FEBRUARY 26, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF CADILA PHARMACEUTICALS LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	335.63 (reduced from Rs.405.49 crore)	CARE A (Single A)	Reaffirmed
Long-term / Short-term Bank Facilities	260.00 (enhanced from Rs.220.00 crore)	CARE A/ CARE A1 (Single A/ A One)	Reaffirmed
Short-term Bank Facilities	40.00 (enhanced from Rs.30.00 crore)	CARE A1 (A One)	Reaffirmed
Total Facilities	**635.63 (Rupees Six hundred thirty-five crore and Sixty-three lakh only)**		

Rating Rationale

The ratings assigned to the bank facilities of Cadila Pharmaceuticals Limited (Cadila) continue to derive strength from its experienced management in the pharmaceutical industry with long-standing track record, its established operations with manufacturing facilities conforming to various regulatory authorities, recognized position in the domestic formulation market, strong product portfolio across therapeutic segments with good marketing setup and well equipped Research & Development (R&D) facilities. The ratings further continue to take into account improving leverage and debt coverage indicators. CARE further takes note of improvement in liquidity position at consolidated level post divestment of stake in Novavax Inc, USA (Novavax) during H1FY16.

The ratings are, however, constrained by revenue concentration towards few brands, its presence in price controlled domestic formulation business and highly competitive Active Pharmaceuticals Ingredients (API) segment along with increasing regulatory risk and foreign exchange fluctuations risk. The ratings are further constrained due to declining operating profitability margins and controlled albeit high exposure towards subsidiary companies.

Increase in scale of operations through expanding geographical reach to regulated market along with improvement in operating profitability and improvement in leverage would be key rating sensitivities. Further, utilization of liquid investments for strategic purpose which would lead to diversification in existing product portfolio and geographic reach or repatriation of fund to India and in turn reduction in debt level would remain positive rating sensitivity.

Background

Cadila Laboratories Limited was founded in 1951, by Late Mr. Indravadan I. Modi and Late Mr. Ramanbhai B. Patel. Subsequently, in 1995, it was bifurcated into two different companies namely Cadila Healthcare Limited, part of Patel group and Cadila, part of Modi group.

Cadila manufactures both formulations and API drugs for more than 45 therapeutic areas. The company has two API manufacturing facilities located at Ankleshwar (Gujarat), one formulation facility at Dholka (Gujarat) which is USFDA approved and one formulation facility at Samba in Jammu. Cadila also has state of art R&D centre at Dholka. Cadila also has formulation facilities in Ethiopia through its 57.50% Joint Venture (JV). Cadila exports its products to various countries through its marketing set up in USA, Japan, Africa and Russia. Currently, Cadila is ranked 26th with around 0.96% market share in the Indian Pharmaceuticals Market (as per ORG-IMS data, December 2015).

Further, Cadila has amalgamated Casil Industries Ltd (CIL), a group company with itself w.e.f. April 1, 2015, where Cadila had a total investments of Rs.21.47 crore as on March 31, 2015. Subsequent to the amalgamation of CIL, all the assets and liabilities of CIL vested with Cadila. CIL was engaged in providing a range of pharmaceutical and health products. The company was one the established suppliers of allied hospital supplies primarily surgical, orthopedic, wound care, disinfectants etc.

As per the standalone audited result for FY15 (refers to period April 1 to March 31), Cadila reported a PAT of Rs.65 crore on a total operating income of Rs.1,390 crore as against a PAT of Rs.98 crore on a total operating income of Rs.1,272

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

crore in FY14. The net profit of the company impacted during FY15 largely due to higher depreciation charge post change in depreciation method as per the revised company law. The company had a deprecation cost of Rs.65 crore during FY15 as against Rs.28 crore in FY14.

Further, as per the un-audited standalone result for H1FY16, Cadila reported a PAT of Rs.37 crore on a total operating income of Rs.775 crore. The depreciation cost for H1FY16 was Rs.27 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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