Ipca Laboratories Limited

September 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term/Short Term Bank Facilities	1,140.00	**CARE AA; Positive/ CARE A1+ (Double A; Outlook: Positive/ A One Plus)**	**Reaffirmed, Outlook revised from Stable**
Total Facilities	**1,140.00 (Rs. One Thousand One hundred and forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ipca Laboratories Limited (Ipca) continue to derive strength from improved financial performance with healthy profit margins during FY21 & Q1FY22, comfortable capital structure and strong debt coverage indicators as on March 31, 2021. The ratings also factor in strong liquidity in the form of cash and liquid investments to the tune of around Rs. 920crore at the end of June 30,2021 along with about 60% of unutilized working capital bank lines. The ratings continue to derive comfort from the experience of the promoters and management team, established leadership especially in segments such as rheumatoid arthritis and orthopaedic therapies in the domestic market, diversified geographic presence and favourable industry outlook. The ratings are, however, tempered by regulatory risks associated with the industry; pricing regulations in some of the geographies and exposure to forex risk on account of exports.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade

- Resolution of ongoing regulatory issues on the company's manufacturing units.
- Diversification of product portfolio with no brand contributing more than 5% and reduction in therapeutic concentration risk with no therapeutic segment contributing more 25%.

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

- Weakening of financial profile because of significant increase in working capital requirements and/or large debt-funded capex or acquisitions

Outlook: Positive

The outlook on the long-term rating of Ipca has been revised to 'Positive' on expectation of continuance of growth in revenues and operating profit leading to sustenance of its healthy debt protection metrics. The outlook may be revised to 'Stable' in case of lower-than-expected growth in sales and/or inability to sustain profitability margin and/or adverse outcome of remediation of US FDA import alerts.

Detailed description of the key rating drivers

Key Rating Strengths

Sustained growth in total operating income & Profitability

The total operating income grew by 18.06% in FY21 over FY20 on account of improved demand for formulations. In FY21, Ipca also gained from an exceptional business of Hydroxychloroquine Sulphate (HCQS) of Rs. 365 crore to combat with Covid-19. The PBILDT margins also improved to 30.26% in FY21 from 21.58% in FY20 on account of increase in revenue contribution from exports, better product mix, incremental revenue generated from high margin HCQS business and also lower advertising and promotion expenses amidst the Covid 19 led pandemic in FY21. However, at the end of Q1FY22, with normalization of the expenses and HCQS demand, the reported revenue stood at Rs. 1492.21 crore with PBILDT margins of 27.31% (PY: Rs.1496.63 crore; 40.06%). Further, it is expected that the PBILDT margin will normalize to ~ 25% levels with increase in raw material prices, advertising, and personnel expenses.

Well diversified product portfolio and market leadership in pain and antimalarial therapies

Ipca is strongly positioned in therapies like Pain, Rheumatology, Antimalarials and Hair care therapy in India. The Company enjoys leadership in Rheumatoid Arthritis & Anti-malarial therapies. It has 4 Brands in top 300 drugs i.e. Zerodol SP; Zerodol P, HCQS & Folitrax.

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

The company's revenues are geographically well diversified with nearly half of its revenues coming from exports. The revenue contribution of exports during FY21 has increased to 53% as against 50% during FY20. Even within exports, the company sells to both regulated and non-regulated markets, with sales to Europe being the highest at 28% in FY21.
Formulations continue to contribute larger portion of the revenues at 70% (PY:73%) with balance contributed by API's and Intermediates in FY21. Domestic formulations constituted 55% of total formulations business and grew by 16% in FY20 while balance came from exports formulations that grew by 14% in FY21. Within the domestic formulation business, the product portfolio is well diversified with the top 10 drugs contributing to ~ 42% of the total domestic formulation revenue. Pain management constitutes ~ 52% of its domestic sales and 28% in export sales. The Active Pharmaceutical Ingredients (APIs) business grew by 28% in FY21.

Accredited Manufacturing facilities and Backward Integration in formulation manufacturing
The company has 17 manufacturing plants across India which have accreditations from agencies such as UK's Medicine and Healthcare Products Regulatory Agency (MHRA), World Health Organization (WHO), European Directorate for the Quality of Medicines (EDQM), India's Central Drugs Standard Control Organization along with several country wise regulatory approvals. The R&D expenditure of the company during FY 21 was Rs.126.67 crores (2.49% of total turnover) as against Rs.101.04 crore (2.35% of the turnover) in FY 20. The backward integration into manufacturing of several API's for Ipca's own use in formulations manufacturing also helps in cost efficiency. The company's integrated formulations business is ~61% of its total formulations' revenue in FY21 (moved up from 56% in FY20) which amounts to Rs. 2195 crore.

Comfortable financial risk profile and strong liquidity
Ipca's capital structure continues to remain healthy with overall gearing at 0.07x as on March 31, 2021 vis-à-vis 0.14x as on March 31, 2020 mainly due to accretion to reserves and repayment of term loan as per schedule. The company continues to post strong cash flow from operations resulting in comfortable debt metrics. The total debt/PBILDT and total debt/GCA improved to 0.19x and 0.23x respectively as on March 31, 2021 from 0.55x and 0.63x respectively as on March 31, 2020. Interest coverage also improved to 157x in FY21 from 51x in FY 20 mainly due to robust cash profit. The company's liquid investments continue to remain strong with cash and liquid investments of ~ Rs. 920 crore as of June 30, 2021.

Experienced management with long track record in the pharmaceutical industry
Ipca is promoted by Mr Premchand Godha, (Chairman and Managing Director) having experience of over five decades in pharmaceutical industry. The day-to-day operations of the company are managed by a team of qualified and experienced management spearheaded by Mr Ajit Kumar Jain (Joint Managing Director) having more than 30 years of experience in similar line of business. The board is ably supported by qualified and professional senior management team heading various verticals with adequate and relevant experience in their respective fields.

Key Rating Weaknesses
Regulatory risk and ongoing regulatory overhang
Ipca is present in multiple countries across the world and is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have a serious consequence on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks.
The Company's formulations manufacturing sites at Silvassa and SEZ Indore and APIs manufacturing site at Ratlam continue to be under US FDA import alert since 2014. These manufacturing sites are awaiting re-inspection by US FDA.
Currently the company has no business in USA and therefore the current operations remain unaffected from the outcome of the said inspections. Except for the US FDA import alert on three of its manufacturing sites, none of the company's manufacturing sites have any outstanding regulatory or compliance issues with any other regulatory agency. Timely resolution of the pending regulatory issues and consequent upside in operations remain a key credit monitorable.

Working capital intensive nature of operations
Ipca's operations are working capital intensive with its operating cycle elongating further to 151 days mainly due to high inventory holding of 150 days. The company is required to maintain substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. The collection period remained stable at 57 days in FY21 (61 days in FY 20). However, Ipca's working capital requirements are adequately funded by internal accruals and trade payables. As a result, average working capital utilization stands comfortable at 36% for last 12 months ended June 2021.

Intense competition and pricing pressures
Roughly 70% of Ipca's revenue is derived from formulations, with Pain management, cardio and anti-diabetics and anti malarials being the leading therapies. Ipca faces intense competition in its product offerings which is partly offset by its leadership in certain brands such as Zerodol, Folitrax, HCQS etc.
Ipca is also subject to pricing regulations for certain essential drugs in the various regions it operates in. In India, Ipca's sales under the National List of Essential Medicines (NLEM) remained stable at 24% in FY21 when compared to the previous year.

Foreign exchange fluctuation risk
Around 50% of the revenue is earned in foreign currency mainly denominated in USD (US Dollar), Pound Sterling and Euro and exposure towards the same is hedged on net basis. The company keeps its borrowings in foreign currency exposure open and to that extent is exposed to the currency fluctuation risks. However, there is a partial natural hedge available as company's receivables and borrowings are in US Dollars which partially mitigates the risk.

Industry Risk
With unlocking of economy and announcement of various unlock guidelines, the patient footfalls are gaining traction in healthcare units as demand from non-Covid-19 patients is gathering pace. Also, hospitals and patients are adapting themselves to the Covid-19 environment and social distancing norms. Thus, the operations of healthcare industry has returned to normal levels only from Q3FY21 onwards which has augured well for the Indian pharma industry as it has resulted in higher prescription of medicines from hospitals, clinics, OPD centres, local clinics and doctors.
In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Moreover, the demand for Indian drugs in the international market will be supported by new product launches thereby aiding the Indian pharma exports. Thus, the demand for drugs is expected to remain steady to a large extent. However, the industry is likely to face delay in product launches and clinical trials given the current scenario. Besides, Covid-19 has also led to deferment of physical inspections by the USFDA which has delayed in commencement of the pharma units and also launch of products.
The overall Indian pharma industry is expected to grow at about 12% in next two years and reach a size of over USD 60 bn. The main factors that are expected to drive the growth of industry are (a) ability to leverage the opportunity available for Indian pharma companies due to expiry of the patent drugs across the globe, (b) ebbing of regulatory risks, (c) adoption of various strategies to de-risk from dependency on China for key raw materials, (d) increasing trend in PE investments, and (e) solid fundamentals of the industry.

Liquidity: Strong
Liquidity is marked by strong accruals and liquid investments to the tune of Rs.920 crore as at the end of June 2021. Ipca expects capex of approximately Rs. 570 crore in FY22 and around Rs 400 crs in FY23, to be funded entirely by internal accruals. Ipca also has repayments of around Rs. 67 crore in FY22 and Rs. 9.14 crore in FY23. It has repaid Rs. 28 crore till August 15, 2021. Its unutilized bank lines (at an average of 36% ending June 2021) and comfortable gearing at 0.06x add to its financial flexibility.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Rating Methodology - Consolidation
Financial ratios – Non-Financial Sector
Rating Methodology- Pharmaceutical Sector
Liquidity analysis of Non-financial sector entities

About the Company
Ipca Laboratories Limited (Ipca) was founded by a group of businessmen and medical professionals in 1949. In 1975, Mr Premchand Godha along with two other co-promoters took over the management of Ipca. It is a fully integrated indian pharmaceutical company manufacturing over 350 formulations (76% of revenues) and 80 active pharmaceutical ingredients (APIs, 24% of revenues) with exports nearly 50% of revenues. It manufactures formulations (which include oral liquids, tablets, dry powders, capsules, etc.), APIs and drug intermediates. Major therapeutic segments include cardiovasculars and anti-diabetics, pain management, anti-malarials, etc. with about 75% of the revenues contributed by these three therapeutic segments.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total income	4419.61	5243.05
PBILDT	953.68	1586.75
PAT	652.46	1140.77
Overall gearing (times)	0.13	0.06
Interest coverage (times)	50.62	156.95

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: 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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	1140.00	CARE AA; Positive/ CARE A1+ (Double A; Outlook: Positive/A One Plus)

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.	Fund-based/Non-fund-based-LT/ST	LT/ST	1140.00	CARE AA; Positive / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (29-Jan-21)	1)CARE AA; Stable / CARE A1+ (18-Dec-19)	1)CARE AA; Stable / CARE A1+ (27-Nov-18)

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based/Non-fund-based-LT/ST	Simple

Note on complexity levels of the rated instrument: *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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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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