India Ratings Upgrades Virupaksha Organics's Bank Facilities to 'IND A-'/Stable; Rates Additional Bank Loans

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India Ratings and Research (Ind-Ra) has upgraded Virupaksha Organics Limited's (VOL) bank facility ratings to 'IND A-' from 'IND BBB+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR1,350 (reduced from INR1,600)	IND A-/Stable/IND A2+	Upgraded
Term loan	-	-	15 September 2030	INR519.10 (reduced from INR953)	IND A-/Stable	Upgraded
Term loan	-	-	5 June 2031	INR1,548.50	IND A-/Stable	Assigned
Non-fund-based working capital limit	-	-	-	INR224	IND A2+	Upgraded

Analytical Approach

To arrive at the ratings, Ind-Ra has changed its rating approach from standalone view to taking a fully consolidated view of VOL and its subsidiaries Progenerics Pharma Pvt Ltd (PGPPL; 100% stake acquired in FY25) and Oxygenta Pharmaceuticals Limited (OPL; 55.37% stake acquired in June 2025) on account of the moderate legal, moderate operational and strong strategic linkages among them, and has considered the pro forma consolidated numbers. VOL acquired a majority stake in OPL through an open offer and share purchase from the existing promoter of OPL.

Detailed Rationale of the Rating Action

The upgrade reflect VOL's sustained revenue growth and healthy EBITDA margins, and a comfortable net leverage (net debt/operating EBITDA) of below 2.0x. However, Ind-Ra expects the net leverage to exceed 2.5x in FY26 due to the planned debt-funded capex towards the expansion of VOL's existing unit and addition of OPL's debt due to the acquisition, although improve FY27 onwards. Management has indicated that VOL is planning a capex of around INR4,500 million starting FY27, to be completed over the next three years. The proposed capex is at the planning stage and the funding pattern is yet to be decided. Ind-Ra believes the company's ability to generate strong free cash flow might reduce pressure on the credit metrics over the medium term.

List of Key Rating Drivers

Strengths

- Scale of operations to improve following acquisition
- Debt metrics to remain comfortable post-acquisition despite moderation in FY26
- Strong client base; resilient to easy shifts

Weaknesses
- Significant debt-funded capex
- Concentration on therapeutic segment and product portfolio
- Regulatory risk
- Industry risk

Detailed Description of Key Rating Drivers

Scale of Operations to Improve Following Acquisition: As per FY25 provisional financials, VOL recorded a muted revenue growth of 5% yoy to INR8,080 million (FY24: up 17.20% yoy) due to weak global demand. However, OPL recorded a significant increase in the revenue to around INR1,093.0 million in FY25 (FY24: INR396.4 million). Considering OPL's acquisition, Ind-Ra estimates the consolidated pro forma revenue of INR8,800 million-8,900 million in FY26, which will further increase 9%-10% yoy in FY27, supported by favourable demand for VOL and OPL's products, along with the commencement and ramping up of additional capacity at VOL.

VOL's gross margins improved to 45% in FY25 (FY24: 44%), however, the EBITDA margins reduced slightly to 17% (18%), mainly on account of a marginal increase in other operating expenses. On the other hand, OPL continued to report EBITDA losses in FY25 mainly due to low gross margins of 12% (FY24: 15%) and high other operating expenses; although, the same has reduced to 21% of the sales (40%). Ind-Ra expects OPL's gross profit margins to improve in the near term with the softening of raw material prices, increased realisation and improved product mix, which should lead to the EBITDA turning profitable in the medium term.

Ind-Ra expects the consolidated EBITDA margins on a pro forma basis to be 14%-15% in FY26 and increase further by 200-230bp in FY27, mainly due to benefits of economies of scale, and operational and distribution synergies. VOL's return on capital employed fell to 17.7% in FY25 (FY24: 24.4%) as the company undertook a significant capex of about INR1,298 million (INR860 million). Also, the company has extended additional loans and advances to group entities with weaker credit profile, paid advances for the acquisition of stake in OPL and capital asset. VOL's net working capital cycle elongated to 127 days in FY25 (FY24: 120 days) because of an increase in the inventory holding period to 117 days (85 days). Ind-Ra expects the net working capital cycle to remain at similar levels over the near-to-medium term.

OPL (formerly SS Organics Limited) is a pharmaceutical company involved in the manufacturing and marketing of bulk drugs and intermediates. The company manufactures a wide range of new generation quinolones, antiasthmatics, antiulcerants, and anti-inflammatory drugs. The product range also includes omeprazole, rabeprazole sodium, lansoprazole, esomeprazole magnesium trihydrate, non-pariel seeds, pantoprazole pellets, diclofenac sodium pellets, gabapentin, moxifloxacin, ramipril, atorvastatin, and voriconazole.

PGPPL is a pharmaceutical company focused on formulation development and analytical services. The company develops products in various dosage forms and offers analytical services such as method development and validation.

Debt Metrics to Remain Comfortable Post-acquisition Despite Likely Moderation in FY26: The total consideration of PGPPL and OPL acquisition of around INR115 million and INR460 million, respectively, is being funded entirely by VOL's private placement of INR1,007 million during FY25. VOL had paid advances against OPL's shares of about INR329 million at FYE25 and had a cash balance of INR222.25 million, which was used for payment of the remaining consideration in June 2025. The company acquired OPL since it has a sizeable land bank which can be used for future development or other strategic purposes.

VOL has comfortable credit metrics as indicated by the net leverage of 1.96x in FY25 (FY24: 1.86x) and gross interest coverage (EBITDA/interest expenses) of 6.36x (5.90x) owing to its low debt levels coupled with sustained EBITDA. Contrarily, OPL's credit metrics are weak on account of EBITDA losses of INR100 million in FY25 (FY24: loss of INR97 million) led by a high cost of material and other expenses. However, the agency expects OPL's credit profile to improve in FY26 with the improvement in EBITDA. OPL's debt repayment in the near-to-medium term is supported by the infusion of unsecured loans and support from VOL.

Furthermore, given the acquisition is not EBITDA accretive, VOL's consolidated net leverage could deteriorate to 2.9x-3.0x in FY26 (on pro forma basis). However, Ind-Ra expects the net leverage to improve gradually in FY27, mainly on account of the full integration of OPL in FY26, resulting in better cash generation and a lower working capital requirement. The consolidated interest coverage is likely to remain strong over FY26-FY27, supported by sustained EBITDA levels.

Strong Client Base; Resilient to Easy Shifts: VOL has longstanding relationships with many of its key customers such as Sanofi Winthrop Industries, National Pharmaceutical Co., Ltd, Opella Healthcare International and other players in the segment highlights its strategic positioning in the pharmaceutical industry. While VOL has not entered into long-term agreements with any of the customers, its established relationships with them have enabled it to secure repeat orders. Furthermore, the top 10 customers contributed 45.5% to the total revenue in FY25 (FY24: 40%). VOL expects the customer base to remain intact in the long term.

Significant Debt-funded Capex: VOL incurred a significant capex of around INR3,124 million over FY21-FY25 funded with a mix of debt, equity and internal accruals towards the overall expansion of its existing manufacturing unit. Furthermore, the company is undergoing capacity expansion in Unit-1 and Unit-5 with a total proposed cost of capex of INR1,500 million, which will be funded through debt and internal accruals. The agency expects the capex to result in the moderation of debt metrics from the present level; however, the same is expected to remain comfortable.

VOL is contemplating to incur INR4,500 million of capex for capacity expansion and upgradation of existing facilities in the upcoming years. As informed by management, the company is evaluating the financial viability and funding sources for this project. The management expects this investment to increase VOL's existing infrastructure capacity. The management believes this capex to be essential for the company to improve its business/product profile and scale of business. However, any deviation from the stated debt profile and/or a lower-than-expected accruals and equity infusion, substantially impacting the liquidity profile, will be closely monitored by Ind-Ra.

Concentration on Therapeutic Segment and Product Portfolio: VOL is mainly engaged in the therapeutic segments. Its primary products are fexofenadine, fluconazole, tapentadol and tramadol, which together contributed 89% to the total revenue in FY25 (FY24: 83%; FY23: 69%), followed by other products at 11% (20%; 31%) and the remaining from other therapeutic segments. The concentration risk, however, is mitigated to some extent by VOL's continuous focus on strengthening its position in its key molecules present in both active pharmaceutical ingredients (APIs) and intermediates. Ind-Ra expects the therapy concentration to reduce over the medium term, led by the company's improving product mix and sales in the regulated markets.

Regulatory Risk: AOL's manufacturing facilities are accredited by global regulatory agencies such as United States Food and Drug Administration (USFDA), European Directorate for the Quality of Medicines & Healthcare (EDQM), The Korea Food & Drug Administration, The State Food and Drug Administration (SFDA), The Pharmaceuticals and Medical Devices Agency in Japan and World Health Organisation-Good Manufacturing Practices, among others. These inspections and certifications for manufacturing various APIs are reviewed on a periodic basis by the respective regulatory agencies. VOL's last inspection for Unit-1 was conducted by the USFDA in February 2025 and for Unit-2 in 2023. As per the management, the USFDA inspection is generally conducted in every three to five years. While the EDQM inspection was also conducted in 2024, the infrequency of USFDA inspections poses a potential operational risk for the company. The change in the regulatory landscape and evolving standards may not be adequately captured with a gap in assessments. This also results in increased compliance and regulatory risk which become a key rating monitorable for the agency.

Industry Risk: VOL's performance is exposed to fluctuations in raw material prices, intense competition, and government and regulatory policies and procedures, given that the company operates in a highly regulated pharmaceutical industry.

Liquidity

Adequate: VOL had free cash balances of INR222.25 million at FYE25 (FYE24: INR123.70 million). The peak monthly average utilisation of the fund-based working capital limits was 62.54% and non-fund-based limits was 21% for the 12 months ended March 2025. The free cash flow declined to negative INR966 million in FY25 (FY24: negative INR178 million) due to an increase in capex requirements during the year. The agency expects the annual cash flow from operations (FY25: INR257 million; FY24: INR848 million) to increase from FY25 levels over FY26-FY28 with the likely rise in the absolute EBITDA. The company has consolidated debt obligations including proposed term loan of INR664 million to INR 655 million in FY26 and FY27, respectively. Ind-Ra expects the liquidity to remain adequate over the near-to-medium term.

Rating Sensitivities

Positive: A sustained improvement in the scale of operations while maintaining strong operating profitability and liquidity and credit metrics, all on a sustained basis, could lead to a positive rating action. Additionally, an improvement in the governance structure and disclosures may lead to a positive rating action.

Negative: Substantial deterioration in the scale of operations or profitability or liquidity or delay in commercialisation of under construction projects, leading to net leverage above 2.75x, all on a sustained basis, would be negative for the ratings.

Any Other Information

Not applicable

About the Company

Formed in 2003, VOL manufactures APIs and intermediates, serving both domestic and international markets. The key products manufactured are fluconazole, fexofenadine, Tramadol, Tapendol and its intermediates. VOL has two manufacturing units located at Kazipalli and Pashamylaram (Telangana), both of which are approved by the USFDA. Unit -1 also approvals from Japanese Pharmaceuticals and Medical Devices Agency, China SFDA, Registration for Medical Devices and The Korea Food and Drug Administration.

Key Financial Indicators

Particulars (Standalone)	**FY25 (Provisional)**	**FY24**
Revenue (INR million)	8,079.98	7,663.50
EBITDA (INR million)	1,346.74	1,363.00
EBITDA margin (%)	16.67	17.79
Gross interest coverage (x)	6.36	5.90
Net leverage (x)	1.93	1.85
Source: VOL; Ind-Ra Ind-Ra has considered standalone financials till FY25 Provisional since VOL accounts for over 99% of the consolidated (VOL and PGPPL) revenue . OPL acquisition was completed in June 2025.		

Status of Non-Cooperation with previous rating agency

Not Applicable

Rating History

Instrument Type	**Rating Type**	**Rated Limits (million)**	**Current Rating/ Outlook**	**Historical Rating/Rating Watch/Outlook**					
				6 May 2025	**1 March 2024**	**22 September 2023**	**14 April 2023**	**23 December 2022**	**24 June 2022**
Issuer rating	-	-	-	-	-	WD	IND BBB/Stable	IND BBB/Rating Watch with Negative Implications	IND BBB/Rating Watch with Negative Implications

Fund-based working capital limit	Long term/Short term	INR1,350	IND A-/Stable/IND A2+	IND BBB+/Negative(ISSUER NOT COOPERATING)/IND A2(ISSUER NOT COOPERATING)	IND BBB+/Positive/IND A2	-	IND BBB/Stable/IND A3+	IND BBB/Rating Watch with Negative Implications/IND A3+/Rating Watch with Negative Implications	IND BBB/Rating Watch with Negative Implications/IND A3+/Rating Watch with Negative Implications
Term loan	Long-term	INR2,067.60	IND A-/Stable	IND BBB+/Negative(ISSUER NOT COOPERATING)	IND BBB+/Positive	-	IND BBB/Stable	IND BBB/Rating Watch with Negative Implications	IND BBB/Rating Watch with Negative Implications
Non-fund-based working capital limit	Short-term	INR224	IND A2+	IND A2(ISSUER NOT COOPERATING)	IND A2	-	IND A3+	IND A3+/Rating Watch with Negative Implications	IND A3+/Rating Watch with Negative Implications

Bank wise Facilities Details

The details are as reported by the issuer as on (03 Jul 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	State Bank of India	Fund-based working capital limits	500	IND A-/Stable/IND A2+
2	State Bank of India	Non-fund-based working capital limits	124	IND A2+
3	ICICI Bank	Fund-based working capital limits	500	IND A-/Stable/IND A2+
4	ICICI Bank	Non-fund-based working capital limits	100	IND A2+
5	Axis Bank Limited	Fund-based working capital limits	350	IND A-/Stable/IND A2+
6	Axis Bank Limited	Term loan	75.8	IND A-/Stable
7	Bajaj Finance	Fund-based working capital limits	150	WD
8	Bajaj Finance	Term loan	164.5	IND A-/Stable
9	State Bank of India	Term loan	177.8	IND A-/Stable
10	ICICI Bank	Term loan	101	IND A-/Stable

11	Bajaj Finance	Term loan	648.5	IND A-/Stable
12	Kotak Mahindra Bank	Term loan	200	IND A-/Stable
13	ICICI Bank	Term loan	700	IND A-/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Non-fund-based working capital limits	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Corporate Rating Methodology

Guidelines on What Constitutes Non-Cooperation

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates