Cipla Limited

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term / Short-term Bank Facilities	2,169.00 (Reduced from 2,283.00)	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	LT Rating and Outlook Assigned; ST Rating Reaffirmed
Total Bank Facilities	**2,169.00 (Rs. Two thousand one hundred sixty nine crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The assigning of the long-term ratings and reaffirmation of the short-term ratings for the bank facilities of Cipla Ltd factors continuous growth in its scale of operations along with improvement in its profitability leading to improvement in its debt coverage indicators during FY21 (A; refers to the period April 1 to March 31) and Q1FY22 (UA). The ratings also factor significant reduction in its debt levels with prepayment of significant of term loans, improved profitability and comfortable leverage and debt coverage indicators. The ratings further continue to derive strength from vast experience of its promoters in the pharmaceutical industry, its strong position in the domestic and export formulations market supported by diversified product portfolio spanning multiple therapeutic segments (with larger share in respiratory, anti-infectives and cardiology) and wide marketing and distribution network, its growing presence in regulated markets (mainly in North America and Europe) along with healthy product pipeline and steady growth prospects for the Indian pharmaceutical industry. The ratings are also underpinned by Cipla's strong liquidity position. The ratings continue to reflect the regulatory risks associated with the various geographies in which Cipla operates.

Rating Sensitivities

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in operating profitability to below 15% either due to increased competition or regulatory issues.
- Weakening of financial and business profile as a result of crystallization of NPPA liability and/or any untoward regulatory issues.
- Credit metrics deteriorating significantly because of large debt-funded capex or acquisitions with overall gearing increasing beyond 1.00x

Detailed description of the key rating drivers

Key Rating Strengths

Reputed brand with leading market position across therapies

Cipla is the third-largest pharmaceutical company in India and has a widespread presence across the globe through various subsidiaries/associates. Cipla is a market leader in respiratory therapy (that contributes to 22%+ of total revenues across the world). Seven of Cipla's brands are featured in the top ten respiratory brands by Value in India (as per IQVIA March 2021). The company has a diverse range of more than 1,500 products in 65 therapeutics categories (with more than 50 dosage forms). In APIs, Cipla has a portfolio of around 200 generic and complex products and has key strategic alliances in place with more than 300 global partners.

Cipla's product portfolio is well diversified with the top ten products contributing 25% of the total operating income (TOI) in FY21 (19% in FY20).

Diversified revenue stream

The company has 46 manufacturing facilities with presence in over 80 countries. The company has a diversified product portfolio and leadership in segments that include therapeutic segments such as respiratory, anti-infective, cardiac, gynecology and gastrointestinal. The company also has considerable market share in niche segments like HIV/AIDS and respiratory in countries like South Africa and India, respectively. The company's main markets are India (40% of TOI in FY21) followed by USA (21% of TOI in FY20) and South Africa (18% of TOI). Such diversity in the revenue geographically as well as in product base insulates the company from significant adverse fluctuation in the revenue.

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

Robust product pipeline
Cipla launched 81 new products across the world in FY21 (PY: 52). The company also secured approvals of seven Abbreviated New Drug Applications (ANDAs) and filed for another eight ANDAs in FY21. The company was granted 23 patents in FY21 and filed 17 new patents in the same period. Cumulatively, Cipla has a pipeline of 248 ANDAs, of which 165 are approved.

Robust operating and financial profile
During FY21, TOI grew by 12% y-o-y, mainly led by new respiratory business in US, COVID-19 product portfolio and business growth across all geographies. Cipla's India Business grew by 15% y-o-y, while in US, y-o-y growth was around 6% led by increasing market share in Albuterol segment. In South Africa/ Sub Sahara region y-o-y growth in revenues was around 12%. Profitability margins have improved with PBILDT margins at 22.93 % in FY21 from 19.41% in FY20 owing to cost savings on account of lower on ground sales and marketing activity, higher digital engagements, and cost reduction initiatives. R&D expenses has moderated from 6.9% in FY20 to 4.82% in FY21, led by completion of large-scale gAdvair trials in FY20 as well as lower clinical trials and other developmental activities in wake of the pandemic. On a consolidated level, Cipla has gross debt of Rs.2,014 crore (inclusive of lease liabilities) primarily due to the debt-funded acquisition of Invagen US and Mirren South Africa. In July 2021, Cipla has prepaid its entire outstanding Invagen acquisition of around Rs.999 crore further improving its debt metrics. Overall gearing stood at 0.13x as on March 31, 2021, as against 0.27x as on March 31, 2020. Interest coverage stood comfortable at 27.60x as on March 31, 2021. The operating cycle has contracted from 152 days in FY20 to 137 days in FY21 owing to proactive collection by the company to maintain liquidity. The collection period remains comfortable at 69 days.

Key Rating Weaknesses

Liability under the NPPA
In 2003, the company received notice of demand from the NPPA, Government of India, on account of alleged overcharging in respect of certain drugs under the Drugs (Prices Control) Order, 1995. The matter was presented before various jurisdictional powers. The matter is currently subjudice and based on the facts and legal advice on the matter, no provision (apart from Rs.111.5 crore) is made by the company in respect of the notices of demand aggregating to Rs.3,676 crore.
Materialization of the liability and/or, any significant increase in the amount of the liability will remain a key rating monitorable. CARE Ratings in its analysis has factored the scenario wherein if the liability materializes and the same must be funded by debt, even then the adjusted overall gearing remains comfortable at 0.20x to 0.26x. Apart from above, the company has Rs.4,895 crore in the form of cash and liquid investments which provides adequate liquidity cushion.

Acquisitions Risk
With a robust cash flow, the company may look to develop strategic strengths in focused therapies and expand geographical presence. Post the large debt-funded acquisitions of US-based Invagen Pharmaceuticals Inc. and Exelan Pharmaceuticals Inc. in FY16 for a total of USD 550 million, Cipla's total acquisition outflow remained under USD 100 million over FY18-FY21. However, any significant outflow will remain a key credit monitorable.

Regulatory risks; Exposure to pricing pressures
Cipla sells its products in more than 80 countries across the world with its production units spread across various locations. Also, the company has entered in to various in-licensing agreements with various global partners across countries for manufacturing/marketing of various drugs. Hence, the company is required to comply with various laws, rules and regulations and operate under strict regulatory environment in India and abroad considering the nature of business. Sales under the National List of Essential Medicines (NLEM) remained are around 25% of Cipla's India business.

In February 2020, Cipla received a warning letter for its Goa facility. It has responded to the same and is awaiting a response from USFDA. According to Cipla, the Goa plant contributes less than 5% of its US business (i.e., approximately Rs.200-250 crore) as a single-source facility. Timely and positive resolution of these observations will remain a key rating monitorable.

Liquidity: Strong
Cipla's liquidity profile continued to remain healthy on the backdrop of significant liquid investments to the tune of Rs.4,895 crore as on June 30, 2021. The company has prepaid its entire term debt obligations towards acquisition of Invagen during H1FY22. Furthermore, it has scheduled repayments of around Rs.14 crore in FY22 and around Rs.383 crore in FY23. The company continues to report healthy gross cash accruals of over Rs.3,000 crore per annum which is adequate to meet its regular capex and incremental working capital requirements. Apart from above, Cipla has considerable portion of unutilized working capital bank lines which further adds to its financial flexibility and liquidity cushion.

Analytical approach:
Consolidated; CARE Ratings has analysed Cipla's credit profile by considering the consolidated financial statements owing to financial and operational linkages between the parent and subsidiaries and common management. The subsidiaries of Cipla which have been consolidated are mentioned under Annexure 5.

Applicable Criteria
Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Short Term Instruments
Pharmaceutical

About the Company
Incorporated in 1935, Cipla Limited (Cipla) was promoted by late Dr K.A. Hamied and is currently spearheaded by Dr Y. K. Hamied. The promoter group holds 36.72% equity stake in the company as of June 30, 2021. The company is engaged in manufacturing of Formulations and Active Pharmaceutical Ingredients (APIs); with over 90% of sales being contributed from formulation segment in FY21.

Cipla has a diversified product portfolio of more than 1,500 different types of drugs in 65+ therapies with 50+ dosage forms. The company products cater to various segments like anti-infective, cardiac, gynaecology and gastrointestinal, with considerable market share in niche segments like anti retro viral (HIV/AIDS) and respiratory in countries like South Africa and India, respectively. Cipla has over 46 manufacturing facilities for API and formulations across the world. It also has 6 R&D units and has incurred Rs.924 crore on R&D which is about 4.82% of TOI in FY21.

In FY21, Cipla launched 81 new products during FY21 (52 new products during FY20). The company has filed 1,280 Drug Master Files (DMFs), 253 Abbreviated New Drug Application (ANDAs) and has been granted 263 patents till date.
It also undertakes manufacturing/marketing outside India of various drug products through in-licensing agreements with 180 global partners. The major markets that Cipla serves are India, South Africa, USA, Europe and some emerging markets. The company's manufacturing facilities have approvals from all the major regulators including India's Central Drugs Standard Control Organisation, USA's Food and Drug Administration (FDA), UK's Medicines and Healthcare Products Regulatory Agency (MHRA), World Health Organisation (WHO), South Africa's Medicines Control Council (MCC) and Brazil's National Health Surveillance Agency (ANVISA).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)
Total operating income	13,417.92	14,069.34
PBILDT	3,466.06	3,890.32
PAT	2,318.17	2,468.28
Overall gearing (times)	0.00	0.00
Interest coverage (times)	96.15	86.32

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	321.00	CARE AAA; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	1848.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	321.00	CARE AAA; Stable / CARE A1+	-	1)CARE A1+ (24-Feb-21)	1)CARE A1+ (07-Jan-20)2)CARE A1+ (30-Apr-19)3)CARE A1+ (02-Apr-19)	-
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	1848.00	CARE AAA; Stable / CARE A1+	-	1)CARE A1+ (24-Feb-21)	1)CARE A1+ (07-Jan-20)2)CARE A1+ (30-Apr-19)3)CARE A1+ (02-Apr-19)	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	**LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG**	**Simple**

Annexure 5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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