Macleods Pharmaceuticals Limited

May 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	112.00	CARE AA+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of Macleods Pharmaceuticals Limited (MPL) derives strength from its dominant position in the domestic formulations market supported by diversified product portfolio spanning multiple therapeutic segments (with larger share in acute therapies). The rating is further strengthened by the company's wide marketing and distribution network, its strong product portfolio, healthy product pipeline and steady growth prospects for the Indian pharmaceutical industry. The rating also takes cognisance of MPL's healthy capital base and minimum reliance on external debt leading to comfortable leverage and debt coverage indicators and strong liquidity.

However, the long-term rating is constrained as profitability is susceptible foreign exchange rate fluctuation, exposure to inherent legal and regulatory risk associated with the pharmaceutical industry and intense competition in domestic and export markets.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing scale of operations through greater revenue diversification across geographies and therapeutic segments, resulting in strong business risk profile.

Negative factors

- Increasing net debt to profit before interest, lease rentals, depreciation, and taxes (PBILDT) to more than 1.00x on a sustained basis.
- Large-size debt-funded acquisition/capex, having significant adverse impact on its leverage and debt coverage indicators.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has considered consolidated financials of MPL including all its subsidiaries, as these are an extension of MPL's distribution network and manufacturing operations. List of entities whose financials have been consolidated with MPL is mentioned in **Annexure-6**.

Outlook: Stable

CARE Ratings believes that MPL shall continue benefiting from its established and dominant position in the domestic formulation market (mainly the acute segment) supported by its strong product portfolio. MPL's healthy cash generation, absence of major debt funded capex plan and its strong liquidity shall ensure a comfortable credit risk profile over the medium term.

Detailed description of key rating drivers

Key strengths

Long and established operations with geographically diversified revenue profile

MPL has a track record of nearly 35 years in the pharmaceutical industry. It has nine manufacturing facilities spread across India of which, five manufacturing facilities are approved by United States Food and Drug Administration (USFDA) and three manufacturing facilities are approved by the Medicines and Healthcare products Regulatory Agency (MHRA).

MPL has presence in the domestic market and some of the most regulated pharma markets including the United States of America (USA) and Europe among others. In FY23, MPL earned 63% of its consolidated revenue from the domestic market, 15% from Europe, 6% from the US and the remaining 15% from rest of the world (RoW), which indicates a geographically diverse revenue profile. The share of export revenue declined since FY22 due to USFDA observations for two formulation plants, leading to significantly lower sales in the US. However, with resolution of the observations in FY24, the share of exports is expected to increase. MPL has also established a presence in South-east Asia, Commonwealth of Independent States and Sub-Saharan Africa through anti-tuberculosis (TB), and anti-retroviral (ARV) therapies. In FY23, MPL derived 15% revenue from tenders by global agencies. This geographically diversified revenue profile protects MPL's overall revenue and profitability against competition and adverse regulatory changes in a particular geography.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Dominant position in domestic formulation market supported by larger share in the acute therapeutic segment

MPL was the eighth largest pharmaceutical player in the domestic formulation market as on March 31, 2023, and is sixth largest as on December 31, 2023, with a market share of 3.2-3.3%. In FY23, MPL's domestic revenue grew by 6% on y-o-y basis backed by strong performance in anti-biotic, cardiac, respiratory, anti-diabetic, and steroid therapeutic segments. The top five therapeutic segments contributed around 55% of its total domestic formulations sales. MPL has a strong presence in the acute segment of domestic formulation market, and it has been increasing its presence in the chronic segment. The chronic therapeutic segment contributed 30-35% of MPL's domestic formulation sales in the last two years ended FY23, which increased to 39% in 9MFY24.

Wide and established marketing network

MPL has a wide marketing and distribution network in the domestic market to support its growing scale of operations. It has over 5,500 medical representatives (MRs), which enables it to market products to over 5,00,000 doctors across segments across the country. MPL has relatively high penetration in tier-2 and tier-3 cities compared to its peers. Growth prospects in the domestic formulation market is characterized by a strong and efficient marketing workforce, availability of company's products in the growing therapeutic segments, and establishing brands with high recall. MPL has developed a very strong brand value in the domestic market over the years. MPL's ability to keep creating new brands while its existing brand hits the maturity phase will be key monitorable.

Strong product portfolio and healthy product pipeline

MPL has a dedicated team of well-qualified personnel to handle its product registration and regulatory clearance processes in the overseas markets. The company has a very large product portfolio across geographies reducing its reliance on few formulations which also protects it from the rising competition and pricing pressure in the generic pharmaceuticals business. As on December 31, 2023, MPL had over 1,000 products in the domestic market. MPL also has a healthy product pipeline backed by its R&D capabilities, which is expected to aid MPL's growing scale of operations going forward. MPL spends 4-5% of its total income on R&D (recurring and capital expenses), which is expected to continue in the medium term.

Healthy scale of operations and profitability

On a consolidated basis, MPL's total operating income (TOI) grew at a CAGR of around 8% in FY18-FY23. MPL's TOI is expected to grow by 5% in FY24 backed by revenue growth in the domestic market whereas the export revenue is expected to remain stable. MPL's gross margin and PBILDT margin have remained healthy in the range of 62-67% and 20%-30% respectively in the last four years ended FY23. While the company's gross margin continued to remain healthy at around 61-63% in FY22 and FY23, its PBILDT margin was impacted due to additional expenses, including failure to supply penalties in the US market, followed by adverse observation by USFDA in two of its manufacturing facilities. Despite moderation in operating profitability in FY23, MPL's Return on Capital Employed (ROCE) remained healthy in the period at around 33%.

CARE Ratings expects MPL's PBILDT margin to improve and remain at around 22-23% in the near-to-medium term. The improvement in profitability is expected to be supported by operating leverage and a growing share of the chronic therapeutic segment. MPL's ROCE is also expected to remain healthy at over 20% in the medium term, despite relatively lower return on available liquidity.

Strong capital structure and debt coverage indicators

The company's financial risk profile is comfortable marked by healthy capital base of ₹6,694 crore as against negligible gross debt of ₹157 crore as on March 31, 2023, resulting in comfortable capital structure. MPL has been generating strong cash flow from operations with negligible reliance on external debt. The company had cash and cash equivalents of around ₹3,080 crore as on March 31, 2023, and ₹4,166 crore as on December 31, 2023. It is expected to remain net debt free in medium term in the absence of a major debt withdrawal plan. MPL's healthy credit risk profile gives cushion to absorb external shocks in the medium term.

With low debt level, the company's total debt to PBILDT margin is comfortable at 0.02x as on March 31, 2023. PBILDT interest coverage ratio stood very comfortable at 220x in FY23 backed by low interest cost. MPL's debt coverage indicators are expected to remain healthy in the medium term in the absence of major debt withdrawal plans.

Experienced promoters in the pharmaceutical industry

MPL and its promoters have a long track record of operations in the pharmaceutical industry. MPL was founded by Dr. Rajendra Agarwal (MD). He is supported by his brothers Girdharilal Bawri (Chairman) and Banwarilal Bawri (Joint MD). Promoters are well-qualified with experience of around four decades in the pharmaceuticals industry. Vijay Agarwal, (Girdharilal Bawri's son), CEO, is a Chemical Engineer (B.E) and has experience of over two decades in the industry.

Steady growth prospects for Indian Pharmaceutical Industry (IPI); despite high competition

Per CARE Ratings' estimates, the Indian pharmaceutical market (IPM) was valued at ~US$ 50 billion in FY23. The outlook for IPM remains stable in the medium-to-long term, backed by growth opportunity in terms of capitalising major blockbuster drugs coming off-patent paving the way for entry of generics, especially in the US market, and geographical diversification into emerging markets. In the domestic market, the formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income, government initiatives such as product linked incentive (PLI) scheme, new national health protection scheme and Ayushman Bharat program, improvement in access to healthcare facilities and growing penetration of health insurance. CARE Ratings expects the industry to grow at 7% to 8% in FY24-FY25 supported by 6% to 7% growth in exports and 8% to 9% growth in the domestic market in the same period.

MPL faces high competition in all major geographies. The domestic branded formulation market is fragmented with several small and medium players and majority sales being driven by prescriptions. Due to an increase in ANDA approvals by the USFDA and consolidation of pharmaceutical distributors in the US, bargaining power of the generic formulation manufacturers has substantially declined. MPL's ability to develop a pipeline of niche products and launch them in a timely manner in developed markets will be key from the rating perspective.

Liquidity: Strong

MPL's liquidity remains strong due to healthy cash-flow from operations, availability of large un-utilised fund-based working capital limits and heathy cash and bank balance. MPL reported cashflow from operations of ₹1,944 crore in FY23. The utilisation of its fund-based working capital limits (on a standalone basis) also remained low at around 37% for 12-months ended January 2024. The company does not have principal repayment obligation till FY26, which also provides cushion to its liquidity. MPL had cash and cash equivalents of around ₹3,080 crore and ₹4,166 crore as on March 31, 2023, and December 31, 2023, respectively on a consolidated basis to meet any exigencies. MPL parks the available liquidity mainly in bonds, mutual funds, and fixed deposits. The company is expected to incur annual capex of around ₹700 crore in FY25 and FY26, which is expected to be funded by term loan of ₹112 crore and remaining through internal accruals. MPL is planning to avail term loan for its greenfield project in state of Jammu and Kashmir.

Key weaknesses

Profitability susceptible to fluctuation in foreign exchange rate

MPL is exposed to adverse changes in foreign exchange rates, as it derives 30-40% of its consolidated revenue from the export market while imports are low. MPL pays for imported raw material from the exchange earners' foreign currency (EEFC) account and does not hedge its net foreign currency exposures. Hence, MPL is exposed to adverse changes in net foreign exchange exposure.

Inherent regulatory risk associated with the pharmaceutical industry

MPL is exposed to inherent regulatory risk, as its operations are majorly centered towards manufacturing and selling pharmaceutical formulations that depend on policies framed by drug regulatory authorities in the markets it caters to. The Indian government also controls pharmaceutical product prices through Drug Price Control Order (DPCO) under price control mechanism. MPL derives around 26% of its domestic revenue from formulations included under DPCO. The new inclusion of MPL's formulations in DPCO would require it to reduce the product's selling price of the product, which in turn, could impact its profitability. However, approvals by government for the price increase on an annual basis gives some comfort. The pharmaceutical industry is highly regulated in many other jurisdictions and requires approvals, licenses, registrations, and permissions for undertaking business activities in those jurisdictions. The approval process for a new product registration is complex, lengthy, and expensive. The time taken to obtain approval varies across countries, but it generally ranges from six months to 2-3 years from the date of application. Delay or failure in getting approval for a new product launch can adversely affect the company's business prospects. Non-compliance of regulatory requirement may result in regulatory ban on products/facilities, which may impact a company's growth prospects. Presence in the regulated market is also prone to litigation risk with respect to PARA IV filing, and product liability, among others and associated legal costs. Hence, ongoing regulatory compliance has become critical for Indian pharmaceutical companies (including MPL).

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Pharmaceutical

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

Incorporated in 1989, MPL is an Indian pharmaceutical company, promoted by the Bawri family. MPL has nine manufacturing facilities across India (Himachal Pradesh, Madhya Pradesh, Maharashtra, Gujarat, and the union territory of Daman). Its manufacturing facilities are approved by international drug regulatory agencies including USFDA (USA), MHRA (UK), WHO among others. MPL has also access to two manufacturing facilities of associates (one in Himachal Pradesh and another in Indonesia). MPL has six DSIR-approved R&D centers in India and two R&D centers are expected to commission in the near term.

Brief Consolidated Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (Prov.)
Total operating income	8,217	8,223	6,451
PBILDT	1,758	1,714	1,540
PAT	1,229	1,666	1,590
Overall gearing (times)	0.01	0.00	0.02
Interest coverage (times)	154.65	220.46	189.85

A: Audited; Prov.: Provisional; Note: 'these are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	- ^	112.00	CARE AA+; Stable

Not Applicable being proposed rated facility.

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan (Proposed)	LT*	112.00	CARE AA+; Stable	-	-	-	-

**LT: Long Term*

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure 6: List of all the entities consolidated

Sr. No	Name of the company	Extent of consolidation	Rationale for consolidation
1	Macleods Pharma UK Limited	Full consolidation	Subsidiary; operational and managerial linkages
2	Macleods Pharmaceuticals SA (PTY) Ltd.		
3	Macleods Pharmaceuticals Limited, LLC		
4	Macleods Pharma USA, INC		
5	Macleods Pharma Espana SLU		
6	Oxus Pharma Limited		
7	Macleods Pharmaceuticals SDN. BHD.		
8	Macleods Pharmaceuticals Philippines INC		
9	Makmed LLC, Russia		
10	Macleods Social Welfare Foundation	Equity method	Associates; operational linkages
11	PT Sampharindo Retroviral Indonesia		

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3453 E-mail: Ranjan.sharma@careedge.in
Relationship Contact Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91-22-6754 3444 E-mail: Ankur.sachdeva@careedge.in	Hardik Manharbhai Shah Director **CARE Ratings Limited** Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in Krunal Pankajkumar Modi Associate Director **CARE Ratings Limited** Phone: +91-79-4026 5614 E-mail: krunal.modi@careedge.in

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