PRESS RELEASE

KASTURI PHARMACEUTICALS LIMITED

March 2026

Rating

Instruments/ Facilities	Amount (NPR Mn)	Rating	Rating Action
Issuer Rating	NA	IRN BB- (Is)	Assigned

Infomerics Credit Rating Nepal Limited (Infomerics Nepal) has assigned the issuer rating of IRN BB- (Is) [Double B Minus (Issuer)]. Issuers with this rating are considered to have the moderate risk of default regarding timely servicing of financial obligations.

Detailed Rationale

The rating assigned to Kasturi Pharmaceuticals Limited (KPL) derives its strength from experienced board of directors with long experience in the relevant industry. Also, the capital structure of the company remined low-leveraged, marked by overall gearing ratio of 0.79x as of mid-January 2026, along with moderate debt coverage indicators. The rating also factors in the company's diversified product portfolio comprising 125 products across various divisions and WHOGMP[1]-certified manufacturing standards.

However, these rating strengths are constrained by KPL's fluctuating financial performance characterized by fluctuating sales and profitability margins during FY23-H1FY26. Furthermore, KPL's working capital-intensive operations, indicated by elongated operating cycle of 543 days in FY25, pose liquidity challenges. The increase in collection and inventory holding periods strained the working capital, despite an improved current ratio of 1.44x in FY25 (FY24: 1.23x). Additionally, KPL faces regulatory risks due to its dependence on imports for raw materials and highly competitive and regulated pharmaceutical industry. Going forward, the company's ability to strengthen its revenue base and profitability while optimizing working capital utilization, and successfully executing IPO issuance and effective utilization of proceeds thereafter will remain key sensitivities.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Board of Directors

KPL is managed under 5-member Board of Directors (BOD) chaired by Mr. Prabek Khanal, who has around 25 years of experience in pharmaceutical industry. Mr. Ishwor Kumar Bhandari, Managing Director, also has more than two decades of experience in the pharmaceutical business. Other members of BOD also have experience in the relevant industry. The BOD is directly involved in the management of the company, and is aptly supported by experienced management team.

Prudent capital structure

The overall gearing ratio of the company exhibited improving trend during FY25-6MFY26 after peaking at 4.86x during FY24. The overall gearing improved from 4.86x at the end of FY24 to 1.50x at the end of FY25 and further improved to 0.79x as of mid-January 2026. The improvement was mainly on account of regular infusion of equity share capital by the promoter shareholders. Similarly, TOL/TNW improved from 5.98x in FY24 to 1.99x at the end of FY25 and further to 0.90x as of mid-January 2026. DSCR stood moderate at 1.77x in FY25, improved from 1.40x in FY24. Similarly, interest coverage ratio stood moderate at 1.63x in FY25 vis-à-vis 1.56x in FY24 (H1FY26: 3.16x).

[1] World Health Organization Good Manufacturing Practices

Diversified product portfolio

KPL holds marketing licenses for 125 products across three divisions—Ascent, Esteem, Decent and Cardiac—covering Tablets, Capsules, Liquids, Semi-solids (Creams/Gels/Lotions). Certified with WHO GMP status, KPL ensures production standards that meet safety, efficacy, and quality benchmarks. The company also has over sixty products pending marketing license approval from the Department of Drug Administration (DDA) as of February 2026.

Key Rating Weaknesses

Fluctuating financial performance

KPL reported Total Operating Income (TOI) of NPR 264 Mn in FY23, which dipped to NPR 190 Mn in FY24 before recovering to NPR 251 Mn in FY25. The recovery of TOI in FY25 was induced by increased sales at lower average realization; thereby, the EBITDA margin constrained to 17.09% in FY25 compared to 29.81% in FY24 and 26.75% in FY23. During 6MFY26, the company reported TOI of NPR 125 Mn with EBITDA margin of 31.71%. Also, PAT margin remained modest at 1.84% during FY25 and 0.13% in FY24, albeit it surged to ~34% during 6MFY26 mainly due to lowered raw material prices. Furthermore, Gross Cash Accruals (GCA) remained moderate, albeit improved from NPR 19 Mn in FY24 to ~NPR 20 Mn in FY25 and NPR 35 Mn in H1FY26 owing to improved profitability. The revenue trajectory and profitability trend of the company remains key rating monitorable.

Working capital intensive nature of business

KPL operates in the inherently working capital-intensive pharmaceutical sector, characterized by significant inventory holding and generous credit period to the distributors. KPL's business has high working capital requirement as reflected in its elongated operating cycle of 543 days in FY25 and 874 days in FY24. This elongation is attributable to elongated average collection days (183 days in FY25 vis-à-vis 236 days in FY24) and high inventory holding period (434 days in FY25, albeit moderated from 745 days in FY24). The operating cycle of the company is expected to remain elevated in the near-term owing to company's volume driven sales strategy coupled with generous credit terms to distributors. The ability of the company to manage its working capital needs prudently and improve its operating cycle will remain crucial.

Exposure to regulatory risks and dependence on import

The company faces significant competitive pressures due to the presence of numerous well-established players in the domestic market. The industry's highly regulated nature, driven by its implications for public health, leaves the company vulnerable to potential adverse changes in government or regulatory policies, which could impact its business risk profile. Moreover, intense competition in the generic pharmaceutical market limits pricing flexibility. Key challenges in the sector include pricing pressures, stricter regulatory compliance, and increased sensitivity to product quality and performance. Additionally, KPL's reliance on imported raw materials exposes it to risks associated with supply chain disruptions.

Analytical Approach: Standalone

Applicable Criteria:

Issuer Rating Methodology

About the Company:

Kasturi Pharmaceuticals Limited (KPL), incorporated on November 14, 2007, is involved in developing non-penicillin pharmaceutical formulations since 2017. The company is licensed by Department of Drug Administration (DDA) for production and distribution of allopathic drugs. The company has its corporate office located at Bharatpur-03, Chitwan and its manufacturing unit located at Bharatpur-16, Chitwan. As of February 2026, KPL holds manufacturing license for 189 products and marketing license of 125 products. Mr. Prabek Khanal is the major shareholder of the company, holding ~27% of total shares as of mid-July 2025.

Financial Indicators (Standalone)

For the year ended* As on	FY23	FY24	FY25	6MFY26
	Audited	Audited	Audited	Unaudited
Total Operating Income (NPR Mn)	264	190	251	125
EBITDA Margin (%)	26.75	29.81	17.09	31.71
Interest Coverage Ratio (x)	1.71	1.56	1.63	3.16
DSCR (x)	1.42	1.40	1.77	4.96
Overall Gearing Ratio (x)	4.11	4.86	1.50	0.79
Total Debt/EBIDTA (x)	4.81	5.97	7.11	3.80
TOL/TNW (x)	5.01	5.98	1.99	0.90

Earnings before Interest Tax Depreciation Amortization (EBITDA)
Total Outside Liabilities/Tangible Net Worth (TOL/TNW)
**Classification as per Infomerics Nepal standards*

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