July 09, 2024

Mankind Pharma Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debentures#	4,600.00	[ICRA]AA+ (Stable); assigned
Total	**4,600.00**	

**Instrument details are provided in Annexure-I; #Yet to be placed*

Rationale

The rating assigned to Mankind Pharma Limited (MPL) factors in its established presence in the domestic formulations market as the fourth largest player with a market share of 4.4% and for consistently ranking as number one by the volume of prescriptions over the last seven years [1]. It also ranks third in the domestic formulations market in terms of sales volume[2]. Further, MPL has a well-diversified presence of established brands across therapies and a healthy portfolio of consumer healthcare brands. Moreover, the company has a strong manufacturing setup across India, accredited by regulatory authorities of various countries, including the US FDA[3].

MPL's operating income has grown at a compounded annual growth rate (CAGR) of 15.7% between FY2019 and FY2024, and its operating profit margins (OPM) have also remained healthy at 22.4% and 24.5% in FY2023 and FY2024, respectively. The ratings also factor in the company's strong financial profile characterised by healthy capitalisation and coverage indicators and a strong liquidity position being net cash surplus over several years.

The ratings also take into account its limited presence in export formulations, susceptibility of its profitability to competitive pressures and volatility in raw material prices, and exposure to regulatory risks, including price regulations and increasing focus towards trade generics in the domestic formulations market. However, its limited exposure to regulated markets also reduced the risks of any adverse impact on account of greater scrutiny/ observations by regulatory agencies like the US FDA. ICRA also notes that the company is open to growing inorganically through acquisitions; and the impact of such events, if any, shall be analysed on a case-to-case basis.

The Stable outlook on the long-term rating reflects ICRA's opinion that MPL will maintain its healthy credit profile, supported by steady revenue growth and strong cashflow generation, aided by its established business position in the domestic formulations market.

Key rating drivers and their description

Credit strengths

A leading pharmaceutical company in the domestic formulations market – MPL has an established presence in the branded formulations business across India and a limited, but growing, presence in export markets. With domestic revenues of Rs. 9,522.0 crore in FY2024, MPL's domestic formulations business drove 85% of its overall revenues (89% in FY2023). It is the fourth largest player in the domestic formulations market with a share of 4.4% in the Indian pharmaceutical market (IPM) and

[1] *Source – IQVIA MAT March 2024*
[2] *Source – IQVIA MAT March 2024*
[3] *United States Food and Drug Administration*

6.4% on a covered market basis. It has well-diversified brands across therapies in the IPM as well as in the consumer healthcare business (7% share of FY2024 revenues), where it is the market leader in four categories—viz., male condoms, pregnancy detection kits, emergency contraceptives, and acne treatment. Further, with a growing focus on chronic therapies (36% share of its FY2024 revenues, over 28% in FY2018) as well as on metro and tier-I cities along with a strong distribution network across tier-II to IV towns and rural markets, the company has consistently outperformed the IPM growth and is likely to continue along this trajectory over the near to medium term.

Well-diversified portfolio across multiple therapeutic areas – MPL has a well-diversified portfolio, with its top-five therapies contributing 57% to its revenues from the domestic formulations business in FY2023 and FY2024. Some of its key therapies include anti-infectives, cardiovascular, gastrointestinal, respiratory, and vitamins, minerals and nutrients (VMNs). MPL is positioned among the top five players in these therapies on a covered market basis. Further, it is increasing its focus on chronic therapies, having setup more than 10 specialty divisions over the last three to four years, including urology, oncology, cardiovascular, and central nervous system (CNS).

Strong financial profile – MPL's operating income grew at a healthy CAGR of 15.7% between FY2019 and FY2024, while its OPM has remained range-bound at 22-27% in recent years, with ~200 bps improvement in FY2024, leading to strong internal accrual generation. This has been supported by its strong performance in the domestic formulations market and increasing revenue contribution from chronic therapies. Coupled with relatively low debt levels and a strong net worth, this has resulted in robust debt protection metrics (total debt/ OPBDITA of 0.1 times, interest cover of 75.6 times and debt service cover ratio of 38.4 times as on March 31, 2024) and a strong liquidity position for MPL, as evinced by its net cash surplus position over several years. MPL is expected to maintain its healthy financial profile, underpinned by its strong cashflow generation and liquidity position.

Credit challenges

Expected to grow inorganically through acquisitions and in-licensing agreements, any major inorganic opportunity shall remain a key monitorable – Over the past few years, MPL has explored opportunities to grow through acquisitions and in-licensing agreements. These include acquisition of brands from Panacea Biotec in FY2022 for a consideration of around Rs. 1,800 crore and in-licensing of Neptaz from Novartis and Symbicort from Astra Zeneca during FY2022 and FY2024, respectively. While the in-licensing agreements are recent, the performance of the brands acquired from Panacea has been satisfactory after their acquisition. Leveraging its strong financial profile, and akin to other established peers in the industry, the company remains open to acquisitions in the domestic formulations market as part of its overall strategy to grow, expand its product portfolio and capture higher market share in key therapeutic areas. Any sizeable acquisitions can expose MPL to risks related to mergers and acquisitions, further impacting the company's operations and/or its financial profile. ICRA draws comfort from MPL's strong financial profile with expectation of continued healthy accrual generation. While this is expected to continue to support MPL's credit profile in case of any sizeable debt-funded acquisition, the same will also remain a key monitorable.

Profitability susceptible to competitive intensity and volatility in raw material prices – MPL has a limited presence in international markets with the domestic business driving 92% of its consolidated revenues in FY2024. Thus, MPL's profitability remains susceptible to the high competitive intensity in the domestic formulations market. Its profitability also remains exposed to volatility in raw material prices; however, steps towards backward integration in key products like Dydrogesterone shall mitigate the risk to a certain extent.

Exposure to regulatory risks including price regulations and focus on generics in the domestic formulations market – Like its peers in the pharmaceutical industry, MPL's operations remain exposed to regulatory risks, including price controls. Moreover, the possibility of the inclusion of more products under NLEM[4] along with increasing focus on trade generics in the domestic formulations market and scrutiny by regulatory agencies are other risk factors. Drugs under NLEM contributed ~15% to MPL's consolidated revenues in FY2024.

[4] *National List of Essential Medicines*

Environmental and Social Risks

Environmental concerns – MPL 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 the environmental risks, MPL has taken measures for conserving water, recycling wastewater, and managing waste by using ecofriendly waste disposal methods. MPL has also installed solar panels to reduce its dependence on energy from non-renewable sources.

Social concerns – The industry faces social risks related to product safety and 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/controls also remains a social risk for entities in the pharmaceutical industry. As of March 31, 2024, around 384 drugs were covered under NLEM, falling under the ambit of the Drug Price Control Order; and the Government may bring more such drugs under price control. MPL had ~15% coverage of its domestic formulations under NLEM as of March 31, 2024.

Liquidity position: Strong

The liquidity position of MPL is strong, supported by healthy cashflow generation, free cash and bank balance and liquid investments of Rs. 3,456.1 crore, and unutilised working capital limits (standalone level) of ~Rs. 730 crore (based on drawing power) as on March 31, 2024. As per ICRA expectations, MPL is likely to incur capex (towards maintenance and upgradation) of Rs. 600-750 crore per annum, which is likely to be funded through internal accruals. Its debt repayment obligations in FY2025 are fairly low at Rs. 19.7 crore.

Rating sensitivities

Positive factors – The rating may be upgraded if MPL demonstrates considerable strengthening of its business profile, aided by improved business diversification coupled with scale-up in revenues and profitability margins, leading to sustained improvement in its return indicators and further strengthening of its financial risk profile.

Negative factors – The rating may be downgraded if there is a considerable weakening in the company's revenues and profitability due to weaker than anticipated performance; and/or increase in debt levels on account of inorganic investments, leading to an increase in net debt/ OPBDITA to above 1.5x on a sustained 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 MPL. As on March 31, 2024, the company had 12 subsidiaries, which are all enlisted in Annexure-2.

About the company

MPL is engaged in developing, manufacturing and marketing a diverse range of pharmaceutical formulations across various acute and chronic therapeutic areas, as well as several consumer healthcare products. It is India's fourth largest pharmaceutical company in terms of domestic sales and has been ranked number one over the last seven years by the volume of prescriptions. It also ranks third in the domestic market in terms of sales volumes. MPL's pharmaceuticals portfolio caters to various acute and chronic therapeutic areas including anti-infectives, cardiovascular, gastrointestinal, anti-diabetic, neuro/CNS, VMNs, respiratory, etc.

The company is also present in consumer healthcare products with established brands like Manforce Condoms and Preganews, and other products in categories like antacid powders, vitamin and mineral supplements, oral contraceptives, anti-acne preparations, etc. It is also present in the export business, including in markets like the US, Sri Lanka, Nepal and Bangladesh.

Key financial indicators (audited)

MPL Consolidated	FY2023	FY2024
Operating income	8,809.6	10,334.8
PAT	1,297.3	1,926.6
OPBDIT/OI	22.4%	24.5%
PAT/OI	14.7%	18.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	43.2	75.6

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	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 09, 2024	-	-	-
1	**Proposed NCD's**	Long term	4,600.00	**[ICRA]AA+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed Non-Convertible Debentures	Very 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	Proposed Non-Convertible Debentures#	NA	NA	NA	4,600.00	[ICRA]AA+ (Stable)

Source: Company; # yet to be placed

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SUBSIDIARIES		
Broadway Hospitality Services Private Limited	100.00%	Fully Consolidation
Shree Jee Laboratory Private Limited	100.00%	Fully Consolidation
Prolijune Lifesciences Private Limited	100.00%	Fully Consolidation
Pavi Buildwell Private Limited	100.00%	Fully Consolidation
Medipack Innovations Private Limited	51.00%	Fully Consolidation
Jaspack Industries Private Limited	100.00%	Fully Consolidation
Mahananda Spa and Resorts Private Limited	100.00%	Fully Consolidation
Lifestar Pharma LLC	90.00%	Fully Consolidation
Mankind Pharma Pte Limited	100.00%	Fully Consolidation
Packtime Innovations Private Limited	90.00%	Fully Consolidation
Mankind Specialities (partnership firm)	98.00%	Fully Consolidation
Appian Properties Private Limited	100.00%	Fully Consolidation
Relax Pharmaceuticals Private Limited	63.00%	Fully Consolidation
Copmed Pharmaceuticals Private Limited	63.00%	Fully Consolidation
Vetbesta Labs (partnership firm)	60.48%	Fully Consolidation
Mediforce Healthcare Private Limited	62.98%	Fully Consolidation
JPR Labs Private Limited	100.00%	Fully Consolidation
Penta Latex LLP	68.00%	Fully Consolidation
Pharma Force Labs (partnership firm)	63.00%	Fully Consolidation
Mediforce Research Private Limited	61.72%	Fully Consolidation
Pharmaforce Excipients Private Limited	63.00%	Fully Consolidation
Qualitek Starch Private Limited	60.39%	Fully Consolidation
Superba Warehousing LLP (partnership firm)	51.00%	Fully Consolidation
North East Pharma Pack (partnership firm)	57.50%	Fully Consolidation
Lifestar Pharmaceuticals Private Limited	85.00%	Fully Consolidation
Mankind Prime Labs Private Limited	100.00%	Fully Consolidation
Mankind Life Sciences Private Limited	100.00%	Fully Consolidation
Appify Infotech LLP	100.00%	Fully Consolidation
Mankind Consumer Healthcare Private Limited	100.00%	Fully Consolidation
Mankind Pharma FZ LLC	100.00%	Fully Consolidation

Company Name	Ownership	Consolidation Approach
Mankind Agritech Private Limited	100.00%	Fully Consolidation
Upakarma Ayurveda Private Limited	90.00%	Fully Consolidation
Mankind Medicare Private Limited	100.00%	Fully Consolidation
JOINT VENTURES		
Superba Buildwell	60.00%	Equity method
Superba Developers	70.00%	Equity method
Superba Buildwell (South)	70.00%	Equity method
ASSOCIATES		
ANM Pharma Private Limited	34.00%	Equity method
Sirmour Remedies Private Limited	40.00%	Equity method
J. K. Print Packs	33.00%	Equity method
A. S. Packers	50.00%	Equity method
N. S. Industries	48.00%	Equity method

Source: Q4 FY2024 financial results

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 61143400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545870
Deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 404 5474829
gaurav.kushwaha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches