

March 31, 2026

Covalent Laboratories Private Limited: Long-term rating downgraded and short-term rating reaffirmed; ratings removed from watch with negative implications and Stable outlook assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – fund-based – term loans	30.00	150.00	[ICRA]A-(Stable); downgraded from [ICRA]A and removed from watch with negative implications; Stable outlook assigned/assigned for enhanced limits
Long-term – fund-based – working capital facilities	210.00	543.00	[ICRA]A-(Stable); downgraded from [ICRA]A and removed from watch with negative implications; Stable outlook assigned/assigned for enhanced limits
Short-term – non-fund-based limits	83.00	30.00	[ICRA]A2+; reaffirmed and removed from watch with negative implications
Total	323.00	723.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has taken a consolidated view of Covalent Laboratories Private Limited (CLPL) and its wholly owned subsidiary, Ceph Lifesciences Private Limited (Ceph), given the common management and significant operational and financial linkages between them.

In August 2025, the ratings of Covalent Laboratories Private Limited (CLPL) were placed on watch with negative implications as Ceph Lifesciences Private Limited (a wholly owned subsidiary of CLPL; Ceph) had entered into a business transfer agreement (BTA) with Nectar Lifesciences Limited (NLL) to purchase the latter's business of manufacturing, distribution, marketing and sale of active pharmaceutical ingredients (APIs), formulations and menthol business on a slump sale basis for around Rs. 1,290 crore. The transaction was completed in November 2025 and ICRA had been engaging with CLPL to understand the contours of the transaction, including the funding pattern. Following the receipt of adequate information with respect to the transaction, ICRA has removed the ratings from watch with negative implications, downgraded the long-term rating to [ICRA]A- while assigning a Stable outlook and reaffirmed the short-term rating at [ICRA]A2+.

The downgrade of the long-term rating factors in the increase in CLPL's leverage (at a consolidated level) following the completion of the transaction. Ceph has funded the acquisition through a term loan of Rs. 700 crore and a fund infusion of Rs. 440 crore by CLPL (including equity of Rs. 50 crore and compulsorily convertible debentures of Rs. 390 crore). In turn, the borrowings of CLPL have also increased to more than Rs. 500 crore as on February 28, 2026, from Rs. 65.6 crore as on March 31, 2025. This includes a mix of working capital borrowings and a term loan of Rs. 150 crore towards reimbursement of capex incurred. As a result of the additional debt, total debt/OPBDITA of CLPL (on a consolidated basis) is expected to increase to around 3.5 times by March 31, 2027 compared to 0.2 times as on March 31, 2025. The leverage is expected to reduce gradually with an improvement in earnings and debt repayment starting from Q3 FY2027.

Both CLPL and NLL have been among the leading Indian manufacturers of APIs for the cephalosporin class of drugs. With this acquisition, CLPL has gained access to three of NLL's API and formulations manufacturing facilities located in Punjab and Himachal Pradesh. Thus, the acquisition has considerably strengthened CLPL's manufacturing base and market share in the global cephalosporin drugs market and is expected to support healthy growth in its revenues and earnings over the medium

term. The acquisition has also provided CLPL access to NLL's formulations manufacturing business, resulting in forward integration for its API segment, which can lead to an improvement in its profitability over the long term. However, OPM is expected to moderate over the near to medium term while the business under Ceph undergoes gradual stabilisation. Thus, CLPL's ability to scale up operations under Ceph while improving profitability remains a key monitorable for the improvement in its credit profile.

The ratings continue to remain constrained by CLPL's high product concentration risk, with its four key molecules historically generating more than 90-95% of its total revenues. Ceph also has a similar product portfolio, with the top four products (three of which are common with CLPL) contributing more than 80% to its revenues. Moreover, CLPL's profitability remains vulnerable to raw material costs. The volatility in the manufacturing process of penicillin G over the last few years resulted in significant fluctuations in CLPL's raw material prices and realisations. However, the commissioning of domestic manufacturing of penicillin G by CLPL's group company and vendor – Virchow Petrochemicals Private Limited – is expected to provide some stability in terms of supply and pricing after the stabilisation of its operations. The company's operations also remain exposed to regulatory risks arising from scrutiny by various regulatory agencies.

The ratings, however, positively factor in CLPL's established operational track record in the manufacturing and sale of the cephalosporin class of antibiotic molecules, with its promoters having extensive experience of over two decades in the API industry. This has helped CLPL establish its market position as one of the leading manufacturers of molecules such as Cefixime, Axetil, Proxetil and Cefdinir in India. Leveraging the same, the company has also developed strong relationships with major domestic formulation manufacturing companies. Moreover, with the acquisition of the business assets pertaining to NLL's cephalosporin business, the company has a significantly higher share of manufacturing capacity within its key product categories, providing benefits in terms of pricing power and a higher market share.

The Stable outlook reflects ICRA's opinion that, despite some moderation in debt protection metrics in the near term, CLPL's credit profile will be supported by its strengthened business position in the cephalosporin market, enabling it to generate healthy growth in revenue and earnings while maintaining an adequate liquidity position.

Key rating drivers and their description

Credit strengths

Established operational track record and extensive experience of promoters in the industry – CLPL has an established track record of more than two decades in the manufacturing and sale of APIs and intermediates for cephalosporins in the therapeutic segment of beta-lactamase antibiotics. CLPL's promoters also have extensive experience of more than 20 years in the manufacturing of APIs and intermediates for cephalosporins. Moreover, CLPL is a part of the Virchow Group, which also has over four decades of experience in the API industry. CLPL purchases 40-50% of its raw material from its group company, Virchow Petrochemicals Private Limited.

High market share for key molecules and established presence in domestic market, supported by reputed customer base – Over the years, CLPL has established itself as a leading manufacturer of cephalosporin APIs such as Cefixime, Proxetil, Axetil and Cefdinir in India. It has a reputable track record and established relationships with large domestic formulation manufacturers, resulting in recurring order inflows. With this acquisition, the company is expected to further strengthen its leadership position in its key product categories.

Diversified revenue stream due to presence in both domestic and export markets – Exports have generated 25-30% of CLPL's overall revenue over the last four years. Moreover, total sales to export markets (including third-party and deemed exports) are also high at 30-35% of total revenues. While the company primarily exports to unregulated/semi-regulated markets, it also sells APIs in regulated markets directly and through Indian formulation companies.

Increase in capacity and product base to support business position and future revenue growth and earnings on a consolidated basis – The acquisition will enable CLPL to improve its business position within the cephalosporin market, aided by a substantial increase in its capacities, positioning it as the single largest manufacturer among its key product categories,

including Axetil, Proxetil and Cefixime. This can also aid in increasing CLPL's bargaining power with suppliers and distributors, supporting an improvement in profitability. Moreover, CLPL will also gain access to the manufacturing of new products, including formulations, which will support the growth and diversification of its revenues and earnings.

Credit challenges

High product concentration on cephalosporins; relatively limited pricing flexibility owing to dependence on mature molecules – CLPL has high product concentration in mature molecules (cephalosporins), whose patents expired more than a decade ago. Thus, the market continues to remain competitive with limited pricing flexibility. However, CLPL has been able to maintain a strong market share across these molecules due to its established operational track record, and the acquisition is expected to support this further.

Profitability indicators vulnerable to movement in raw material costs and forex fluctuations – CLPL's profitability is exposed to volatility in raw material prices owing to significant direct/indirect import dependence. This has resulted in volatility in profitability over the last few years. However, increasing efforts towards backward integration and the ability to partially pass on price changes to customers with a lag of 3-6 months mitigate the risk to a certain extent. CLPL's profitability is also exposed to forex fluctuations owing to imports. However, the risk is partly mitigated by a natural hedge through substantial exports.

Moderate capital structure and debt protection metrics, following acquisition of business assets from NLL; gradual improvement expected – The debt-funded acquisition of the business assets of NLL has resulted in a significant increase in the leverage of CLPL, with the addition of term loans of Rs. 850.0 crore (including Rs. 700.0 crore under Ceph) and an increase in working capital borrowings to more than Rs. 350.0 crore. This has resulted in moderation in CLPL's capital structure and debt protection metrics. The metrics are expected to improve gradually with the reduction in debt coupled with growth in revenues and earnings of the consolidated business. However, CLPL's ability to scale up operations under Ceph while improving profitability remains a key monitorable.

Exposure to regulatory risks – As is the case with its peers, CLPL's operations remain exposed to regulatory risks arising from scrutiny by agencies such as the United States Food and Drug Administration and the European Union – Good Manufacturing Practices, among others. The company also remains vulnerable to regulatory changes impacting the business or the industry.

Liquidity position: Adequate

CLPL's liquidity is adequate, supported by steady internal accrual generation, a cash and bank balance of around Rs. 73.8 crore and unutilised bank facilities of around Rs. 30 crore as on January 31, 2026, on a consolidated basis. It has a capex commitment of Rs. 50 crore over FY2027 and FY2028, which is expected to be largely funded through internal accruals, and repayment obligations of around Rs. 75 crore in FY2027 and Rs. 129 crore in FY2028. CLPL's cash flow from operations, available liquidity and unutilised lines of credit are expected to remain sufficient to fund its cash flow requirements.

Rating sensitivities

Positive factors – CLPL's ratings may be upgraded if the company is able to adequately scale up the business under Ceph while maintaining healthy performance under CLPL, leading to an increase in revenues and improvement in profitability. Improvement in its financial profile following a reduction in debt while maintaining adequate liquidity shall also be a positive factor.

Negative factors – Pressure on CLPL's ratings could arise in case of delayed (or lower-than-anticipated) scale-up of operations under Ceph and/or deterioration in its credit metrics owing to sustained reduction in revenues and profitability, debt-funded capex, or elongation of the working capital cycle.

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 CLPL. Details are provided in Annexure-II.

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 the 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, Hyderabad, with an installed capacity of 2,446 metric tonnes per annum (MTPA). The facility is US FDA, EU GMP, WHO GMP and ISO 14001-2004 certified.

Ceph is a wholly owned subsidiary of CLPL, incorporated for facilitating the business transfer of the business assets pertaining to NLL's APIs, formulations and menthol businesses. The acquisition was completed in November 2026.

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current rating (FY2026)						Chronology of rating history for the past 3 years					
Instrument	Type	Amount rated (Rs. crore)	Mar 31, 2026	Date	Rating	FY2025		FY2024		FY2023	
						Date	Rating	Date	Rating	Date	Rating
Fund Based – Term Loans	Long term	150.00	[ICRA]A-(Stable)	Aug 19, 2025	[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	543.00	[ICRA]A-(Stable)	Aug 19, 2025	[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	30.00	[ICRA]A2+	Aug 19, 2025	[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 instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loans	Simple
Long Term – Fund Based – Working Capital Facilities	Simple
Short Term – Non-Fund Based Limits	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 Loans	June 2025	8.85%	June 2031	150.00	[ICRA]A-(Stable)
NA	Working Capital Facilities	NA	NA	NA	543.00	[ICRA]A-(Stable)
NA	Non-Fund Based Limits	NA	NA	NA	30.00	[ICRA]A2+

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	CLPL's Ownership	Consolidation Approach
Ceph Lifesciences Private Limited	100.0%	Full Consolidation

Source: Company data

Note: Ceph Lifesciences Private Limited was incorporated in FY2026, accordingly the financial statements considered till FY2025 are on a standalone basis.

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