IPCA Laboratories Limited

October 18, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/short-term bank facilities	-	-	Reaffirmed at CARE AA; Positive/CARE A1+ (Double A; Outlook: Positive/A One Plus) and Withdrawn
Total bank facilities	**0.00 (₹ Zero Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed and withdrawn the outstanding ratings of 'CARE AA; Positive/CARE A1+' [Double A; Outlook: Positive/A One Plus] assigned to the bank facilities of IPCA Laboratories Limited (IPCA) with immediate effect. The above action has been taken at the request of IPCA and a 'no objection certificate' and 'no dues certificate' received from the banks that have extended the facilities rated by CARE Ratings.

Detailed description of the key rating drivers

Key rating strengths

Moderate growth in TOI, albeit with a healthy PBILDT margin: The total operating income (TOI) grew by 5% in FY22 over FY21 on account of improved demand for formulations. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, although moderated from 30% in FY21, is still healthy at 24% in FY22. Due to lower business growth, increase in the material cost, energy cost and logistics cost, as well as an increase in the other overhead expenses due to the inflationary trend in the economy, the operating margins have reduced. This has resulted in a lower PBILDT margin as compared with the previous financial year.

Well-diversified product portfolio and market leadership in pain and antimalarial therapies: IPCA is strongly positioned in therapies like pain, rheumatology, antimalarials, and haircare therapy in India. The company enjoys leadership in rheumatoid arthritis and anti-malarial therapies. It has four brands in the top 300 drugs, ie, Zerodol SP; Zerodol P, HCQS, and Folitrax. The company's revenues are geographically well-diversified, with nearly half of its revenues coming from exports. The revenue contribution of exports during FY22 has moderated to 47% as against 53% during FY21. The decline in the international business is mainly on the account of the reason that in the previous financial year, there was an increased sale of active pharmaceutical ingredients (APIs) and the formulations of chloroquine phosphate and hydroxychloroquine sulfate the world over, since these molecules were considered to be useful in the treatment of the COVID-19 disease in the initial period of the Coronavirus outbreak. Formulations continue to contribute a larger portion of the revenue at 75% (PY: 70%), with the balance contributed by APIs and intermediates, in FY22. Domestic formulations constituted 63% of the total formulations business and grew by 27% in FY22, while the balance came from export formulations that moderated by 7% in FY22. The APIs business witnessed a degrowth of 11% in FY22.

Accredited manufacturing facilities and backward integration in formulation manufacturing: The company has 17 manufacturing plants across India, which have accreditations from agencies such as the UK's Medicine and Healthcare Products Regulatory Agency (MHRA), the World Health Organization (WHO), the European Directorate for the Quality of Medicines (EDQM), India's Central Drugs Standard Control Organization, along with several country-wise regulatory approvals. The research and development (R&D) expenditure of the company during FY22 was ₹141.46 crore (2.59% of the TOI) as against ₹126.67 crore (2.43% of the TOI) in FY21. The backward integration into manufacturing of several APIs for IPCA's own use in formulations manufacturing also helps in cost efficiency.

Comfortable financial risk profile and strong liquidity: IPCA's capital structure continues to remain healthy, although the overall gearing deteriorated to 0.15x as on March 31, 2022, from 0.06x as on March 31, 2021, mainly due to an increase of debt. The company's gross cash accrual (GCA) continues to remain strong, even after witnessing a moderation in FY22. The total debt (TD)/PBILDT and TD/GCA moderated to 0.65x and 0.77x, respectively, as on March 31, 2022, from 0.20x and 0.23x, respectively, as on March 31, 2021. the interest coverage moderated to 132x in FY22 from 153x in FY21, mainly due to a moderation in the PBILDT levels. The company's liquid investments continue to remain strong, with cash and liquid investments of around ₹1,359 crore as on March 31, 2022.

Experienced management with a long track record in the pharmaceutical industry: IPCA is promoted by Premchand Godha, Chairman and Managing Director, having an experience of over five decades in the pharmaceutical industry. The day-to-

[1]Complete definition of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and other CARE Ratings Ltd.'s publications

day operations of the company are managed by a team of qualified and experienced management, spearheaded by Ajit Kumar Jain, Joint Managing Director, having more than 30 years of experience in a similar line of business. The board is ably supported by a 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 a strict regulatory environment. Thus, infringement in any of the laws and any significant adverse changes in the import and export policy or environmental and regulatory policies in the company's areas of operations can have serious consequences on the operations of the company. Nevertheless, IPCA is continuously taking adequate steps to address the regulatory risks. The company's formulations manufacturing sites at Silvassa and SEZ Indore and its APIs manufacturing site at Ratlam continue to be under the United States Food and Drug Administration (USFDA) import alert since 2014. These manufacturing sites are awaiting re-inspection by the USFDA. Currently, the company has no business in the US, and therefore, the current operations remain unaffected by the outcome of the said inspections. Except for the USFDA import alert on three of its manufacturing sites, none of the company's manufacturing sites has any outstanding regulatory or compliance issues with any other regulatory agency. The timely resolution of the pending regulatory issues and the 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 163 days in FY22, mainly due to a high inventory holding of 157 days. The company is required to maintain a substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. The collection period improved marginally to 54 days in FY22 (57 days in FY21).

Intense competition and pricing pressures: Roughly 75% of IPCA's revenue in FY22 was derived from formulations, with pain management, cardio, anti-diabetics, and anti-malarial 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.

Foreign exchange fluctuation risk: Around 47% of the revenue is earned in foreign currency and exposure towards the same is hedged on a net basis. The company keeps its borrowings in foreign currency exposure open, and to that extent, is exposed to currency fluctuation risks. However, there is a partial natural hedge available, as the company's receivables and borrowings are in the US Dollar, which partially mitigates the risk.

Analytical approach: Standalone

Applicable criteria

Policy on Default Recognition
Financial ratios – Non-financial sector
Liquidity analysis of non-financial sector entities
Rating outlook and credit watch
Short-term instruments
Manufacturing companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company

IPCA was founded by a group of businessmen and medical professionals in 1949. In 1975, Premchand Godha, along with two other co-promoters, took over its management. IPCA is a fully-integrated Indian pharmaceutical company, manufacturing over 350 formulations (76% of revenues) and 80 APIs (24% of revenues), with exports of nearly 50% of the revenues. It manufactures formulations (which include oral liquids, tablets, dry powders, capsules, etc), APIs, and drug intermediates. The major therapeutic segments include cardiovascular and antidiabetics, pain management, anti-malarial, etc, with about 75% of the revenues contributed by these three therapeutic segments.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23
TOI	5,204.04	5,451.96	1,488.09
PBILDT	1,547.74	1,294.63	276.26
PAT	1,140.77	870.94	143.82
Overall gearing (times)	0.06	0.15	NA
Interest coverage (times)	153.09	131.84	40.69

A: Audited, NA: Not available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

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

Complexity level of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based/Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE AA; Positive/ CARE A1+ (September 06, 2021)	1)CARE AA; Stable/ CARE A1+ (January 29, 2021)	1)CARE AA; Stable/ CARE A1+ (December 18, 2019)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

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

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

Annexure-5: Bank lender details for this company

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

Note on the complexity levels of the rated instruments: 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@careedge.in for any clarifications.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Naveen Kumar Dhondy
Phone: +91-88860 97382
E-mail: dnaveen.kumar@careedge.in

Relationship contact
Name: Saikat Roy
Phone: +91-98209 98779
E-mail: saikat.roy@careedge.in

About us:
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