Mankind Pharma Limited (Revised)

August 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	600.00	CARE AA+ / CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications
Commercial paper	4,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the long-term rating assigned to bank facilities of Mankind Pharma Limited (Mankind) on 'Rating watch with Developing Implications'.

The rating action follows the announcement made on July 25, 2024, about Mankind entering a definitive agreement to buy 100% stake in Bharat Serums and Vaccines Limited (BSV), a biopharmaceutical company, for an enterprise value of ~₹13,630 crore subject to closing related adjustments. The transaction is expected to complete in 3-4 months. The management has indicated that the funding pattern is expected to be combination of liquid surplus (amounting to ~₹3386 crore as on March 31, 2024) and a mix of debt and equity, however exact details remain unclear, hence the rating is placed on Rating watch. CARE Ratings will continue to monitor the progress in this regard and shall review the rating once clarity emerges on funding pattern and its overall impact on the company's credit risk profile.

BSV is a biopharmaceutical company that has developed recombinant and niche biologic products in-house. It features a portfolio of branded products in women's health, fertility, and critical care, with several leading brands holding prominent positions in their specific therapy areas. The acquisition is anticipated to offer growth opportunities and enhance Mankind's current growth momentum. BSV's business is also expected to complement Mankind's wide-ranging product portfolio, substantial field force, and broad doctor coverage. With this acquisition, Mankind is expected to command market leadership in women's health care including infertility. In FY24, BSV reported total operating income of ~₹1723 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT; unadjusted) of ~₹396 crore.

Ratings draw comfort from the company's robust operational history, diversified product portfolio encompassing well-established reputed brands across multiple therapeutic segments, and notable presence in the over-the-counter (OTC) segment. The company has demonstrated consistent year-on-year revenue growth, supported by healthy PBILDT margins. Mankind benefits from accredited manufacturing facilities across India, favorable capital structure, and efficient operating cycle. The company maintains significant liquidity, which management intends to utilise for this acquisition.

However, Ratings are tempered by factors including regulatory constraints on drug pricing in India, geographical concentration risk, product portfolio that is largely concentrated in the acute segment (although diversifying year-on-year), susceptibility to raw material price fluctuation impacting operating margins, intense competition within the domestic market, acquisition-related risks, and regulatory uncertainties inherent in the pharmaceutical industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving total operating income (TOI) by over 20% and maintaining PBILDT margin over 25% on a sustainable basis.
- Total debt to PBILDT (TD/PBILDT) below 0.30x.
- Successfully integrating BSV, resulting in synergistic benefits.

Negative factors

- Declining TOI by over 10%-15% on a sustained basis and fall in PBILDT margin below 18%.
- Net TD/PBILDT going above 1x on sustained basis.

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

Analytical approach: Consolidated.
CARE Ratings has adopted a consolidated approach for arriving at ratings of Mankind given the strong operational linkages among its subsidiaries. Companies considered for consolidation are listed under Annexure 6.

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Established and long track record of operations
Mankind is the fourth largest pharmaceutical company in terms of domestic sales and has nearly three decades of established track record of operations in the pharma industry. The company is engaged in developing, manufacturing and marketing, diverse range of pharmaceutical formulations across acute and chronic therapeutic areas and several consumer healthcare products. The company has pan India market and distribution coverage and has 16,000+ field force and 13000+ stockists across the country. CARE Ratings notes that the company's growth is attributed to quality medicines at affordable price, expansive distribution network, large field force, and strong presence among doctors.

Strong product portfolio spread across multiple therapeutic segments
The company has built a strong bouquet of reputed brands. In FY24, 23 brand families contributed over ₹100 crore (PY:20) with 11 brand families contributing over ₹200 crore. Mankind has strong product portfolio of over 1000 products in over 10 forms (tablets, capsules, sachets, vials, syrup, gel, cream, soap, and drops among others). The company is present in multiple therapeutic segments with anti-infectives, cardiac, gastrointestinal, respiratory, vitamins/minerals/nutrients, anti-diabetic, gynaecology, dermatology, pain, and CNS. The company has well-known brands in each segments including dydroboon in gynaecology, amlokind and telmikind in cardiac, moxikind and gudcef in anti-infectives, nurokind in vitamins and minerals. The company's product portfolio caters to chronic and acute segments. The current share of chronic in the total portfolio remains at around 36% in FY24 (32% in FY20). The company is focusing on increasing its presence in chronic segment and is looking at launching products in existing therapies like anti-diabetes, cardiovascular, CNS and respiratory. CARE Ratings expects that the contribution from the chronic portfolio in the overall revenue will gradually increase to 40% in the medium term.

India-centric business with growing footprints in other geographies
The company's operations are domestically driven with domestic market contributing ~92% of the total revenue in FY24 (PY: ~97%). Since its inception, the company focused on the domestic market and growth can be attributed to favourable demographics, rising urbanisation and growing disposable income in India. The company has a pan-India presence and has large distribution networks with over 16000 field force and 13000 stockists across the country. In addition to Indian market, the company is growing its focus in the export market. Revenue share from export business has grown in FY24 to about 8% from 3% in FY23. CARE Ratings notes that with the potential acquisition of BSV, the share of export revenue is expected to rise in the future.

Accredited manufacturing facilities
At a consolidated level, Mankind operates 30 manufacturing facilities (including three facilities for packing materials, one facility each for animal feed and pet food) across India in Himachal Pradesh, Sikkim, Rajasthan, Andhra Pradesh, Maharashtra, Gujarat and Uttarakhand, manufacturing a wide range of dosage forms, including tablets, capsules, syrups, vials, ampoules, blow fill seal, soft and hard gels, eye drops, creams, contraceptives and other over-the-counter products. For some products, the company also manufactures APIs, which acts as backward integration and allows it to partially control operating costs, quality and stability in the supply of essential raw materials for formulations. Some manufacturing facilities are supported by the company's own packing material costs. These manufacturing sites are approved by regulatory authorities including US FDA, WHO, SMDC (Ukraine) FMHACA (Ethiopia), and NDA (Uganda) among others.

Improving scale of operations with healthy operating margins
The company witnessed steady growth in its scale of operations over time. In FY24, its TOI grew by about 18% to ₹10352 crore from ₹8768 crore reported in FY23. The company's PBILDT margins also improved in FY24 by 271 basis points to 24.77% from 22.06% in FY23. In Q1FY25, the company reported revenue from operations of ~₹2893 crore improved from ~₹2579 crore reported in Q1FY24 improved by about 12% while maintaining PBILDT margin at about 24%.

Efficient operating cycle
The company's operating cycle, considering its domestic operations, remained efficient. As on March 31, 2024, operating cycle stood at 56 days (PY: 60 days) as against 120 days to 180 days industry standard. Average collection period had remained at about 25 days against the industry standard of 60-90 days in FY24. Given the portfolio of over 1000 products the inventory days stood at 80 days. Creditor days have marginally improved to 49 days (PY: 55 days).

Comfortable capital structure and debt coverage indicators despite expected moderation
The company's capital structure remained comfortable as on March 31, 2024. At s consolidated level, debt to equity ratio stood at 0.01x as on March 31, 2024 (0.01x as on March 31, 2023). Overall gearing remained stable and stood at 0.02x as on March 31, 2024 (0.02x as on March 31, 2023). Considering healthy cash accruals, other debt risk metrics such as term debt to gross cash accrual (GCA) and TD/GCA have also remained comfortable at 0.02x and 0.09x (FY23: 0.03x and 0.10x). Interest coverage in FY24 improved to 94.56x from 46.07x in FY23. CARE Ratings expects in the medium term there will be moderation in the overall capital structure and debt coverage metrics considering potential debt, which the company will avail for funding the BSV acquisition and the same will remain a key monitorable.

Key weaknesses

Operating margins susceptible to raw material price fluctuations

With limited ability to pass on increase in raw material costs, a substantial increase may affect the company's profitability in the near term. Over the years, the company's PBILDT margin remained healthy and it has been able to procure raw material at lower price as it is purchasing raw materials at lower credit period and availing better bargained prices for its raw materials. The company procures most of its raw material from domestic market and imports remaining from China and other countries.

Price regulations in emerging countries like India
National Pharmaceutical Pricing Authority (NPPA) is entrusted with the task of fixation or revision of prices of pharma products, enforcement of provisions of Drugs Prices Control Order (DPCO) and monitoring of prices of controlled and decontrolled drugs. As stipulated under the DPCO 2013, NPPA fixes ceiling price of essential medicines of Schedule I. In respect of medicines not under price control, manufacturers are allowed to increase maximum retail price by 10% annually. Calculation for essential drugs is based on simple average of all medicines in a particular therapeutic segment with sales of more than1%. While about 14% in FY23 of the domestic product portfolio is under the DPCO purview, Mankind's strong brand franchise, regular product launches, and increased focus on chronic segments will continue to support the domestic revenue growth in the medium term. Inclusion of Mankind's other formulations in DPCO may impact profitability margin.

Regulatory risk and intense competition in the pharmaceutical industry
The company is exposed to regulatory risk with its operations centered majorly into manufacturing pharmaceutical formulations and APIs. In India, the government also controls prices of pharmaceutical products through the drug price control order (DPCO) under price control mechanism. The pharmaceutical industry is highly regulated in many other countries and requires approvals, licenses, registrations and permissions for business activities. Approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. Delays or failure in getting approval for new product launch could adversely affect the business prospect of the company. Given India's significant share in the USA's generic market, the USFDA has increased its scrutiny of manufacturing facilities and other regulatory compliance of the Indian pharma companies supplying generics drugs to the USA. Non-compliance may result in regulatory ban on products/facilities and may impact a company's future approvals from USFDA. Hence, ongoing regulatory compliance has become critical for Indian pharma companies including MPL as it has started its operations in the regulated markets such as the USA, and the UK among others, recently. The company faces intense competition in the domestic and regulated markets that it operates. However, the company's exposure to international regulatory approvals is low as exports only contributed ~8% to TOI in FY24.

Liquidity: Strong
The company's liquidity position considering healthy cash accruals remains strong. The company has term debt repayments of ~₹20 crore in FY25. The company is expected to generate gross cash accruals of over ₹2000 crore per annum. Working capital utilisation have remained negligible, which further adds to its financial flexibility. With overall gearing at 0.03x as on March 31, 2024, and with the unutilised lines providing the additional cushion, CARE Ratings expects Mankind to have comfortable liquidity position. The company's current ratio also stood comfortable at 3.07x as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

For the pharma industry, the main factor of ESG affecting the sector is the social aspects like product safety and quality, human capital & development, access to healthcare. Governance remains a universal concept affecting sectors and geographies. Among ESG factors, majority pharma companies seem to be focusing on product quality and safety, and regulatory compliance in governance. Since these companies are exposed to different geographies, each having its own regulatory requirements, which are continuously evolving, non-compliance with regulations or scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation and related expenses. It might also result in regulatory ban on products/facilities (as recent cases of import alerts issued by the USFDA to top pharma companies) and may impact a company's future approvals from regulators such as USFDA.

Mankind implemented measures to conserve water and minimise the impact on the environment. To recycle wastewater, it has installed UF/RO (Ultrafiltration/Reverse Osmosis) systems to treat wastewater generated from manufacturing processes, toilets and canteens. Treated wastewater is then reused within facilities, which considerably reduces freshwater withdrawal. For waste management, the company has undertaken eco-friendly waste disposal methods. To reduce carbon footprint, the company installed solar panels at its manufacturing units. For welfare of employees, the company has adopted an inclusive work culture, and provides training and development opportunities to enhance skills and knowledge. For the well-being of society at large, the company has its CSR strategy and works towards enhancing community health, education and skill development.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

Incorporated in 1991, Mankind is India's fourth largest pharmaceutical company in terms of domestic sales and is engaged in developing, manufacturing and marketing, diverse range of pharmaceutical formulations across acute and chronic therapeutic areas and several consumer healthcare products. The company is engaged in domestic pharmaceutical business and consumer healthcare business. In the domestic pharmaceutical business, its product portfolio caters to therapeutic segments including anti-infectives, cardiovascular, gastrointestinal, anti-diabetic, neuro/CNS, vitamins/minerals/nutrients and respiratory. In the consumer healthcare business, the company has several differentiated brands in the pregnancy detection, antacid powders, vitamin and mineral supplements, oral contraceptives, and anti-acne preparations categories.

Brief consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	8768.49	10352.38	2893.42
PBILDT	1934.55	2564.70	681.76
PAT	1309.68	1941.77	543.07
Overall gearing (times)	0.02	0.02	-
Interest coverage (times)	46.07	94.56	62.49

A: Audited UA: Unaudited; Note: these are latest available financial results

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	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)	-	Proposed	-	7-365 days	4000.00	CARE A1+
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	600.00	CARE AA+ / CARE A1+ (RWD)

Annexure-2: Rating history for 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/ ST-Working Capital Limits	LT/ST	600.00	CARE AA+ / CARE A1+ (RWD)	1)CARE AA+; Stable / CARE A1+ (25-Apr-24)	-	-	-
2	Commercial Paper-Commercial Paper (Standalone)	ST	4000.00	CARE A1+	1)CARE A1+ (25-Apr-24)	-	-	-

ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Shree Jee Laboratory Private Limited	Full	Subsidiary
2	Lifestar Pharma LLC	Full	Subsidiary
3	Mankind Pharma Pte Limited	Full	Subsidiary
4	Medipack Innovations Private Limited	Full	Subsidiary
5	Broadway Hospitality Services Private Limited	Full	Subsidiary
6	Pavi Buildwell Private Limited	Full	Subsidiary
7	Prolijune Lifesciences Private Limited	Full	Subsidiary
8	Jaspack Industries Private Limited	Full	Subsidiary
9	Packtime Innovations Private Limited	Full	Subsidiary
10	Mahananda Spa and Resorts Private Limited	Full	Subsidiary
11	Relax Pharmaceuticals Private Limited	Full	Subsidiary
12	Copmed Pharmaceuticals Private Limited	Full	Subsidiary
13	Vetbesta Labs (Partnership firm)	Full	Subsidiary
14	Mediforce Healthcare Private Limited	Full	Subsidiary
15	JPR Labs Private Limited	Full	Subsidiary
16	Appian Properties Private Limited	Full	Subsidiary
17	Pharma Force Lab (Partnership firm)	Full	Subsidiary
18	Pharmaforce Excipients Private Limited	Full	Subsidiary
19	Penta Latex LLP (Limited liability partnership firm)	Full	Subsidiary
20	Mankind Specialities (Partnership firm)	Full	Subsidiary
21	North East Pharma Pack (Partnership firm)	Full	Subsidiary
22	Superba Warehousing LLP (Limited liability partnership firm)	Full	Subsidiary
23	Mankind Prime Labs Private Limited	Full	Subsidiary
24	Lifestar Pharmaceuticals Private Limited	Full	Subsidiary
25	Mediforce Research Private Limited	Full	Subsidiary
26	Qualitek Starch Private Limited	Full	Subsidiary
27	Appify Infotech LLP (Limited liability partnership firm)	Full	Subsidiary
28	Mankind Consumer Healthcare Private Limited	Full	Subsidiary
29	Mankind Pharma FZ LLC	Full	Subsidiary
30	Mankind Life Sciences Private Limited	Full	Subsidiary
31	Mankind Agritech Private Limited	Full	Subsidiary
32	Upakarma Ayurveda Private Limited	Full	Subsidiary
33	Mankind Medicare Pvt Ltd (w.e.f 12th Sept 2023)	Full	Subsidiary
34	N S Industries	Proportionate	Associate
35	A S Packers	Proportionate	Associate
36	Sirmour Remedies Private Limited	Proportionate	Associate
37	ANM Pharma Private Limited	Proportionate	Associate
38	J K Print Packs	Proportionate	Associate
39	Superba Buildwell	Proportionate	JV
40	Superba Developers	Proportionate	JV
41	Superba Buildwell (South)	Proportionate	JV

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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in