

August 19, 2025

Covalent Laboratories Private Limited: Ratings placed on Watch with Negative Implications

Summary of rating(s) outstanding

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – fund-based – term loans	30.00	30.00	[ICRA]A; placed on Rating Watch with Negative Implications
Long-term – fund-based – working capital facilities	210.00	210.00	[ICRA]A; placed on Rating Watch with Negative Implications
Short-term – non-fund-based limits	83.00	83.00	[ICRA]A2+; placed on Rating Watch with Negative Implications
Total	323.00	323.00	

**Instrument details are provided in Annexure I*

Rationale

Material event

ICRA has been informed by Covalent Laboratories Private Limited (CLPL) that its newly incorporated and wholly-owned subsidiary, Ceph Lifesciences Private Limited (Ceph), has entered into a business transfer agreement (BTA) with Nectar Lifesciences Limited (NLL). NLL primarily manufactures active pharmaceutical ingredients (APIs) and formulations and has four state-of-the-art manufacturing facilities across Punjab and Himachal Pradesh.

As per this BTA, Ceph has agreed to purchase NLL’s business of manufacturing, distribution, marketing and sale of active pharmaceutical ingredients (APIs) and formulations on a slump sale basis for Rs. 1,270 crore and the purchase of the sale, transfer and delivery of the assets of its menthol business for Rs. 20 crore. As per CLPL’s management, the transaction is expected to be completed by September 2025.

Impact of the material event

Both CLPL and NLL are among the leading Indian manufacturers of APIs for cephalosporin class of drugs. With this acquisition, CLPL will have access to three of NLL’s API and formulations manufacturing facilities located in Punjab and Himanchal Pradesh. Thus, this acquisition will enhance CLPL’s manufacturing base and market share in the global cephalosporin drugs market, leading to a healthy growth in its revenues and earnings. The acquisition will also provide CLPL access to NLL’s formulations manufacturing business, resulting in forward integration for its API business.

The transaction, likely to close by September 2025, is expected to be primarily funded by debt of around Rs. 1,000 crore to be raised in Ceph, and the balance through equity infusion by CLPL in Ceph. This is expected to result in a significant increase in CLPL’s consolidated debt level to Rs. 1,350-1,450 crore as on March 31, 2026 from around Rs. 66 crore as on March 31, 2025, significantly higher than ICRA's earlier expectations.

Given that the increase in leverage levels is dependent on the completion of the business transfer and its final funding mix, ICRA has placed the ratings of CLPL on Watch with Negative Implications. ICRA will continue to monitor the developments closely and will take appropriate rating action based on the completion of the business transfer and its impact on the credit profile of CLPL.

Please refer to the following link for the previous detailed rationale that captures Key rating drivers and their description, Liquidity position and Rating sensitivities: [Click here](#)

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

CLPL is a part of the Hyderabad-based Virchow Group, formed in 2002. It was incorporated by Mr. Madireddy Narayana Reddy and his associates, specialising in manufacturing of APIs and intermediates for cephalosporins in the therapeutic segment of beta-lactamase antibiotics. The key products of CLPL include APIs for four cephalosporin drugs — Cefixime, Axetil, Proxetil and Cefdinir. It is the largest manufacturer of Cefixime, Axetil and Cefdinir in India as per the management. CLPL has a single manufacturing facility in Medak district in Hyderabad, with an installed capacity of 2,446 metric tonnes per annum (MTPA). The facility is USFDA, EU GMP, WHO GMP and ISO 14001-2004 certified.

Key financial indicators (audited)

CLPL – Standalone	FY2024	FY2025
Operating income	2916.1	2675.8
PAT	206.4	174.5
OPBDIT/OI	10.2%	9.8%
PAT/OI	7.1%	6.5%
Total outside liabilities/Tangible net worth (times)	1.2	0.8
Total debt/OPBDIT (times)	0.3	0.2
Interest coverage (times)	42.0	35.2

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

Instrument	Current ratings (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Aug 19, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Fund Based – Term Loans	Long term	30.00	[ICRA]A; Rating Watch with Negative Implications	Oct 23, 2024	[ICRA]A (Stable)	Jan 03, 2024	[ICRA]A- (Positive)	Nov 17, 2022	[ICRA]A- (Stable)
Fund Based – Working Capital Facilities	Long term	210.00	[ICRA]A; Rating Watch with Negative Implications	Oct 23, 2024	[ICRA]A (Stable)	Jan 03, 2024	[ICRA]A- (Positive)	Nov 17, 2022	[ICRA]A- (Stable)
Non-Fund Based Limits	Short term	83.00	[ICRA]A2+; Rating Watch with Negative Implications	Oct 23, 2024	[ICRA]A2+	Jan 03, 2024	[ICRA]A2+	Nov 17, 2022	[ICRA]A2+
Unallocated Limits	Long term and short term	-			-	Jan 03, 2024	[ICRA]A- (Positive)/ [ICRA]A2+		-
Fund Based Limits	Short term	-			-	-			-
Unallocated Limits	Long term	-			-	-			-

Complexity level of the rated instrument

Instrument	Complexity indicator
Long Term – Fund Based – Term Loans	Simple
Long Term – Fund Based – Working Capital Facilities	Simple
Short Term – Non-Fund Based Limits	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	Proposed Term Loans	NA	NA	NA	30.00	[ICRA]A; Rating Watch with Negative Implications
NA	Working Capital Facilities	NA	NA	NA	210.00	[ICRA]A; Rating Watch with Negative Implications
NA	Non-Fund Based Limits	NA	NA	NA	83.00	[ICRA]A2+; Rating Watch with Negative Implications

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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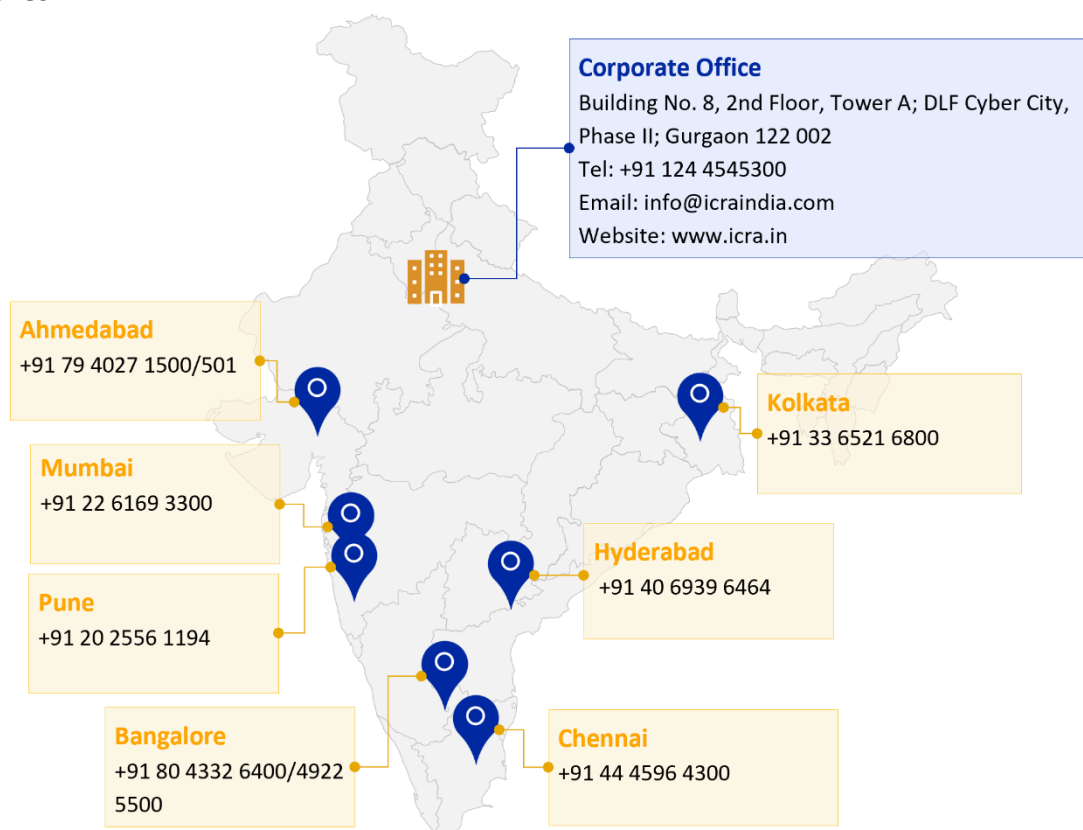
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