board on January 13, 2025, and it subsequently commenced the commercial production. The ramp-up of the facility has, however, remained slow, impacting NCL's overall revenues and profits. This was evident in Q1 FY2026, when at a consolidated level, NCL reported an operating profit margin of 0.7% on revenues of Rs. 45.2 crore.

The entity's management expects the pickup in capacity utilisation largely from H2 FY2026, and the extent of such utilisation remains to be seen. These factors are expected to exert pressure on NCL's revenues and profits in FY2026, leading to further weakening of its debt coverage indicators. The company's liquidity position remains stretched, characterised by near-full utilisation of the working capital limits. The ratings also continue to consider NCL's exposure to raw material price fluctuations, foreign exchange (forex) fluctuation risks and high competition, particularly in the gelatin capsules segment, restricting its pricing flexibility to some extent.

The ratings favourably consider NCL's established presence in the empty hard gelatin capsule (EHGC) manufacturing industry, its promoters' extensive experience in the industry and diversified client profile as well as strong relationships with pharmaceutical majors. NCL foraying into hydroxypropyl methylcellulose (HPMC) capsules and steroid API production will lend diversity to its operating profile in the medium term. However, the same is exposed to the risk of timely commencement and effective utilisation of capacity thereon. The timely ramp-up of operations of the API plant will be key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that NCL's credit profile will remain subdued in FY2026 and gradually improve thereafter, benefitting from its increased capacities, particularly in HPMCs, coupled with the anticipated scale-up of the API business.

Key rating drivers and their description

Credit strengths

Established presence in EHGC industry, foray into HPMC and steroidal APIs to lend revenue diversity – NCL has an established market position with a large product portfolio in the EHGC segment. The company has an installed production capacity of 18.75 billion capsules per annum (as of March 2024), which is primarily for gelatin capsules. Further, the company is expanding its capabilities in HPMCs, which will support its revenue growth and margin profile as these capsules have higher realisation and margins over gelatin capsules.

Extensive experience of promoters – The promoters have extensive experience in the capsule business. NCL is owned and managed by the Mundra family, who have extensive experience of three decades in the pharmaceutical industry.

Diversified customer profile and strong relationships with pharmaceutical majors – NCL caters to a large number of reputed customers in the domestic as well as export markets. The company has long-term relationships with customers. NCL's key export markets include Africa, South America and West Asia, with a recent foray into the US and Canadian markets.

Credit challenges

Slower-than-projected ramp-up of API plant – The API facility in NBPL was initially expected to commence operations from August 2023. However, it obtained the CFO from the Karnataka State Pollution Control Board on January 13, 2025, following which commercial production commenced, albeit on a lower scale, since March 2025. The ramp-up in the same has been slow, with the company yet to fully commercialise the plant. At present, the company is conducting stability studies, and hence, the plant is operating at sub-optimal capacity utilisation levels. The management expects the pickup in capacity utilisation largely from H2 FY2026, although this remains to be seen.

Weakened financial profile – Slower-than-projected ramp-up in the API business is expected to exert pressure on revenues and profits of NCL in FY2026, leading to further weakening of its debt coverage indicators. At a consolidated level, NCL reported an operating profit margin of 0.7% on revenues of Rs. 45.2 crore, with cash losses of Rs. 2.7 crore. NCL's financial profile remained under pressure in FY2025 due to pricing pressures in the gelatin capsules business. Total debt vis-à-vis operating profit deteriorated to 6.4 times as on March 31, 2025, and 6.2 times as on March 31, 2024, vis-à-vis 2.8 times as on March 31, 2023. While pricing pressures in the base business have eased in YTD FY2026, owing to the slow ramp-up in the API plant, the financial profile is expected to further weaken in FY2026. The company's liquidity position remains stretched, characterised by near-full utilisation of the working capital limits.

Exposure to raw material price volatility and forex fluctuation risks; high competition, particularly in EHGC segment – NCL faces intense competition for gelatin capsules in the international markets, mainly from Chinese players, which restricts its pricing flexibility. In the domestic market, it faces competition from other established players. Owing to this stiff competition, NCL's ability to pass on the increase in raw material prices to its customers is limited. At present, NCL imports 15-20% of its raw material (gelatin) and usually passes any increase in prices partially. With capacity addition for HPMC capsules, the raw material imports are expected to increase as the raw material for HPMC capsules is currently not available. Also, the subsidiary will encounter import dependence for key raw materials (at least in the initial phase), which will keep it exposed to price volatility as well as forex fluctuation risks. However, the company plans to hedge its forex exposure by entering into forward contracts.

Liquidity position: Stretched

NCL's liquidity position is stretched, as evident by limited headroom in working capital limits and cash losses in Q1 FY2026. There will be moderate capex of Rs. 4-5 crore in NCL towards pending capacity addition for HPMC capsules, which is expected to be funded by incremental term debt. Further, incremental capex of Rs. 10-12 crore in NBPL for Phase-2 fermenter is to be incurred in FY2026, which will be secured through incremental term debt or fresh equity. The company has consolidated debt repayment of Rs. 10.5 crore in FY2026 which is expected to be funded by internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade NCL’s ratings if it is able to increase its scale of operations and profitability on a sustained basis through optimal utilisation of its capacities in capsules and timely ramp up of operations of its API facility, while maintaining a comfortable liquidity position and satisfactory debt coverage indicators.

Negative factors – Negative pressure on the ratings could arise in case of slow ramp up of API facility or any sharp decline in revenues leading to weakening of the liquidity position and/or credit metrics 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 NCL. Refer to the Annexure II for the list of entities considered for consolidation. |

About the company

NCL, headquartered in Bangalore, is among the leading manufacturers of Empty Hard Gelatin Capsules (EHGC) shells in India. The company has two manufacturing units with a cumulative production capacity of 19.5 billion capsules per annum (BCPA) as on March 31, 2025. As per the company’s FY2025 annual report, the company is the second largest manufacturer of gelatin capsules in India. Although the domestic market contributes majorly to the business, NCL caters across multiple geographies such as Europe, Africa, West Asia and the SAARC regions. NCL manufactures about 12 different types of capsules under its normal EHGC capsules. The company has also installed a new manufacturing line for hydroxypropyl methylcellulose (HPMC) capsules or vegetarian capsules in Q4 FY2024 and is in the process of installing one more line by Q3 FY2026.

In August 2020, the company established Natural Biogenex Private Limited (NBPL) to set up an API manufacturing facility of steroids under the Central government’s Production Linked Incentive (PLI) scheme. The company has also set up another wholly owned subsidiary, Natural Phyto Pharma Private Limited, for the purpose of research and development (R&D). At present, this entity is non-operational as per the management.

Key financial indicators (audited)

| Consolidated | FY2024 | FY2025 | Q1 FY2026 |
|--|--------|--------|-----------|
| Operating income | 155.4 | 169.2 | 45.2 |
| PAT | 5.6 | 0.6 | (5.6) |
| OPBDIT/OI | 12.2% | 10.4% | 0.7% |
| PAT/OI | 3.6% | 0.4% | (12.3%) |
| Total outside liabilities/Tangible net worth (times) | 0.7 | 0.7 | - |
| Total debt/OPBDIT (times) | 6.2 | 6.4 | - |
| Interest coverage (times) | 3.6 | 2.7 | 0.1 |

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: Not applicable

Rating history for past three years

| Instrument | Type | Current (FY2026) | | Chronology of rating history for the past 3 years | | | | | | |
|---|--------------------------|--------------------------------|-------------|---|-------------|----------------------|-------------|-------------------------------|-------------|-------------------------------|
| | | Amount Rated (Rs. crore) | FY2026 | | FY2025 | | FY2024 | | FY2023 | |
| | | | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Fund based - Term loans | Long-term | 30.00 | 13-Aug-2025 | [ICRA]BB+ (Stable) | 26-Nov-2024 | [ICRA]BBB - (Stable) | 13-Sep-2023 | [ICRA]BBB (Stable) | - | - |
| | | | - | - | - | - | 22-Aug-2023 | [ICRA]BBB (Stable) | - | - |
| Fund based - Cash Credit | Long-term | 27.50 | 13-Aug-2025 | [ICRA]BB+ (Stable) | 26-Nov-2024 | [ICRA]BBB - (Stable) | 13-Sep-2023 | [ICRA]BBB (Stable) | 04-Jul-2022 | [ICRA]BBB (Stable) |
| | | | - | - | - | - | 22-Aug-2023 | [ICRA]BBB (Stable) | - | - |
| | | | - | - | - | - | 01-May-2023 | [ICRA]BBB (Stable) | - | - |
| Fund based – Working capital facilities | Short term | 2.50 | 13-Aug-2025 | [ICRA]A4+ | 26-Nov-2024 | [ICRA]A3 | 13-Sep-2023 | [ICRA]A3+ | - | - |
| Non-fund based – Working capital facilities | Short term | 2.80 | 13-Aug-2025 | [ICRA]A4+ | 26-Nov-2024 | [ICRA]A3 | 13-Sep-2023 | [ICRA]A3+ | 04-Jul-2022 | [ICRA]A3+ |
| | | | - | - | - | - | 22-Aug-2023 | [ICRA]A3+ | - | - |
| | | | - | - | - | - | 01-May-2023 | [ICRA]A3+ | - | - |
| Unallocated Limits | Long term and short term | - | - | - | - | - | 22-Aug-2023 | [ICRA]BBB (Stable)/ [ICRA]A3+ | 04-Jul-2022 | [ICRA]BBB (Stable)/ [ICRA]A3+ |
| | | | - | - | - | - | 01-May-2023 | [ICRA]BBB (Stable)/ [ICRA]A3+ | - | - |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--------------------------------------|----------------------|
| Long Term-Fund Based-Term Loan | Simple |
| Long Term - Fund Based – Cash Credit | Simple |
| Short Term – Fund Based | Simple |
| Short Term – Non-Fund Based | Very 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 | Fund based – Term loans | FY2021 | 9.0-9.5% | FY2029 | 30.00 | [ICRA]BB+(Stable) |
| NA | Fund based – Cash Credit | NA | 9.0-9.5% | NA | 27.50 | [ICRA]BB+(Stable) |
| NA | Fund based – Working capital facilities | NA | NA | NA | 2.50 | [ICRA]A4+ |
| NA | Non-Fund Based working capital facilities | NA | NA | NA | 2.80 | [ICRA]A4+ |

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 | NCL's Ownership | Consolidation Approach |
|---|-----------------|------------------------|
| Natural Biogenex Private Limited (NBPL) | 69.23% | Full Consolidation |
| Natural Phyto Pharma Private Limited | 100.00% | Full Consolidation |

Source: Company

Note: ICRA has considered the consolidated financials of the parent (NCL), its subsidiaries while assigning the ratings.

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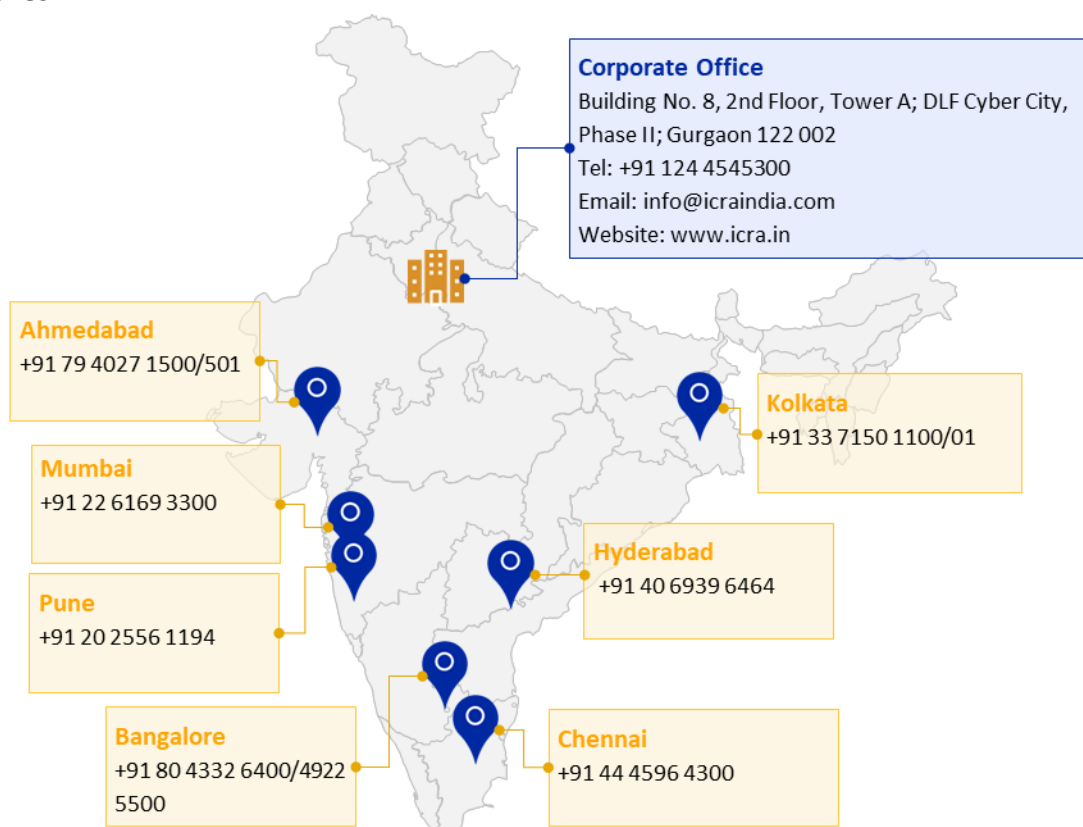
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