Intas Pharmaceuticals Limited

March 11, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	1,500.00	CARE AA+; Stable/ CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Revised from CARE AA; Positive/ CARE A1+ (Double A; Outlook: Positive/ A One Plus)
Total Facilities	**1,500.00 (Rupees One Thousand Five Hundred Crore Only)**		

Details of facilities/Instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Intas Pharmaceuticals Limited (IPL) factors continuous growth in its scale of operations along with improvement in its profitability leading to improvement in its debt coverage indicators during FY20 (A; FY refers to the period from April 1 to March 31) and H1FY21 (UA). The revision in rating also factors significant reduction in its net debt level as of end-H1FY21, backed by improved profitability and absence of major capex, leading to improvement in its leverage as on September 30, 2020.

The ratings further continue to derive strength from vast experience of its promoters in the pharmaceutical industry, its strong position in the domestic formulations market supported by diversified product portfolio spanning multiple therapeutic segments (with larger share in chronic therapies) and wide marketing and distribution network, its growing presence in regulated markets (mainly Europe) along with healthy product pipeline and steady growth prospects for the Indian pharmaceutical industry. The ratings are also underpinned by IPL's strong liquidity.

The long-term rating, however, continues to be constrained on account of the susceptibility of its profitability to fluctuation in external benchmark interest rates and fluctuation in foreign exchange rate, uncertainty associated with returns on its investment towards development of biosimilars, exposure to inherent regulatory risk associated with the pharmaceutical industry coupled with intense competition in both domestic and export markets.

Rating Sensitivities

Positive Factors

- Significant growth in its scale of operations through greater revenue diversification across geographies and therapeutic segments resulting in improved financial risk profile.
- Earning PBILDT margin and ROCE in excess of 25% along with Net Debt/PBILDT below 0.20 times on a sustained basis.

Negative Factors

- Decline in its PBILDT margin below 18% on sustained basis.
- Increase in its net debt/PBILDT to more than 1.25x on a sustained basis.
- Any large-size debt funded acquisition/capex having significant adverse impact on its leverage and debt coverage indicators.
- Any non-compliance of regulatory norms having major adverse impact on the operations of the company.

Detailed description of the key rating drivers

Key Rating Strengths

Continuous growth in its scale of operations along with improvement in its profitability: IPL's total operating income (TOI) grew at a Compounded Annual Growth Rate (CAGR) of around 24% during the last five years ended FY20 and grew by around 14% during FY20 on Y-o-Y basis. IPL had acquired the UK and Ireland generic formulation business of Teva Pharmaceutical Industries Limited (Teva) in FY17 which led to sizable growth in its consolidated sales to UK & European market in the subsequent years. IPL has also consistently increased its presence in the US and other regulated/semi-regulated markets through new product registration/launches and acquisition of various marketing authorizations. Further, IPL has strong presence in the domestic market especially in the growing chronic therapeutic segments which has also led to consistent growth in its domestic formulation sales. TOI of IPL further grew by around 17% during H1FY21 on Y-o-Y basis despite some hindrances caused by the outbreak of Covid-19 pandemic. IPL expects to maintain its strong position in the UK market and is also regularly investing in product development/marketing authorization for US and other regulated/semi-regulated markets to sustain its healthy growth trajectory. IPL has completed setting-up a new manufacturing facility in Pharma Sez (Ahmedabad) with capacity to manufacture more than 1 billion solid dosages and 5 million injectables. This new manufacturing facility is expected to mainly cater the demand for export markets. The facility

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

has partially commenced its operations during FY21 and will be fully functional once all major regulatory approvals are in place.
With its growing scale of operations, IPL's PBILDT and PAT also grew at a CAGR of 28% and 24% respectively during the last five years ended FY20. The PBILDT margin improved to 22.80% in FY20 as against 18.64% in FY19. Further, its PBILDT grew by around 79% during H1FY21 on Y-o-Y basis due to growth in its scale of operations and improvement in its PBILDT margin. Depreciation of Indian Rupee along with improvement in gross margin and decline in operating expenses due to the outbreak of Covid-19 led to improvement in its PBILDT margin by 877 bps to 25.14% during H1FY21 on Y-o-Y basis. The PBILDT margin of IPL is expected to remain at a healthy level of around 21% - 22% in the near to medium term. Its ROCE improved to around 19% during FY20.

Significant improvement in its leverage on a net-debt basis as on September 30, 2020 along with improvement in its debt coverage indicators: Despite healthy cash accruals during the last three years ended FY20, IPL's total outstanding debt on its books had remained in the range of around Rs.5,500 crore as it was investing its cash-flows in the business/capex for pursuing growth opportunities. Nonetheless, its overall gearing ratio (on the basis of gross debt) has steadily improved to 0.59x as on March 31, 2020 (from 0.81x as on March 2018 and 0.65x as on March 31, 2019) and to 0.52x (on the basis of net-debt) due to healthy accretion to its reserves. Further, on a net debt basis (after reducing free cash & bank balance/unencumbered liquidity from gross debt), its overall gearing ratio improved significantly to 0.33x as on September 30, 2020. IPL drew its fund based working capital limits during H1FY21 and kept the funds drawn as liquid reserves to meet any unforeseen scenarios arising due to the outbreak of Covid-19. Consequently, IPL's net debt reduced significantly from Rs.5,049 crore as on March 31, 2020 to around Rs.3,534 crore as on September 30, 2020.
IPL's PBILDT interest coverage ratio remained healthy at 9.08x during FY20 and 11.67x in H1FY21. Further, its Net debt/PBILDT which improved to 1.48x during FY20 (as compared with 2.11x during FY19), witnessed significant improvement to 0.90x during H1FY21 due to decline in its net-debt level on the back of improvement in its profitability and cash accruals. IPL's debt coverage indicators are expected to remain healthy in the medium term in the absence of any major debt drawal plan as articulated by the company management. IPL expects to incur capex of around Rs.850 crore during FY21 for maintenance and completing its capex at new manufacturing unit in Ahmedabad and subsequently it has envisaged to incur annual routine and maintenance capex of around Rs.650 crore each during FY22 and FY23.

Vast experience of its promoters in the pharmaceutical industry: IPL and its promoters have a long track record of operations in the pharmaceutical industry. Mr Hasmukh Chudgar, Chairman of IPL, has business experience of more than 60 years. IPL was founded by Mr Hasmukh Chudgar and is currently managed by second generation of the Chudgar family, viz. Mr Binish Chudgar (Vice Chairman and Joint Managing Director), Mr Nimish Chudgar (Joint Managing Director and CEO) and Dr Urmish Chudgar (Joint Managing Director). The promoters are well qualified with experience of more than three decades in the pharmaceutical industry. Further, the promoters are supported by qualified and competent professional management team at various levels.

Long and established operations with geographically diversified revenue profile: IPL has a track record of nearly 35 years in the pharmaceutical industry. It has business operations in more than 85 countries supported by its 15 manufacturing facilities spread across India, United Kingdom (UK) and Mexico. Of the 15 manufacturing facilities, 4 facilities are approved by USFDA. Its manufacturing facilities in the UK under its subsidiary are approved by the MHRA. Moreover, IPL has a dedicated team of well qualified and experienced personnel to handle its product registration and drug regulatory clearance processes in overseas market. As a result, IPL has built a strong product registration portfolio. IPL holds over 10,000 product registrations across various international markets and has also entered into a number of out-licensing arrangements.
IPL has presence in the domestic market along with some of the most regulated pharma nations like United States of America (US), UK and European markets. During FY20, the share of revenue from domestic market, US, UK, EU and rest of the world (RoW) remained at around 31%, 18%, 40% and 11% of its total consolidated revenue respectively which indicates geographically diversified revenue profile. The geographically diversified revenue profile protects IPL's overall revenue and profitability against competition and adverse regulatory changes in a particular geography.

Strong position in the domestic formulation market supported by larger share in chronic therapeutic segment and aided by a wide marketing and distribution network: IPL is the 9th largest pharmaceutical player in the domestic formulation market with a market share of 3.11% as on September 30, 2020 (Source: company). IPL has a strong presence in chronic segments like neurology / central nervous system (CNS), cardiovascular, veterinary, diabetology, gynecology and gastroenterology which are amongst the fastest growing therapeutic segments. Further, it has been increasing its presence in the growing oncology and critical care segments during last three years ended FY20. The chronic therapeutic segment contributed around 66% of IPL's domestic formulation sales during H1FY21.
IPL has a wide marketing and distribution network in the domestic market to support its growing scale of operations. It has field force of over 7,000 medical representatives (MRs) which enables it to market its products to over 5,00,000 doctors across various specialties, over 35 exclusive and dedicated sales depots and over 5,600 stockiest spread across

the country. IPL also markets its products through hospitals and other medical institutions which constitute an important marketing channel for them.

Increasing presence in the overseas market supported by healthy product pipeline: Globally, IPL markets its products in overseas markets including major regulated markets such as the US, UK and Europe through its own marketing setup and alliance with global pharmaceutical companies which have significant presence in these markets. During FY17, IPL had acquired Teva's divested business in UK and Ireland to strengthen its position in the European market. IPL derived around 70% of its consolidated revenue from the overseas market out of which UK and Europe contributed around 60% of total export revenue of IPL. Revenue in UK and Europe grew by 13% (in Indian Rupee terms) during FY20 on Y-o-Y basis. Improvement in its performance in the UK & European market was partly on account of increase in sales of its specialty product pegfilgrastim (oncology therapy segment). IPL's UK subsidiary "Accord Healthcare Limited" is one of the leading suppliers of generic prescription medicine in UK having market share of around 20% during FY20 (Source: Company). It is also among the top 10 suppliers of generic formulations across Europe by sales value (Source: Company). Other important overseas market for IPL is US, where revenue grew by 11% (in Indian Rupee terms) during FY20 on Y-o-Y basis. Up to June 30, 2020, IPL had 130 approved Abbreviated New Drug Applications (ANDA). Further, it has filed for 48 ANDAs (pending approval) up to June 30, 2020 and ANDAs for around 108 formulations are under development. IPL generally spends around 4% of its total income on R&D (recurring and capital expenses).

Steady growth prospects for Indian Pharmaceutical Industry (IPI): Outlook for Indian Pharmaceutical Industry (IPI) is expected to remain steady in the medium to long term backed by growth opportunity in terms of capitalizing on major blockbuster drugs coming off-patent paving the way for entry of generics, especially in the USA market, and geographical diversification into emerging markets. In the domestic market, the formulations segment is expected to grow led by rise in chronic diseases, increasing per capita income, government initiatives like new national health protection scheme & Ayushman Bharat program, improvement in access to healthcare facilities along with growing penetration of health insurance.

Key Rating Weaknesses

Profitability susceptible to fluctuation in interest rate benchmark and foreign exchange rate: IPL had foreign currency denominated borrowing of around Rs.5,465 crore as on March 31, 2020, interest rate on which is linked to the external benchmarks i.e. Euribor and Libor of the respective currency of borrowing. Hence, IPL's profitability is exposed to any significant adverse change in the external benchmark interest rate. Further, IPL is also exposed to adverse change in the foreign exchange rate as it does not hedge its foreign exchange exposure pertaining to its foreign currency denominated borrowing. However, as IPL derives around 70% of its consolidated total revenue from export market it provides natural hedge to a certain extent.

Exposure to inherent regulatory risk and intense competition: IPL is exposed to inherent regulatory risk as its operations are majorly centered into manufacturing and sale of pharmaceutical formulations which are dependent upon policies framed by various drug regulatory authorities in the markets catered by it. The Indian government also controls the prices of pharmaceutical products through Drug Price Control Order (DPCO) under price control mechanism. IPL derives around 15-20% of its domestic revenue from formulations included in the DPCO. Any new inclusion of IPL's formulations in DPCO which would require IPL to reduce selling price of such product. Furthermore, the pharmaceutical industry is highly regulated in many other jurisdictions and requires various approvals, licenses, registrations and permissions for undertaking business activities in those jurisdictions. The approval process for a new product registration is complex, lengthy and expensive. The time taken to obtain approval varies by country but it generally ranges from six months to several years from the date of application. Any delay or failure in getting approval for new product launch could adversely affect the business prospects of the company. Further, given India's significant share in the US' generic market, the United States Food and Drug Administration (USFDA) has increased its scrutiny of manufacturing facilities and other regulatory compliances of the Indian Pharmaceutical companies supplying generic drugs to the US. Non-compliance may result in regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top Indian Pharmaceutical companies) which may impact a company's future approvals from USFDA. Hence, ongoing regulatory compliance has become critical for Indian Pharmaceutical companies including IPL. IPL is yet to resolve the audit observations issued by USFDA (United States Food and Drug Administration) to its bio-similar plant located at Moraiya (near Ahmedabad), because of pending plant visit by USFDA (according to company's management). However, IPL does not supply to US and derives less than 5% of its consolidated TOI from this plant. Resolution of the USFDA audit observations will provide additional growth opportunities to the company. Further, according to the management of IPL, there are no other ongoing regulatory issues on any of its manufacturing facilities.

Apart from the inherent regulatory risk, IPL also faces intense competition in all major geographies. Domestic branded formulation market is fragmented with presence of several small and medium players and the majority of the sales is being driven by prescriptions. Further, due to increase in the speed of ANDA approvals by the USFDA and consolidation of the pharmaceutical distributors in the US and the UK market, bargaining power of the generic formulation manufacturers has substantially declined. IPL's ability to develop pipeline of niche products and launch the same in a timely manner in the developed markets will be key from the rating perspective.

Liquidity: Strong
IPL's liquidity remains strong due to healthy cash-flow from operations, availability of large un-utilized fund based working capital limits and heathy cash and bank balance as on March 31, 2020 and as on September 30, 2020. IPL reported cash-flow from operations of around Rs.2,145 crore during FY20 (Rs.1,222 crore during FY19). Utilization of its fund based working capital limits (on a standalone basis) also remained low at around 32% (considering lower of sanctioned limits and drawing power) for the trailing 12 months ended December 2020. Further, IPL had cash and cash equivalents of around Rs.692 crore and Rs.2,182 crore as on March 31, 2020 and September 30, 2020 respectively on a consolidated basis (cash and cash equivalents of around Rs.249 crore and Rs.1,661 crore as on March 31, 2020 and September 30, 2020 respectively on a standalone basis) to meet any exigencies. As informed by the company management, they have parked the available liquidity either in the form of Fixed Deposits or current account balances with existing relationship banks of IPL. IPL has already repaid most of its term-debt repayment obligation of Rs.1,478 crore for FY21 by December 31, 2020. It has further term-debt repayment obligation of around Rs.1,472 crore during FY22. With envisaged healthy cash accruals along with significant unencumbered liquidity, IPL is expected to comfortably meet its upcoming large term loan instalment repayment obligation during FY22 along with meeting its routine maintenance capex. IPL's strong liquidity is also underpinned by the fact that it did not avail any moratorium for the payment of interest on its working capital limits which was available to it as a Covid-relief measure in line with RBI guidelines.

Analytical approach: Consolidated; CARE has considered the consolidated financials of IPL including all its subsidiaries as these subsidiaries are an extension of IPL's distribution network and manufacturing operation. Further, majority of the debt availed by its subsidiaries are guaranteed by IPL. *List of entities consolidated in FY20 is provided in Annexure 4.*

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to credit ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology – Pharmaceutical Sector
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Liquidity analysis of non-financial sector entities
Rating Methodology: Consolidation

About the company
Incorporated in 1985, IPL is an Indian pharmaceutical company, promoted by the Chudgar family based out of Ahmedabad. IPL's promoters, the Chudgar family, own 83.84% stake in the company at present, with balance stake being largely held by Private Equity (PE) firms: 10.13% by Temasek Holdings (Singapore), 2.96% by Capital International and 2.84% by Chrys Capital LLC. IPL is one of the fastest growing companies in the Indian pharmaceutical industry, growing at a CAGR of 24% at a consolidated level over last five years ended FY20. IPL has multiple manufacturing facilities located both in India and outside India. Its manufacturing facilities are approved by various international drug regulatory agencies like USFDA (USA), MHRA (UK), MCC (South Africa), GCC (Gulf), ANVISA (Brazil), TGA (Australia) and WHO. Over the same period, IPL has also strengthened its position in overseas markets mainly driven by growth in regulated markets like USA, UK and EU along with diversifying further into semi-regulated markets.

Brief Financials - Consolidated (Rs. Crore)	FY19 (A)	FY20 (A)	H1FY20 (UA)	H1FY21 (UA)
Total operating income (TOI)	13,121	14,936	6,718	7,835
PBILDT	2,445	3,406	1,100	1,970
PAT	1,419	1,641	582	1,474
Overall gearing (gross debt basis) (x)*	0.65	0.59	0.65	0.53
Overall gearing (net debt basis) (x) *	0.63	0.52	0.61	0.33
PBILDT Interest coverage (x)	23.66	9.08	11.60	11.67
Total Debt/ PBILDT (x)	2.20	1.67	2.62 @	1.45 @
Net Debt/ PBILDT(x)	2.11	1.48	2.45 @	0.90 @

*A- Audited; UA- Un-Audited; *Intangible assets including acquired goodwill has been considered as part of tangible net worth; @ Annualised*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2
Complexity level of various instruments rated for this Company-Annexure 3

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	-	-	-	1,500.00	CARE AA+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	1500.00	CARE AA+; Stable / CARE A1+	1)CARE AA; Positive/ CARE A1+ (07-Apr-20)	1)CARE AA; Positive/ CARE A1+ (05-Apr-19)	1)CARE AA; Stable/ CARE A1+ (05-Apr-18)	-
2.	Commercial Paper-(Standalone)	ST	-	-	1)Withdrawn (04-Mar-21) 2)CARE A1+ (07-Apr-20)	1)CARE A1+ (05-Apr-19)	1)CARE A1+ (05-Apr-18)	-

Annexure 3: 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

Annexure 4: List of entities being consolidated in IPL as on March 31, 2020

Sr No.	Name of the Subsidiary Company	% of Holding
1	Andre Laboratories Limited	100
2	SM Herbal Private Limited	51
3	Accord Healthcare Limited, UK	100
4	Astron Research Limited, UK	100
5	Accord Healthcare Inc., North Carolina, USA	100
6	Accord Healthcare (Pty) Limited, South Africa	100
7	Accord Farmaceutica Ltda., Brazil	100
8	Accord Healthcare SAC, Peru	100
9	Accord Farma S.A. De C.V., Mexico	100
10	Accord Healthcare Inc., Canada	100
11	Accord Healthcare Pty, Ltd, Australia	100
12	Intas Third Party Sales 2005 S.L.	100
13	Accord Healthcare (Kenya) Limited	100
14	Farmbaiot S.A DE CV, Mexico	100
15	Essential Pharmaceuticals LLC	100
16	Accord Biopharma Inc. USA	100
17	Accord Healthcare SAS, France	100
18	Accord Healthcare BV, Netherlands	100
19	Accord Healthcare Sociedad Limitada, Spain	100
20	Accord Healthcare Italia SRL, Italy	100
21	Accord Healthcare Polska Spolka Z Organiczona Odpowiedzialnoscia, Poland	100
22	Accord Healthcare AB, Sweden	100
23	Accord Healthcare GmbH, Austria	100
24	Accord Healthcare OY, Finland	100
25	Accord Healthcare Ireland Limited, Ireland	100
26	Accord Healthcare BVPA, Belgium	100

Sr No.	Name of the Subsidiary Company	% of Holding
27	Accord Healthcare Limited, Malta	100
28	Accord Healthcare OU, Estonia	100
29	Accord Healthcare GmbH, Germany	100
30	Accord Healthcare SDN BHD, Mayalsia	100
31	Accord Healthcare MENA JLT, UAE	100
32	Accord Healthcare S.R.O., Czech Republic	100
33	Accord Healthcare Private limited, Singapore	100
34	Accord Healthcare, Unipessoal, Lda	100
35	Accord Healthcare HK Limited, Hongkong	100
36	Accord Healthcare SRL, Romania	100
37	Accord Healthcare AG, Switzerland	100
38	Accord UK Limited	100
39	Accord Healthcare Thailand Limited (Thailand)	100
40	Accord Healthcare Korea Limited	100

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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