

February 25, 2026

Dhanuka Laboratories Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term/Short-term - Fund-based - Cash credit	91.00	91.00	[ICRA]BBB(Negative) /[ICRA]A3+; reaffirmed with a revision in outlook to Negative from Stable
Short-term - Non-fund based - Others	62.00	62.00	[ICRA]A3+ ; Reaffirmed
Total	153.00	153.00	

*Instrument details are provided in Annexure-I

Rationale

For arriving at the ratings for the bank lines of Dhanuka Laboratories Limited (DLL), ICRA has consolidated the financials of DLL (standalone) and Orchid Pharma Limited (OPL), which DLL acquired in March 2020 under the Insolvency and Bankruptcy Code (IBC) process, and currently holds a 69.8% stake in it.

The revision in the outlook factors in the pressure on the credit metrics of both DLL and OPL due to weakened operating performance on account of a broad-based slowdown in demand and pressure on realisations for the cephalosporin active pharmaceutical ingredients (APIs) in 9M FY2026. Along with the inventory losses (due to liquidation of high-cost inventory), this has adversely impacted the earnings of the entities in FY2026. While some green shoots of demand recovery are visible in Q4 FY2026, meaningful improvement in revenues and earnings hinges on a sustained healthy demand of cephalosporin, which remains a key monitorable. Nonetheless, the ratings derive strength from the comfortable liquidity position of the company with the entire fund-based working capital limits of Rs. 231 crore remaining unutilised as on February 12, 2026, and unutilised qualified institutional placement (QIP) proceeds of Rs. 62 crore as on December 31, 2025 (earmarked for capacity expansion plans).

The company is in the midst of setting up a greenfield facility for manufacturing 7-aminocephalosporanic acid (7ACA), a key raw material for manufacturing cephalosporin antibiotics under OPL's wholly-owned subsidiary, Orchid Biopharma Limited (OBPL) and will later be adding incremental API capacities in OPL's existing Chennai facility for downstream 7ACA processing. The company is expected to realise substantial backward integration benefits from these facilities in the long term. This apart, the company has undertaken another project related to Contract Development and Manufacturing Organisation (CDMO) for Shionogi, a Japanese pharmaceutical company, which is also expected to commence operations by the end of CY2026.

The total cost of the capital expenditure (capex) is pegged at around Rs. 790 crore, expected to be incurred over FY2026 and FY2027. While a part of the said capex will be funded through (QIP) proceeds of around Rs. 390 crore received in FY2024 and internal accruals, the company will also be availing sizeable debt of Rs. 590 crore, for the 7ACA facility and the Shionogi project. Owing to the technical complexity and nascent stage of the 7ACA project, there are high project execution risks and the company's ability to successfully commission the plant remains to be seen.

The OPM also remains volatile on the back of uncertainty over raw material prices amid high dependence on China for its procurement, competitive pressure in semi-regulated markets and forex fluctuations. The business remains working capital intensive, led by a long receivable period and high inventory requirements.

However, the ratings continue to draw comfort from DLL's established relationships with the clients in the cephalosporins API segment and the promoters' extensive experience in the said space. The ratings also derive comfort from the track record of

financial support from its associate company, Dhanuka Agritech Limited (DAL). Further, the 7ACA and the CDMO projects for Shionogi provide additional revenue visibility in the medium-to-long term. ICRA also notes the recent acquisition of all assets, including intellectual property, trademarks, customer contracts, regulatory filings and tangible/intangible assets of Allerca Therapeutics GmbH (Allecrea) by OPL, which repatriate the global marketing rights for enmetazobactam to OPL. This additionally provides incremental revenue visibility for the medium term.

Key rating drivers and their description

Credit strengths

Leading player in cephalosporin API segment; diversified client portfolio across regulated and semi-regulated markets – The company is a leading manufacturer of cephalosporin APIs and intermediates with a wide portfolio across all five generations of cephalosporin products on a consolidated basis. DLL is present in oral cephalosporins, while its subsidiary, OPL, is present in both oral and sterile (injectable) segments. The company has a well-diversified client portfolio across regulated and semi-regulated/unregulated markets. DLL is also present in the non-cephalosporin segment, which contributed around 14% to its standalone revenues in FY2025.

Benefits for being a part of the Dhanuka Group with record of financial support, backed by strong promoters – DLL is a part of the Dhanuka Group. DLL's promoter, Mr. Manish Dhanuka, has extensive experience of over 25 years in the pharmaceutical industry, especially in the cephalosporin segment. Under his leadership, DLL successfully acquired OPL and has been able to revive its performance, while having implemented a deleveraging plan through non-core asset sale and equity raise. Moreover, DAL, the flagship company of the Dhanuka Group, has a track record of providing financial support to the company. DAL has extended a credit line of Rs. 50 crore to DLL, which is currently unutilised. With managerial and promoter linkages between DLL and DAL, the former enjoys financial flexibility and comfort with support from DAL.

7ACA project to provide backward integration benefits – The 7ACA project, which is currently ongoing, will provide an avenue for additional revenue and will also be utilised for its captive purposes. While the company will reap the benefits of backward integration, this will also help DLL increase its presence and establish its market position within the cephalosporin segment. This apart, another project for CDMO operations being set up for Shionogi will also enhance DLL's scale at a consolidated level.

Credit challenges

Sizeable debt-funded capex plans, expected weakening in coverage indicators – The company has announced large capex plans with a combined cost of around Rs. 790 crore, which includes capex for the greenfield 7ACA project and the CDMO project for Shionogi. Also, the company will be adding incremental API capacities in OPL's existing Chennai facility for downstream 7ACA processing. While a part of the said capex will be funded through QIP proceeds of around Rs. 390 crore received in FY2024 and internal accruals, the company will also be availing sizeable debt of Rs. 590 crore, for the 7ACA facility and Shionogi project. Owing to the technical complexity and nascent stage of the 7ACA project, there are high project execution risks and the company's ability to successfully commission the plant remains to be seen. With a moderation in the operating performance in YTD FY2026 due to a broad-based slowdown in demand and pressure on realisations for the cephalosporin APIs, DLL's consolidated credit profile might moderate in the medium term with pressure on return, leverage and coverage metrics, pending the project's successful implementation and ramp-up. Owing to the technical complexity and nascent stage of the 7ACA project, there are high project execution risks and the company's ability to successfully commission the plant remains to be seen.

High dependence on imports for raw materials; susceptible to fluctuations in raw material prices and forex rates – The company's operations have high dependence on China for raw material procurement, though through a diversified supplier base. In FY2023, there was a significant increase in raw material cost owing to elevated penicillin prices (a key raw material) and depreciation of the rupee. Raw material prices improved considerably in FY2024, resulting in improvement in DLL's standalone margins as it operates in semi-regulated markets with intense competition. Although the 7ACA project would bring down its import dependence in the long term, DLL's margins would continue to remain vulnerable to raw material price fluctuations as well as forex risk in the near-to-medium term.

High working capital intensity amid high inventory levels – DLL’s working capital intensity of operations continues to remain high at 40-45% on a consolidated basis owing to high debtor days, resulting from sizeable exports, and the need to maintain high inventory levels due to high price volatility of the key raw materials. Thus, the company’s working capital requirements are expected to be sizeable, as common in this business. ICRA notes that the company has adequate working capital limits both at DLL and OPL to meet working capital requirements.

Liquidity position: Adequate

DLL’s liquidity position is Adequate. The company had unencumbered cash and bank balance and fixed deposits of Rs. 42.1 crore as on March 31, 2025, at the consolidated level. Further, the entire fund-based working capital limits of Rs. 91 crore at the standalone level and Rs. 140 crore in OPL stand unutilised as on date. Also, the company has unutilised credit line of Rs. 50 crore from DAL. Considering the moratorium period available on term loans, the company has debt repayment obligations of Rs. 14.3 crore in FY2027 and Rs. 28.6 crore in FY2028, on a consolidated basis. The company expects to incur a capex of Rs. 790 crore (excluding maintenance capex) over FY2026-27 out of which Rs. 590 crore will be funded through debt and the balance through QIP proceeds and internal accruals.

Rating sensitivities

Positive factors – The outlook may be revised to Stable in case of a healthy improvement in earnings, led by demand revival in the key product, cephalosporin segment. Further, profitable ramp up in operations from the new expansions which leads to sustained improvement in credit metrics will be a rating driver over the medium term. Specific metrics for ratings upgrade would include consolidated total debt/OPBITDA of lower than 2.5 times on a sustained basis.

Negative factors – A downward rating action could be triggered if there is a continued decline in earnings led by delay in demand revival of cephalosporin. Also, higher-than-anticipated debt-funded capex and/or material delays in capex execution, leading to weakened liquidity position and sustained weakening of credit metrics, will additionally put pressure on the ratings. A sustained decline in DSCR below 1.4 times could lead to a rating downgrade. Further, a decline in financial flexibility available to the entity from its associate concern, DAL, would remain a key rating monitorable.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/group Support	The ratings assigned to DLL factor in the likelihood of its associate concern, DAL, extending financial support to it because of the need to protect its reputation from the consequences of a Group entity’s distress
Consolidation/standalone	For arriving at the ratings, ICRA has considered the consolidated financials of DLL. As on March 31, 2025, the company had two subsidiaries, which are enlisted in Annexure-II.

About the company

DLL has been involved in manufacturing and marketing of active pharmaceutical ingredients (APIs) and advanced intermediates of cephalosporin antibiotics since the commencement of its commercial operations in 1998. The company is promoted by the Dhanuka Group. Its flagship company, Dhanuka Agritech Limited (DAL) was rated [ICRA]AA (Stable)/A1+ (the rating stands withdrawn as on September 2024). DLL is a supplier of cephalosporin products to domestic and overseas non-regulated markets such as Pakistan, Bangladesh, Turkey, South Korea, China etc. through its manufacturing facility in Gurgaon (Haryana). The company diversified its portfolio to non-cephalosporin APIs/intermediates through its Keshwana facility in Rajasthan. Apart from operating in the API segment, DLL is present in formulations segment through Synmedic Laboratories, which was acquired by DLL in 2013. At present, Synmedic operates a manufacturing facility in Faridabad (Haryana) and mainly sells its products to South East nations such as Vietnam, the Philippines, Cambodia etc. Synmedic has also set up another plant in Rajasthan to increase its manufacturing capacity for the formulations.

This apart, DLL also has a 69.8% subsidiary named OPL, which is a listed entity and was acquired by DPL in March 2020 under the IBC process. OPL also manufactures cephalosporin APIs and formulations and has significant presence in regulated markets such as the US, Europe, Japan etc.

Key financial indicators (audited)

Dhanuka Laboratories Limited (Consolidated)	FY2024	FY2025
Operating income	1376.0	1400.9
PAT	192.1	124.9
OPBDITA/OI	12.2%	11.7%
PAT/OI	14.0%	8.9%
Total outside liabilities/tangible net worth (times)	0.4	0.3
Total debt/OPBDITA (times)	0.8	0.9
Interest coverage (times)	9.2	12.4

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	Current rating(FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs crore)	February 25, 2026	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Fund-based - Cash credit	Long-term/Short-term	91.00	[ICRA]BBB(Negative) / [ICRA]A3+	November 29, 2024	[ICRA]BBB (Stable)/[ICRA]A3+	August 31, 2023	[ICRA]BBB (Stable)/[ICRA]A3+	May 27, 2022	[ICRA]BBB (Stable)/[ICRA]A3+
Non-fund based - Others	Short-term	62.00	[ICRA]A3+	November 29, 2024	[ICRA]A3+	August 31, 2023	[ICRA]A3+	May 27, 2022	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term/Short-term - Fund-based - Cash credit	Simple
Short-term - Non-fund based - Others	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 / sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
NA	Fund-based Working Capital	NA	NA	NA	91.0	[ICRA]BBB (Negative)/ [ICRA]A3+
NA	Non-fund Based Working Capital	NA	NA	NA	62.0	[ICRA]A3+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	DLL Ownership	Consolidation approach
Orchid Pharma Limited (OPL)	69.80%	Full consolidation

Source: Company

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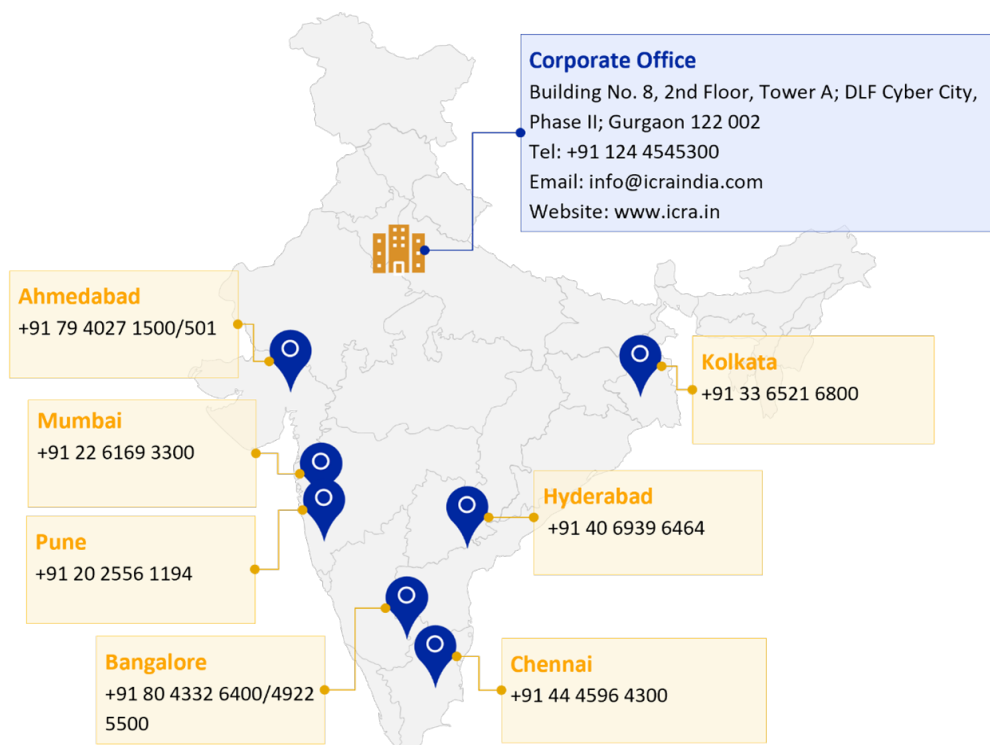


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