January 30, 2025(Revised)

Indoco Remedies Limited: Ratings downgraded to [ICRA]A+ (Negative)/[ICRA]A1

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]A+ (Negative); Downgraded from [ICRA]AA- (Negative)
Long-term – Fund-based Limits – Cash Credit	29.40	29.40	[ICRA]A+ (Negative); Downgraded from [ICRA]AA- (Negative)
Short-term – Fund-based Limits	35.00	35.00	[ICRA]A1; Downgraded from [ICRA]A1+
Short-term – Non-fund Based Limits	20.25	20.25	[ICRA]A1; Downgraded from [ICRA]A1+
Long-term/ Short-term – Fund-based Limits	25.00	25.00	[ICRA]A+ (Negative)/[ICRA]A1; Downgraded from [ICRA]AA- (Negative)/ [ICRA]A1+
Long-term/ Short-term – Unallocated	159.21	159.21	[ICRA]A+ (Negative)/[ICRA]A1; Downgraded from [ICRA]AA- (Negative)/ [ICRA]A1+
Total	**500.36**	**500.36**	

**Instrument details are provided in Annexure I*

Rationale

The downgrade of ratings and the continuation of the negative outlook on the long-term rating take into account the deterioration in Indoco Remedies Limited's (IRL/ the company) revenues, operating profit margins (OPM) and debt metrics in 9M FY2025. ICRA expects the company's debt metrics to remain impacted in FY2026 due to high debt levels. The company's performance was weaker than expected in 9M FY2025, primarily due to supply-side disruptions caused by the ongoing debt-funded refurbishment of its manufacturing plants. This impacted sales to export markets, leading to a contraction in IRL's operating margins.

As on December 31, 2024, the company's total debt increased to ~Rs. 900 crore from ~Rs. 672 crore on March 31, 2024 and ~Rs. 331.8 crore as on March 31, 2023. The increase was primarily driven by the ongoing capex for refurbishing manufacturing plants in Goa and Baddi and fast-tracked debt-funded capex in its wholly owned subsidiary, Warren Remedies Limited, to establish facilities for toothpaste and active pharmaceutical ingredient manufacturing. Overall, the company availed additional debt of ~Rs. 242 crore in 9M FY2025. This, along with the increase in IRL's debt levels, resulted in a deterioration in its debt metrics.

The ratings, however, continue to draw comfort from IRL's established position in the domestic formulation 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 decline of 6.8% in 9M FY2025. This was primarily driven by a contraction in its international formulation business, which witnessed a revenue decline of ~53.7% in the US market and ~15.0% in the UK market. Overall, the international formulation business declined by ~28.9% in 9M FY2025 due to the ongoing implementation of a master manufacturing plan at the Baddi facility, which was postponed by 6 to 7 weeks due to shipment delays from the original equipment manufacturer (OEM) and the need for various pre-qualifications before installation. Revenue from the US declined due to supply constraints stemming from ongoing remediation efforts at the Goa facility to address the official action indicated (OAI) status, which led to the shutdown of a few production lines.

In contrast, the domestic formulation business saw a growth of 12.8%, supported by sustained demand and healthy performance in key therapeutic segments, including gastrointestinal, dermatology, ophthalmology, vitamin/minerals/nutrients, urology and cardiology. Besides the formulation segment, the API segment, which currently contributes ~7% of the company's revenues, also witnessed a reduction of ~15% in 9M FY2025, further contributing to the decline. Going forward, as the company's manufacturing capacity gradually comes back online, revenues and margins are expected to recover.

In 9M FY2025, the company's operating margin declined by 640 bps YoY to 7.8% due to expenditure towards ongoing remediations for the resolution of the OAI status for its Goa Plant II and Plant III, increased employee costs and higher marketing expenses for the newly launched over-the-counter (OTC) toothpaste brand. Operating margins have also been impacted as the company continues to incur fixed costs while it is unable to supply at full capacity. Further, reduction in sales to export markets, which are usually margin-accretive, also impacted the company's margins. The operating margins declined sequentially to 2.9% in Q3 FY2025 from ~ 11.1% in Q1 FY2025 and ~ 9.3% in Q2 FY2025. The margins for FY2025 are expected to remain subdued in line with 9M FY2025 levels. While ICRA expects the company's margins to improve gradually over the next few quarters, trajectory and impact of the same on debt metrics will remain a key monitorable. ICRA notes the company's investments in plant and process improvements, which will yield benefits in the medium-to-long term.

The ratings also factor in IRL's moderate scale of operations, although the same is expected to scale up, supported by improving presence in the domestic market, anticipated recovery in export markets driven by a robust order book and a pipeline of products. IRL's Plant II and III at the Goa facility, which received the OAI status in June 2023 and July 2024, are still under remediation, which impacted the company's US sales to a some extent. 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 III facility, setup of new liquid synthesis department at Baddi I and some residual capex under Warren Remedies Limited. The capex is expected to be funded through a term debt of ~Rs. 180-190 crore and internal accruals. Total debt/OPBDITA for the company increased to ~6.8 times as on December 31, 2024 from 2.8 times as on March 31, 2024. The total interest coverage has also declined to ~2.1 times in 9M FY2025 from 6.4 times in FY2024. ICRA expects debt indicators to improve gradually after FY2026, supported by the 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 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 a professional management team.

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 wide therapeutic coverage with a strong presence in anti-infective, respiratory, gastrointestinal, vitamin and stomatological therapies. The company enjoys a healthy reputation in the domestic market, with its major brands positioned among the top five of the 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 9M FY2025, the domestic formulation segment had a revenue growth of 12.8%, supported by a healthy performance from therapies such as stomatological, urology, vitamins, dermatology and ophthalmology. Going forward, the domestic market is expected to render stable revenue growth for IRL in FY2025 and FY2026, supported by its strong market position in respective therapy segments.

Healthy geographic diversification – In 9M FY2025, although the company witnessed a revenue decline in export formulations, it was partially offset by robust revenue growth of 12.8% in domestic formulations. IRL derived ~91% of its revenue in 9M FY2025 from the formulation segment, with ~60% 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 respective therapy segments. In terms of export markets, regulated markets such as US, Europe, South Africa, Australia and New Zealand, generated ~72.3 % 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 an expected gradual 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 – IRL's Goa Plant II & III were inspected by USFDA in Feb 2023 and had received OAI status in June 2023. While IRL was working on the remediation, USFDA audited the facility again in February 2024 and warning Letter was issued to the site in December 2024. IRL is working on remediation of the same and due to ongoing refurbishment, the company's US revenues from this site were impacted to some extent. ICRA notes that manufacturing facility for OSD at Goa Plant I continues to remain cGMP compliant and supply to US continues from this site. Going forward, 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 some 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 on 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 33.8% in H1 FY2025 and 34.0% in FY2024. 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. IRL encountered regulatory issues during FY2018-FY2019, leading to 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. 900 crore as on December 31, 2024 from ~Rs. 672 crore on March 31, 2024. This was mainly towards funding the ongoing capex towards refurbishment in its manufacturing plants in Goa and Baddi and 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 availed additional debt of ~Rs. 242 crore in 9M FY2025. The company has funded its capex requirements with a mix of debt and internal accruals, with the debt component being 75-78%. Consequently, IRL's total debt/OPBDITA increased to ~6.8 times as on December 31, 2024 from 2.8 times as on March 31, 2024. The rise in debt levels, combined with reduced operating margin, affected the coverage indicators as well, with the interest coverage ratio declining to ~2.1 times in 9M FY2025 from 6.4 times in FY2024. The company has no major capex planned and will only incur Rs. 80-85 crore each towards maintenance capex in FY2026 and FY2027. Going forward, stable performance in the domestic market supported by a revival in sales in key export markets and significant expansion 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 a working capital limit of Rs. 489.7 crore and its liquidity position remains adequate with free cash and liquid investments of ~Rs. 45 crore as on December 31, 2024. The company's working capital utilisation remains high reflected by an average utilisation of ~90% (against its average DP of Rs. 339.4 crore) during the twelve months ended December 2024. IRL's capex in FY2025 is anticipated to remain at Rs. 250-260 crore, which is being partially funded through term loans. The company has debt servicing obligations of Rs. 42.9 crore in FY2025 and ~Rs. 82.8 crore in FY2026 for its existing debt. ICRA expects the company to meet its near-term repayment obligations through its accruals and existing cash balances.

Rating sensitivities

Positive factors – The outlook may be revised to Stable in case the company demonstrates significant improvement in its margins, leading to sustained improvement in its debt metrics and return indicators.

Negative factors – The ratings may be downgraded if the company is unable to improve its revenues and margins, resulting in further weakening in the company's overall financial profile. Delays in the resolution of existing regulatory non-compliance or any other regulatory non-compliance, thereby impacting its product launches and, thus, revenues and profitability, would also be a negative trigger. Large debt-funded inorganic investments would remain an event risk, and the impact of such investments on the company's business and credit profile will be monitored on a case-to-case 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 IRL; details in Annexure-II.

About the company

IRL 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, IRL 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 ~60.7% of its total revenues in 9M FY2025. In the domestic business, the company 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 ~31.1% of IRL's revenues in 9M FY2025, while APIs formed ~7.1%, 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 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)

Consolidated	FY2023	FY2024	9M FY2025
Operating income	1,670.0	1,817.3	1,274.7
PAT	142.3	97.0	-36.61
OPBDIT/OI	17.3%	13.4%	7.8%
PAT/OI	8.5%	5.3%	-2.9%
Total outside liabilities/Tangible net worth (times)	0.6	0.9	-
Total debt/OPBDIT (times)	1.1	2.8	6.8
Interest coverage (times)	11.4	6.4	2.1

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: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2025)			Chronology of rating history for the past 3 years		
				Date & rating in FY2025			Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 30, 2025	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]A+ (Negative)	[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]A+ (Negative)	[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+	[ICRA]A1+
4	Non-fund Based Limits	Short-term	20.25	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Fund-based Limits	Long-term/ Short-term	25.00	[ICRA]A+ (Negative)/ [ICRA]A1	[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]A+ (Negative)/ [ICRA]A1	[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]A+(Negative)
NA	Long-term – Fund-based Limits – Cash credit	NA	NA	NA	29.40	[ICRA]A+(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]A+(Negative)/ [ICRA]A1
NA	Long-term/ Short-term – Unallocated	NA	NA	NA	159.21	[ICRA]A+(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

Corrigendum

Rationale dated January 30, 2025, has been corrected with revisions as detailed below:

Total outside liabilities/Tangible net worth (times) for FY2024 has been updated in Key financial indicators table to 0.9.

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