

September 30, 2024

## Mankind Pharma Limited: Ratings reaffirmed for existing non-convertible debentures; ratings assigned for bank loans, commercial papers and non-convertible debentures

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures <sup>#</sup>	4,600.00	4,600.00	[ICRA]AA+ (Stable); reaffirmed
Non-convertible debentures <sup>#</sup>	-	400.00	[ICRA]AA+ (Stable); assigned
Commercial papers <sup>#</sup>	-	5,000.00	[ICRA]A1+; assigned
Long-term fund-based term loans <sup>#</sup>	-	500.00	[ICRA]AA+ (Stable); assigned
Long-term fund-based working capital limits <sup>#</sup>	-	750.00	[ICRA]AA+ (Stable); assigned
<b>Total</b>	<b>4,600.00</b>	<b>11,250.00</b>	

\*Instrument details are provided in Annexure-I

<sup>#</sup>Proposed/ yet to be placed

### Rationale

The ratings of Mankind Pharma Limited (MPL) derive comfort from its established presence in the domestic formulations industry as the fourth largest player with a market share of 4.4%<sup>1</sup> and the second largest player with a volume share of 6.1%<sup>2</sup>. The company also benefits from a strong field force of more than 16,000<sup>3</sup> having an extensive network of more than five lakh doctors with an established presence in tier-II to tier-IV towns and rural markets. Supported by this, the company has consistently ranked as number one by the volume of prescriptions over the last seven years<sup>1</sup>. Moreover, MPL has a well-diversified presence of established brands across therapies and a healthy portfolio of consumer healthcare brands. It also has a strong manufacturing set-up across India, accredited by regulatory authorities of various countries, including the US FDA<sup>4</sup>.

Supported by its strong domestic presence, MPL's operating income has increased 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. In Q1 FY2025, its operating income grew by 12% on a YoY basis to Rs. 2,893.4 crore and its OPM also remained healthy at 25.2% (adjusted for one-time expenses related to the acquisition and other non-recurring costs). Further, robust cash flow generation and low overall dependence on debt supported the company's credit profile, as evident from its continued net cash positive status over many years.

ICRA has also noted MPL's proposal to acquire a 100% stake in Bharat Serums and Vaccines Limited (BSV), subject to completion of customary conditions and receipt of requisite regulatory approvals. BSV, a medium-sized pharmaceutical company, is involved in developing, manufacturing and marketing of biological-based pharmaceutical formulations with strong presence in therapeutic segments such as women health, assisted reproductive technology (ART) and critical care (CC). With sales in more than 50 countries (majority of the revenue driven by 15+ countries), BSV's product profile is fairly diversified, comprising plasma derivatives, monoclonal, fertility hormones, antitoxins, antifungals, anaesthetics, cardiovascular drugs, etc. The transaction is expected to close within Q3 FY2025, at an enterprise value of Rs. 13,630 crore.

<sup>1</sup> Source – IQVIA MAT March 2024

<sup>2</sup> Source – IQVIA April-June 2024

<sup>3</sup> Including medical representatives and field managers

<sup>4</sup> United States Food and Drug Administration

The acquisition is likely to be funded by a mix of acquisition debt of around Rs. 10,000 crore and the remaining through internal accruals and existing surplus liquidity. The debt would comprise a mix of non-convertible debentures (NCDs) and commercial papers (CPs) and is expected to be raised within Q3 FY2025. Subsequently, MPL is also likely to raise equity via a qualified institutional placement (QIP) route to partially repay the CPs and any material delay in the same can expose MPL to the refinancing risk. However, the company is also expected to maintain adequate liquidity buffer in the form of cash, cash equivalents, liquid investments and undrawn working capital lines to partly mitigate this risk.

While MPL's leverage and coverage indicators are expected to moderate over the near term on account of the debt proposed to be raised for funding the acquisition, cash flow generation is likely to aid the reduction in debt and improve credit metrics over the medium term. ICRA also draws comfort from the management's conservative approach towards financial leverage, which is demonstrated by its long net cash positive status.

Further, the acquisition is expected to strengthen MPL's business profile by widening its product portfolio and positioning it as a leading player in Indian women's health and fertility segment as it will gain access to high potential over-the-counter prescription (OTX) brands and high entry barrier portfolio with specialty R&D technology platforms across recombinants, niche biologics, novel delivery and immunoglobulins. Besides, possible synergies from the transaction include revenue enhancement emanating from potential of cross selling in specialty channels, BSV's access to resources of MPL including its large field force, a strong geographical and doctor coverage, potential OTX shift and cost synergies from the likely shift of the outsourced manufacturing of BSV's prescription drugs (Rx) portfolio to MPL's in-house manufacturing. However, the integration of BSV post the acquisition and development of synergies would continue to be monitored.

The ratings also consider MPL's limited presence in export formulations, susceptibility of its profitability to competitive pressure 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 USFDA.

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 cash flow 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, which contributed 85% to its revenues in FY2024 and 84% in Q1 FY2025. It is the fourth largest player in the domestic market with revenues of Rs. 9,522.0 crore in FY2024 and Rs. 2,634.0 crore in Q1 FY2025 and a market share of 4.4% in the Indian pharmaceutical market (IPM) and 6.4% on a covered market basis in FY2024. It has well-diversified brands across therapies with a growing focus on chronic therapies (accounted for 36% share of its FY2024 revenues against 28% in FY2018) as well as on metro and tier-I cities. It has a strong field force and distribution network across tier-II to IV towns and rural markets, has consistently outperformed the IPM growth and is likely to continue this trend over the near-to-medium term. MPL also has a strong presence in consumer healthcare, which drove 7% of its FY2024 and Q1 FY2025 revenues. In this segment, it is the market leader in four categories—viz., male condoms, pregnancy detection kits, emergency contraceptives, and acne treatment.

**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, and has set up more than 10 specialty divisions over the last three to four years, including urology, oncology, cardiovascular, and central nervous system (CNS). With the acquisition of BSV, MPL would also become a market leader in

women health, being the number one player in the gynaecology market. BSV and MPL had a combined market share of 13% in the gynaecology market in FY2024.

**Strong financial profile** – MPL's operating income rose at a healthy CAGR of 15.7% between FY2019 and FY2024, while its OPM remained in the range of 22-27% in the recent years, leading to strong internal accrual generation. It reported revenues of Rs. 2,893.4 crore in Q1 FY2025 with a YoY growth of around 12% and registered an OPM of 25.2% (adjusted for one-time expenses related to the acquisition). This improvement of 280 basis points in the OPM from FY2023 (22.4%) was supported by MPL's strong performance in the domestic formulations market and increasing revenue contribution from chronic therapies. Along with relatively lower 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 reflected in its net cash surplus position over several years. The financial risk profile is expected to moderate over H2 FY2025 on account of the debt proposed to be undertaken for the acquisition. However, MPL is expected to repay a sizeable portion of this debt through the equity raised through the proposed QIP. Coupled with gradual reduction in debt levels from its robust cash flow generation, this is expected to improve the financial risk profile of the company from FY2026.

### Credit challenges

**Profitability susceptible to competition 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 and 91% in Q1 FY2025. Thus, MPL's profitability remains susceptible to intense competition in the domestic formulations market. Its profitability also remains exposed to volatility in raw material prices. However, steps taken towards backward integration in key products like Dydrogesterone would 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 inclusion of more products under NLEM<sup>5</sup> 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.

### Liquidity position: Strong

The liquidity position of MPL is strong, supported by healthy cash flow generation, a net cash surplus of Rs. 3,747 crore as on June 30, 2024 and substantial unutilised working capital limits. As per ICRA's expectations, MPL is likely to incur capex (towards maintenance and upgradation) of Rs. 600-650 crore per annum. Its debt repayment obligations are also low at Rs. 19.7 crore per annum. While MPL would use a significant portion of its available liquidity towards funding the acquisition, a robust cash flow generation and the proposed equity raise are expected to enhance the liquidity position.

### Rating sensitivities

**Positive factors** – The long-term 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 profit margins, leading to a sustained improvement in its return indicators and further strengthening of its financial risk profile.

**Negative factors** – The ratings may be downgraded if there is a considerable weakening in the company's revenues and profitability due to weaker-than-anticipated performance; and/or an increase in debt levels on account of inorganic investments, resulting in an increase in net debt/OPBDITA to above 1.5 times on a sustained basis.

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<sup>5</sup> 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 related 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, 384 drugs were covered under NLEM, falling under the ambit of the Drug Price Control Order. 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.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating methodologies for Pharmaceuticals</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MPL. As on June 30, 2024, the company had 12 subsidiaries, which are all enlisted in Annexure-2.

## About the company

MPL is involved 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 Pregarnews, 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 and the neighbouring countries like Sri Lanka and Nepal.

## Key financial indicators (audited)

MPL Consolidated	FY2023	FY2024	Q1 FY2025 <sup>#</sup>
Operating income	8,809.6	10,427.4	2,893.4
PAT	1,297.3	1,926.6	539.2
OPBDIT/OI	22.4%	25.3%	23.6%*
PAT/OI	14.7%	18.5%	18.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2	-
Total debt/OPBDIT (times)	-0.7	-1.2	-
Interest coverage (times)	43.2	75.3	62.6

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

\*25.2%, adjusted for one-time expenses related to the acquisition; #based on provision financial statements

### 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
			Sep 30, 2024	Aug 05, 2024	Jul 09, 2024	-	-	-
1 Non-convertible debentures	Long term	4,600.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	-
2 Non-convertible debentures	Long term	400.00	[ICRA]AA+ (Stable)	-	-	-	-	-
3 Commercial papers	Short Term	5,000.00	[ICRA]A1+	-	-	-	-	-
4 Long-term fund-based term loans	Long term	500.00	[ICRA]AA+ (Stable)	-	-	-	-	-
5 Long-term fund-based working capital limits	Long term	750.00	[ICRA]AA+ (Stable)	-	-	-	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debentures	Very Simple
Commercial papers	Very Simple
Long-term fund-based term loans	Simple
Long-term fund-based working capital limits	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	Non-convertible debentures <sup>#</sup>	NA	NA	NA	5000.00	[ICRA]AA+ (Stable)
NA	Commercial papers <sup>#</sup>	NA	NA	NA	5000.00	[ICRA]A1+
NA	Long-term fund-based term loans <sup>#</sup>	NA	NA	NA	500.00	[ICRA]AA+ (Stable)
NA	Long-term fund-based working capital limits <sup>#</sup>	NA	NA	NA	750.00	[ICRA]AA+ (Stable)

Source: Company

<sup>#</sup> Proposed/ yet to be placed

[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	Consolidation Approach
<b>SUBSIDIARIES</b>		
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

Company Name	Ownership	Consolidation Approach
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
Mankind Agritech Private Limited	100.00%	Fully Consolidation
Upakarma Ayurveda Private Limited	90.00%	Fully Consolidation
Mankind Medicare Private Limited	100.00%	Fully Consolidation
<b>JOINT VENTURES</b>		
Superba Buildwell	60.00%	Equity method
Superba Developers	70.00%	Equity method
Superba Buildwell (South)	70.00%	Equity method
<b>ASSOCIATES</b>		
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: Q1 FY2025 financial results

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**  
+91 22 61143400  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Deepak Jotwani**  
+91 124 4545870  
[Deepak.jotwani@icraindia.com](mailto:Deepak.jotwani@icraindia.com)

**Gaurav Kushwaha**  
+91 404 5474829  
[gaurav.kushwaha@icraindia.com](mailto:gaurav.kushwaha@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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