July 31, 2024

Indoco Remedies 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 – Fund-based – Term Loans	231.50	231.50	[ICRA]AA- reaffirmed; Outlook revised to Negative from Stable
Long-term – Fund-based Limits – Cash Credit	29.40	29.40	[ICRA]AA- reaffirmed; Outlook revised to Negative from Stable
Short-term – Fund-based Limits	35.00	35.00	[ICRA]A1+; reaffirmed
Short-term – Non-fund Based Limits	20.25	20.25	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Fund-based Limits	25.00	25.00	[ICRA]AA-/[ICRA]A1+ reaffirmed; Outlook revised to Negative from Stable
Long-term/ Short-term – Unallocated	159.21	159.21	[ICRA]AA-/[ICRA]A1+ reaffirmed; Outlook revised to Negative from Stable
Total	**500.36**	**500.36**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the outlook takes into account the moderation of Indoco Remedies Limited's (IRL/ the company) debt metrics in FY2024, mainly on account of higher-than-expected debt-funded capex, along with the contraction in operating margin. Moreover, ICRA expects the entity's debt metrics to continue to remain impacted in FY2025 owing to the planned debt-funded capex. As on March 31, 2024, the company's total debt increased to Rs. 672.0 crore from Rs. 331.8 crore on March 31, 2023. This increased debt was primarily due to the fast-tracked debt-funded capex in its wholly owned subsidiary, Warren Remedies Limited, for setting up facilities to manufacture toothpaste and active pharmaceutical ingredients. Overall, the company incurred a capex of ~Rs. 425 crore in FY2024 and availed additional term loans of ~Rs. 251 crore for the same.

The ratings continue to factor in IRL's established position in the domestic formulations segment and its diversified geographic presence. The company's experienced and professional management and its backward-integrated nature of operations provide further comfort.

The company reported a year-on-year (YoY) revenue growth of 8.8% to Rs. 1,817.3 crore in FY2024, supported by the 9.3% revenue growth from the domestic formulation segment. Although the company's legacy brands in acute therapies, such as respiratory and anti-infectives, witnessed a revenue decline in FY2024 due to abnormal monsoon, its impact was offset by the healthy performance from therapies such as urology, stomatological, vitamins and ophthalmology. However, the growth in the export formulation segment remained marginal at 1.3% in FY2024, mainly due to a YoY revenue decline of ~13.4% in Europe. This was largely due to the lower offtake for paracetamol (currently contributing ~30-40% of the European sales) from one of its key customers and the ongoing implementation of a master manufacturing plan at the Baddi facility to improve process efficiency impacting supplies from the facility to an extent. However, to mitigate this risk in the future, the company has onboarded new European customers for paracetamol and has launched new products in the region to reduce its customer and product-wise revenue contribution. The weaker performance from Europe in FY2024 was offset by 7.8% revenue growth in US and 29.9% from the emerging markets. Besides the formulation segment, the API segment, which currently contributes ~7% of the company's revenues, witnessed a healthy revenue growth of 79% in FY2024 due to increased API capacity, further supporting revenue growth. In Q1 FY2025, the company witnessed a marginal YoY revenue growth of 1.2%, supported by 6.3% growth from the domestic formulation segment owing to healthy growth in therapies such as gastrointestinal, anti-infective and stomatological.

The growth in domestic markets was offset by the 1.6% YoY revenue decline in export markets for Q1 FY2025, mainly contributed by Europe and US. Revenue from US declined by 4.9% YoY due to supply constraints for the already approved products from Goa Plant II and III, stemming from ongoing remediations for the official action indicated (OAI) status, which led to the shutdown of few manufacturing lines. Additionally, revenue from Europe declined during the same period due to the continuation of aforementioned reasons. The company's revenue growth in FY2025 is expected to remain stable supported by the domestic formulation segment and a revival of revenues from key export markets.

In FY2024, the company's operating margin of the company declined by 390 bps YoY to 13.4% due to expenditure towards ongoing remediations for the resolution of OAI status for its Goa Plant II and Plant III, higher marketing expenses for newly launched OTC toothpaste brand, additional operating expenses for the newly acquired marketing and distribution company in the US and reduced revenues from Europe leading to negative operating leverage to a certain extent. Although the company witnessed revenue growth from US operations in FY2024, the product mix impacted margins to some extent. The company was unable to launch new sterile and injectable products (products with high margins) from Goa Plant II and III due to OAI status. Additionally, the supply of already approved products from the facility remained impacted due to the aforementioned reasons. Operating margins continued to decline in Q1 FY2025, with a YoY decline of 330 bps to 11.1%. This decline was due to weaker performance in key export markets in addition to incremental operating expenses for the newly commenced (in March 2024) greenfield capacity under Warren Remedies Limited. However, the company's operating margin in FY2025 is expected to improve to some extent, supported by enhanced efficiency from dedicated facilities for the European region (following the completion of the master manufacturing plan), expected normalisation of supplies (margin accretive products) from Goa Plant II and III starting in H2 FY2025 and the launch of new products with better realisations across geographies.

The ratings of IRL are constrained by its moderate scale of operations, though the same is expected to scale up supported by improving presence in the domestic market, anticipated growth in regulated exports and a robust pipeline of products in the US market. Plant II and III at the Goa facility, which received the OAI status in June 2023, are still under remediation and the same has impacted the company's US sales to certain extent. Further, Plant II and III received seven Form-483 observations during the inspection conducted by the USFDA in July 2024. Although the OAI status allows the sale of IRL's previously approved products from this facility and the revenue from US grew by 7.8% in FY2024, the same declined by 4.9% YoY in Q1 FY2025 due to the shutdown of few manufacturing lines for ongoing remediation of the OAI status. Any new ANDA filings from the facility will be approved only when the OAI status is resolved and, hence, timely resolution of the same remains a key monitorable.

The company is expected to incur a capex of ~Rs. 250-260 crore in FY2025, mainly for the addition of new lines at Goa Plant II, completion of the master manufacturing plan at the Baddi facility and some residual capex under Warren Remedies Limited. The capex is expected to be funded through a term debt of ~Rs. 90-100 crore and the rest from internal accruals. That said, ICRA expects debt indicators to gradually improve after FY2025, supported by scheduled amortisation of term debt and healthy cash accruals with a revival in sales from key export markets and the timely commencement and ramp-up of the expanded capacity. The impact of the same on the credit metrics remains a key monitorable.

Key rating drivers and their description

Credit strengths

Experienced management team – At present, the company's operations are managed by Ms. Aditi Kare Panandikar and Mr. Sundeep Bambolkar, both of whom have over 30 years of experience in the pharmaceutical industry supported by professional management.

Established brands in dental, respiratory, gastrointestinal and anti-infective therapies of domestic formulations market – IRL's presence in the domestic formulations market is primarily in mature molecules of acute therapies with intense competition. It has a wide therapeutic coverage with a strong presence in anti-infective, respiratory, gastrointestinal and stomatological therapies. The company enjoys a healthy reputation in the domestic market, with its major brands positioned among the top five in their respective therapy segments. However, given the mature molecules and the large number of players in the field, IRL's market share and pricing power remain low. Although the company's legacy brands in acute therapies such as respiratory and anti-infectives witnessed a revenue decline in FY2024 due to abnormal monsoon, the domestic formulation segment had a revenue growth of 9.3%, supported by a healthy performance from therapies such as urology, stomatological, vitamins and ophthalmology. Further, in Q1 FY2025, the segment witnessed a YoY revenue growth of 6.3%, supported by gastrointestinal, stomatological and urological therapies as well as revival in revenues from anti-infectives. Going forward, the domestic market is expected to render stable revenue growth for IRL in FY2025, supported by the normal monsoon season and the company's strong market position in its respective therapy segments.

Healthy geographic diversification – In FY2024, although the company witnessed marginal revenue growth in export formulations, it was offset by stable revenue growth of 9.3 % in domestic formulations. IRL derived ~90% of its revenue in FY2024 from the formulation segment, with ~53% of the segment's revenues generated by domestic markets and the rest from export markets. The company has a strong domestic presence, with its major brands positioned among the top five in their respective therapy segments. In terms of export markets, regulated markets such as US, Europe, South Africa, Australia and New Zealand, generated ~76.0% of its export formulation revenues, while the rest was contributed by the emerging markets. This well-diversified revenue mix allows the company to withstand regulatory uncertainties or market conditions with respect to any single market. Going forward, the revenues are expected to remain diversified, with stable growth from domestic markets and expected revival in revenues from key export markets.

Credit challenges

Pending resolution of OAI status from the USFDA for IRL's Goa Plants II and III – The company addressed the warning letter issued by the USFDA for its Goa Plant-I, which received an establishment inspection report (EIR) with voluntary action indicated (VAI) status during Q1 FY2024. Subsequently, Plant-I received four Form-483 observations during a pre-approval inspection conducted by the USFDA for two ANDAs filed from this facility in October 2023; these were addressed, and the EIR was received in May 2024. However, Plant II and III at the Goa facility, which received the OAI status in June 2023, are still undergoing remediation, impacting the company's US revenues to some extent. Additionally, Plant II and III received seven Form-483 observations during the USFDA inspection in July 2024. Although the OAI status allows the sale of IRL's previously approved products from these plants and the revenue from the US grew by 7.8% in FY2024, the same declined by 4.9% YoY in Q1 FY2025 due to the shutdown of a few manufacturing lines for ongoing remediation of the OAI status. Additionally, any new ANDA filings from the facility will be approved only when the OAI status is resolved and, hence, timely resolution of the same remains a key monitorable.

Vulnerability to regulatory risks, raw material price and foreign exchange fluctuations – The company's operations remain exposed to regulatory risks due to increased scrutiny by the regulatory agencies and pricing controls in the domestic market. ICRA notes that the company derives ~12-13% of its domestic formulations revenues from products under the National List of Essential Medicines (NLEM), but draws comfort from the fact that the same has not materially impacted its profit margins. Nevertheless, any adverse changes in Government price policies could lead to pricing pressures and affect the company's domestic formulations business. IRL's profitability is also vulnerable to fluctuations in raw material, packaging and freight costs and their impact of the margins will remain a key monitorable. The company's margins also remain vulnerable to foreign exchange fluctuations due to its overseas operations and foreign currency borrowings, despite hedging through forward contracts. ICRA notes that IRL capitalises development expenditures for ANDAs/DMFs/dossiers and any higher-than-expected price erosion or lower-than-expected returns, exposes the company to the risk of impairment of intangibles.

Increasing working capital intensity of operations – The company's working capital intensity was moderately high at 34.0% in FY2024 compared to 32.9% in FY2023. For domestic sales, it typically offers a credit period of 7–90 days and for export sales, debtor days range from 30–120 days. The company's revenue from export markets (primarily in formulations), which are working capital intensive, witnessed a CAGR of ~27% between FY2019 and FY2024. This resulted in a marginal increase in debtor days and a moderate rise in inventory days, which stood at 82 days and 127 days, respectively, as on March 31, 2024. IRL faced regulatory issues during FY2018-FY2019, leading to the stretched payable days in FY2019. However, after the resolution of these issues and with improving cash accruals, IRL substantially reduced its creditor days. Consequently, the working capital intensity has increased since then. Going forward, as the company continues to focus on export markets, the working capital intensity is expected to remain in line with recent trends.

Sizeable debt-funded capex – The company's total debt increased to Rs. 672.0 crore as on March 31, 2024 from Rs. 331.8 crore as on March 31, 2023. This was primarily due to the fast-tracked debt-funded capex in its wholly-owned subsidiary, Warren Remedies Limited, towards setting up facilities for manufacturing toothpaste and active pharmaceutical ingredients. Overall, the company incurred a capex of ~Rs. 425 crore in FY2024 and availed additional term loans of ~Rs. 251 crore for the same. Apart from the capex under Warren Remedies, the capex was also allocated towards new line addition at Goa Plant II, replacement capex, increasing the API capacity, investment in CRO business and in R&D. Consequently, the total debt/ OPBDITA and the gearing ratios increased to 0.6 times and 2.8 times, respectively, as on March 31, 2024 from 0.3 times and 1.1 times, respectively, as on March 31, 2023. The rise in debt levels, combined with reduced operating margin, affected the coverage indicators as well, with the interest coverage ratio and DSCR declining to 6.4 times and 2.5 times, respectively, in FY2024 from 11.4 times and 3.3 times, respectively, in FY2023. The company has planned further debt-funded capex in FY2025, which will continue to impact the debt metrics for the fiscal to some extent. Thus, going forward, a healthy revenue growth supported by a revival in sales in key export markets and significant improvement in operating margins remain crucial for the improvement in IRL's debt metrics.

Environmental and Social Risks

Environmental considerations – The company does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations with regard to breach of waste and pollution norms, which can lead to an increase in operating costs or capital investments. To address this, the company is dedicated to minimising its environmental footprint by continuously improving its operations, reducing its energy consumption, and managing its waste and emissions responsibly. IRL has recently installed solar power plants at two of its facilities and is planning to install more at other locations.

Social considerations – The industry faces social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/control also remains a social risk faced by entities in the pharmaceutical industry. The company is committed to promoting the health and safety of its employees by providing a safe work environment, supporting a culture of wellness, and investing in training and development. The company also supports local initiatives, engages in philanthropic activities, and partners with organisations that share its commitment to sustainability and social responsibility.

Liquidity position: Adequate

At present, the company has sanctioned a working capital limit of Rs. 489.7 crore and its liquidity position remains adequate with free cash and liquid investments of Rs. 45.1 crore as on June 30, 2024. The company has an adequate cushion in working capital limit utilisation, as reflected by an average utilisation of ~72% (against its average DP of Rs.338.5 crore) during the twelve months ended June 2024. IRL's capex in FY2025 is anticipated to remain at Rs. 250-260 crore, which is expected to be partially funded through term loans. The company has debt servicing obligations of Rs. 42.9 crore in FY2025, Rs. 72.3 crore in FY2026 and ~Rs.101.6 crore in FY2027 for its existing debt. ICRA expects the company to meet its near-term repayment obligations through its healthy accruals.

Rating sensitivities

Positive factors – The outlook could be revised to stable with recovery in the company's earnings, leading to improvement in its debt protection metrics. The rating may be upgraded with a significant growth in revenues and profitability across its key geographies, leading to sustained improvement in IRL's return indicators and credit profile on a sustained basis.

Negative factors – The rating may be downgraded if there is a weakening in the company's profit margins or if higher-than-expected debt funded capex, leads to a sustained deterioration in TD/OPBDITA above 1.5x. Delays in resolution of existing regulatory non-compliances or any other regulatory non-compliance issued to IRL for its products and/or manufacturing facilities, which impacts its credit profile on a sustained basis, would also be a negative trigger.

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 IRL; details in Annexure-II.

About the company

Indoco was established by Mr. Govind Ramnath Kare in 1945 as Indo Continental Trading Company. It was involved in importing pharmaceutical formulations from Europe and selling them in India. In 1963, the current Chairman and Managing Director, Mr. Suresh G. Kare took over.

At present, Indoco manufactures and markets branded formulations, active pharmaceutical ingredients (APIs) and contract research and manufacturing services (CRAMS), with a strong presence in domestic formulations, which generated ~48% of its total revenues in FY2024. In the domestic business, Indoco has a prominent presence in the anti-infective, respiratory, gastrointestinal and dental segments, with its major brands positioned among the top five in their respective categories. Export formulations comprised ~42% of Indoco's revenues in FY2024, while APIs formed ~7%, with the remaining generated by contract research and analytics divisions.

IRL's formulation plants are located in Goa (three plants), Waluj (Aurangabad, Maharashtra) and Baddi (Himachal Pradesh), while its API plants are located in Patalganga (Maharashtra) and Rabale (Navi Mumbai). The facilities have been approved by most major regulatory authorities, including the USFDA and the UK-MHRA.

Key financial indicators (audited)

IRL	FY2022	FY2023	FY2024*
Operating income	1,542.1	1,670.0	1817.3
PAT	154.8	142.3	97.0
OPBDIT/OI	21.3%	17.3%	13.4%
PAT/OI	10.0%	8.5%	5.3%
Total outside liabilities/Tangible net worth (times)	0.6	0.6	0.9
Total debt/OPBDIT (times)	0.8	1.1	2.8
Interest coverage (times)	23.3	11.4	6.4

*Source: Company, ICRA Research; * Unaudited; 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	Type	Amount rated (Rs. crore)	Current rating (FY2025) Date & rating in FY2025 Jul 31, 2024		Chronology of rating history for the past 3 years Date & rating in FY2024 Oct 27, 2023	Date & rating in FY2023 Aug 01, 2022	Date & rating in FY2022 Jul 23, 2021
				Jul 31, 2024	May 27, 2024	Oct 27, 2023	Aug 01, 2022	Jul 23, 2021
1	**Fund-based – Term Loan**	Long-term	231.50	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**
2	**Fund-based Limits – Cash Credit**	Long-term	29.40	**[ICRA]AA- (Negative)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**
3	**Fund-based Limits**	Short-term	35.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	**Non-fund Based Limits**	Short-term	20.25	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
5	**Fund-based Limits**	Long-term/ Short-term	25.00	**[ICRA]AA- (Negative)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**
6	**Unallocated**	Long-term/ Short-term	159.21	**[ICRA]AA- (Negative)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**	**[ICRA]AA- (Stable)/ [ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term Loans	Simple
Long-term – Fund-based Limits – Cash Credit	Simple
Short-term – Fund-based Limits	Simple
Short-term – Non-fund Based Limits	Very Simple
Long-term/ Short-term – Fund-based Limits	Simple
Long-term/ Short-term – Unallocated	Not Applicable

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	Long-term – Fund-based – Term Loans	FY2023	NA	FY2030	231.50	[ICRA]AA-(Negative)
NA	Long-term – Fund-based Limits – Cash Credit	NA	NA	NA	29.40	[ICRA]AA-(Negative)
NA	Short-term – Fund-based Limits	NA	NA	NA	35.00	[ICRA]A1+
NA	Short-term – Non-fund Based Limits	NA	NA	NA	20.25	[ICRA]A1+
NA	Long-term/ Short-term – Fund-based Limits	NA	NA	NA	25.00	[ICRA]AA-(Negative)/ [ICRA]A1+
NA	Long-term/ Short-term – Unallocated	NA	NA	NA	159.21	[ICRA]AA-(Negative)/ [ICRA]A1+

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	Ownership as on March 31, 2024	Consolidation Approach
Xtend Industrial Designers & Engineers Pvt Ltd	100.00%	Full Consolidation
Warren Remedies Private Limited	100.00%	Full Consolidation
Indoco Remedies Czech sro	100.00%	Full Consolidation
Indoco Remedies UK Limited	100.00%	Full Consolidation
FPP Holding Company, LLC	85.00%	Full Consolidation

Source: Company Fillings.

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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