

## India Ratings Revises Outlook on Rubicon Research's Bank Loans to Positive; Affirms 'IND A-'; Rates Additional Limits

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India Ratings and Research (Ind-Ra) has revised the Outlook on Rubicon Research Limited's (RRL) bank loans to Positive from Stable while affirming the rating at 'IND A-'. 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
Term loan	-	-	30 November 2028	INR824 (reduced from INR1,211)	IND A-/Positive	Outlook revised to Positive; Affirmed
Working capital term loan	-	-	-	INR206 (reduced from INR277)	IND A-/Positive	Outlook revised to Positive; Affirmed
Fund-based working capital limit	-	-	-	INR3,160	IND A-/Positive/IND A2+	Outlook revised to Positive; Affirmed
Fund-based working capital limit	-	-	-	INR600	IND A-/Positive/IND A2+	Assigned

### Analytical Approach

Ind-Ra continues to fully consolidate RRL and its subsidiaries, to arrive at the ratings, due to the strong operational and strategic linkages among them. All the subsidiaries are engaged in the manufacturing and/or selling of pharmaceutical formulations.

### Detailed Rationale of the Rating Action

The Positive Outlook reflects Ind-Ra's expectation of an improvement in RRL's operating performance during FY25, driven by improving market share and additional launches in the key market of US. RRL commercialised an additional manufacturing facility during FY24, leading to diversification of risks from a manufacturing standpoint. The acquisition of additional facility with the presence in differentiated portfolio will further aid the company to diversify from supply and portfolio perspective. The company maintains a healthy business profile, with 97% of its revenue in FY24 being derived from the highly regulated US generic market supported by investments in building capabilities in the complex/differentiated portfolio.

Ind-Ra notes that RRL is currently under the initial public offering (IPO) process and the published information is in compliance with the disclosure guidelines.

### List of Key Rating Drivers

## Strengths

- Emerging player in large US generics market
- Strong investments in research and development (R&D), capex & mergers and acquisition (M&A) for long-term growth
- Experienced promoters; strong financial flexibility
- Healthy financial performance during FY24; likely to sustain in near term
- Improvement in credit metrics during FY24; likely to remain stable in medium term

## Weaknesses

- Regulatory risks
- Foreign currency risk
- Tariff risks

## Detailed Description of Key Rating Drivers

**Emerging Player in Large US Generics Market:** On a consolidated basis, RRL reported revenue of INR8,428 million in FY24 (FY23: INR3,848 million; FY22: INR3,039 million) with over 97% of the revenue being generated from the US generics market. RRL spent about 13% of its revenue during FY24 on R&D to increase its revenue and EBITDA contribution from the US generics market. It has capabilities of manufacturing oral solids, oral liquids and nasal sprays.

Since FY22, RRL has established its own front-end presence, against the partnership model earlier, in the US market via its US-based subsidiary, Advagen Pharma Limited. RRL has a portfolio of 61 abbreviated new drug approvals (ANDAs), of which 51 have been commercialised as on 31 March 2024. According to management, RRL is among the top three companies by market share in 13 ANDAs and has more than 25% market share in six ANDAs. RRL is focusing on the specialty/complex generic segment. As on 31 March 2024, the company had seven speciality products approved and commercialised. During FY22-FY24, the specialty products' gross margin grew by 2.98x. According to management, specialty products include ANDA with competitive intensity of less than two players (other than RRL).

**Strong Investments in R&D, Capex & M&A for Long-term Growth:** RRL has a R&D pipeline of 70 ANDAs as on 31 March 2024. The company's R&D spend was INR1.05 billion during FY24, which was 14% of product revenue (FY23: INR0.7 billion (19% of product revenue); FY22: INR1.26 billion (43% of product revenue)). RRL has cumulatively spent INR4.8 billion during FY19-FY24 on R&D. Ind-Ra expects RRL to incur an R&D expense of INR1.2 billion-1.5 billion per annum in the near-to-medium term. The company's R&D facilities are in India and Canada, which has over 140 scientists. It also has specialised laboratories for nasal, potent and sterile products across India and Canada. The company's growth prospects are being driven by its R&D spend, which is higher than the average R&D spend of its peers.

**Experienced Promoters; Strong Financial Flexibility:** During April 2019, General Atlantic Singapore RR PTE Limited (GA) acquired a 58% controlling stake in RRL from the existing private equity shareholders. Of RRL's eight board of directors, three are also on GA's board. RRL has been leveraging on GA's guidance, technical and consultancy support to strengthen its growth prospects. Furthermore, the company's promoter Pratibha Pilgaonkar has more than four decades of experience in the pharmaceutical industry. Ind-Ra derives comfort from the demonstrated track record of the promoter and private equity investor.

**Healthy Financial Performance during FY24; Likely to Sustain in Near Term:** The consolidated revenue surged 119% yoy to INR8428 million during FY24, driven by new product approvals and healthy demand for the existing and acquired portfolio. During FY24, the US business reported revenue of INR8,317 million (FY23: INR3,670 million), while other growth markets and domestic markets reported revenue of INR112 million (INR147 million) and INR110 million (INR118 million), respectively. During FY24, RRL launched nine products, which contributed INR1,085 million to the revenue from operations (13% of the total revenue).

The consolidated EBITDA surged to INR1,546 million in FY24 (FY23: INR185 million; FY22: negative INR392 million), mainly due to a decline in raw material cost and operating expenses, led by the company's cost-optimisation initiatives. The EBITDA margins improved to 18% in FY24 (FY23: 5%; FY22: negative 13%). Ind-Ra expects a significant

improvement in the EBITDA and EBITDA margins during FY25, driven by new product launches in the regulated markets and continued benefits of cost-optimisation/R&D initiatives undertaken by the company.

**Improvement in Credit Metrics during FY24; Likely to Improve in Near-to-medium Term:** RRL's net leverage (net debt/EBITDA) improved to 2.5x in FY24 (FY23: 14.3x) and interest coverage (EBITDA/interest expense) to 5.0x (1.0x), supported by a sharp increase in the EBITDA. Ind-Ra believes the company would continue to display a balanced mix of organic and inorganic growth while maintaining a healthy leverage profile, supported by strong EBITDA margins and disciplined capital allocation. Ind-Ra expects the net leverage to have been below 2.0x in FY25. While the ramp-up of past investments has been aiding EBITDA growth, sustaining of the credit metrics amid the ongoing capex and acquisitions remains a key monitorable.

**Regulatory Risks:** Given a significant share of sales is emanating from the developed markets particularly the US, RRL is subject to the regulatory risks inherent to the pharmaceutical industry. Exports to regulated markets of the US accounted for 97% of RRL's revenue in FY24 (FY23: 93%; FY22: 93%). Thus, any adverse regulatory actions could lead to a lower-than-anticipated revenue and EBITDA, thus impacting the credit metrics. According to the United States Food and Drug Administration (USFDA), RRL had four inspections at its manufacturing facilities and R&D sites, which were cleared during FY25 with no action indicated. Ind-Ra notes RRL has three manufacturing facilities against one earlier.

**Foreign Currency Risk:** RRL derives 99% of its revenue in foreign currency during FY24, whereas majority of its costs are incurred in Indian rupee. Hence, the company is exposed to any adverse movement in foreign exchange rate. However, the company takes a forward cover to hedge part of its export revenue and receivables. This helps it to mitigate the forex risk to a certain extent.

**Tariff Risks:** RRL faces tariff risk primarily due to significant portion of exports of its pharmaceutical products to the US, primarily through its subsidiary AdvaGen Pharma. The company is vulnerable to changes in trade policies and import duties imposed by countries where it sources raw materials or sells its products. The US has imposed a 26% reciprocal tariff on India. However, pharmaceutical products, have been exempt from tariffs, but may become subject to duties pursuant to future actions. On imposition of the same, pharmaceutical companies with a higher mix of US revenue will see an impact on its profitability. Ind-Ra will evaluate the impact of these tariffs, and it will remain a key rating monitorable.

## Liquidity

**Adequate:** On a consolidated basis, the average utilisation of the fund-based limits was around 75% over the 12 months ended June 2024. RRL had unencumbered cash balances of INR506 million at FYE24 (FYE23: INR544 million, FYE22: INR387 million). The company had scheduled debt repayments of INR399 million in FY25 and will have repayments of INR334 million in FY26, which will be adequately met through internal accruals. The cash flow from operations turned positive to INR210 million in FY24 (FY23: negative INR745 million), due to favourable changes in working capital. The working capital cycle remained elongated but improved to 183 days in FY24 (FY23: 280 days), mainly due to a decrease in the inventory holding period to 130 days (159 days). Ind-Ra expects the working capital cycle to have improved in FY25. Ind-Ra believes RRL may resort to receivable factoring in the future. The company needs to maintain a high inventory of finished goods at Advagen Pharma to cater to the large number of stock-keeping units and avoid penalties on supply failures.

## Rating Sensitivities

**Positive:** A substantial improvement in the scale of operations post the stabilisation or integration of operations of the large debt-funded acquisitions, while the improving EBITDA margins, leading to the net leverage reducing below 2.0x, all on a consolidated and sustained basis, will lead to a positive rating.

**Negative:** A lower-than-expected improvement in the scale of operations or a decline in the EBITDA margins and/or higher-than-anticipated delays in the stabilisation or integration of operations of the large debt-funded acquisitions, leading to the net leverage remaining above 2.0x, all on a consolidated and sustained basis, could lead to the Outlook being revised back to Stable.

## Any Other Information

**Standalone Performance:** RRL's revenue was INR6,305 million in FY24 (FY23: INR4,075 million), EBITDA was INR731 million (INR414 million), EBITDA margin was 11.6% (10.1%), interest coverage was 2.4x (2.2x) and net leverage was 5.1x (6.7x).

## About the Company

RRL started operations in 1999 as a product development company. RRL is engaged in the manufacturing and export of pharmaceutical formulations in the form of oral solids, oral liquids and nasal. RRL has a diversified product portfolio catering majorly to therapeutic segments, namely, analgesic, antacids, antianxiety, antihistamines, cardiology, neuroscience, ophthalmic and others. Under specialty segment, it caters to central nervous system, Parkinson and others.

RRL has two manufacturing units located in Ambarnath and Satara, both of which are USFDA approved. Furthermore, RRL has two USFDA-approved R&D centres one each in India and Canada.

## Key Financial Indicators

Particulars	FY24	FY23
Revenue (INR million)	8,428	3,848
EBITDA (INR million)*	1,546	185
EBITDA margin (%)	18.3	4.8
Gross interest coverage (x)	5.0	1.0
Net leverage (x)	2.5	14.3

Source: RRL; Ind-Ra

\*EBITDA (including other income) stood at INR1,731 million in FY24 (FY23: INR440 million; FY22: negative INR224 million)

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook
	Rating Type	Rated Limits (million)	Rating	17 April 2024
Term loan	Long-term	INR824	IND A-/Positive	IND A-/Stable
Fund-based working capital limit	Long-term/Short-term	INR3,760	IND A-/Positive/IND A2+	IND A-/Stable/IND A2+
Working capital term loan	Long-term	INR206	IND A-/Positive	IND A-/Stable

## Bank wise Facilities Details

The details are as reported by the issuer as on (16 Jul 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	Axis Bank Limited	Term Loan	169	IND A-/Positive

2	Axis Bank Limited	Fund Based Working Capital Limit	300	IND A-/Positive / IND A2+
3	DBS Bank India Limited	Fund Based Working Capital Limit	600	IND A-/Positive / IND A2+
4	DBS Bank India Limited	Term Loan	181	IND A-/Positive
5	HDFC Bank Limited	Term Loan	474	IND A-/Positive
6	HDFC Bank Limited	Fund Based Working Capital Limit	900	IND A-/Positive / IND A2+
7	Hongkong Shanghai Banking corporation	Fund Based Working Capital Limit	1960	IND A-/Positive / IND A2+
8	HDFC Bank Limited	Working capital term loan	206	IND A-/Positive / IND A2+

## Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limits	Low
Term loan	Low
Working capital 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**

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### **Evaluating Corporate Governance**

### **Corporate Rating Methodology**

### **The Rating Process**

### **Parent and Subsidiary Rating Linkage**

### **Short-Term Ratings Criteria for Non-Financial Corporates**

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