Cipla Limited
October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	2,220.00	CARE AAA; Stable/CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating of the bank facilities of Cipla Limited (Cipla) factors in the strong business profile of the company with a leading and dominant share in multiple therapeutic segments such as respiratory, urology, anti-infective, and cardiology in the domestic and international markets. The rating also considers the company's vast product portfolio of over 1,500 products spanning multiple therapeutic segments, along with a healthy product pipeline consisting of respiratory products, peptide injectables, and other complex assets.

The rating also factors in the continuous growth in its scale of operations along with the improvement in its debt coverage indicators during FY23 (FY refers to the period from April 1 to March 31) and Q1FY24 (UA), the immense experience of its promoters in the pharmaceuticals industry, and its strong liquidity position.

The rating, however, continues to reflect the regulatory risks associated with the various geographies in which Cipla operates. CARE Ratings Limited (CARE Ratings) continues to monitor the observations received from the regulatory authorities with regard to the pricing issue and the Goa, Pithampur, and InvaGen manufacturing plants.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors
Not applicable

Negative factors
- Decline in operating profitability to below 15% either due to increased competition or regulatory issues.
- Weakening of the financial and business profile as a result of crystallisation of the National Pharmaceutical Pricing Authority (NPPA) liability and/or any untoward regulatory issues.
- Significant deterioration in the credit metrics because of the large debt-funded capex or acquisitions, resulting in a net debt-to-profit before interest, lease rentals, depreciation and taxation (PBILDT) going beyond 0.75x on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has analysed Cipla's credit profile by considering the consolidated financial statements owing to the financial and operational linkages between the parent and its subsidiaries and the common management. The list of entities consolidated is given in Annexure-6.

Outlook: Stable

The stable outlook reflects the expectation that the rated entity will maintain its strong business and financial profile in the medium term.

Detailed description of the key rating drivers

Key strengths
Reputed brand with leading market position across therapies
Cipla is one of the leading pharmaceutical companies in India and has a widespread presence across the globe through various subsidiaries and associates. It leads in respiratory therapy with a market share of 22.60% in India, followed by the urology and chronic segments, where the company in the domestic market stands at the second position with a market share of 12.20% and

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

8.10%, respectively. Seven of Cipla's brands featured in the top 10 respiratory brands in India. The company has 20 brands in the top 300 India pharma market (IPM) and 20 brands with sales greater than ₹100 crore in the IPM.

Diversified product portfolio
The company has 47 manufacturing facilities with presence in over 80 countries. Its product portfolio is well diversified both, in the terms of therapeutic segments and geographies. The company has a diverse range of more than 1,500 products in 65 therapeutic categories (with more than 50 dosage forms). In active pharmaceutical ingredients (APIs), Cipla has a portfolio of more than 200 generic and complex APIs and a team of more than 300 scientists with differentiated product development capabilities across a wide range of chemistries and complex molecules. The company also has a considerable market share in niche segments like HIV and AIDS and respiratory in countries like South Africa and India, respectively. During FY23, the top 10 products have contributed about 32% (PY: 31%) of the total revenue. In terms of geography, the company's main markets are India (43% of the total operating income [TOI] in FY23), followed by the US (26% of the TOI in FY23), and South Africa, Sub-Saharan Africa, Global Access (SAGA) (14% of the TOI in FY23). CARE Ratings notes that such diversity in the revenue, geographically as well as in the product base, insulates the company from significant adverse fluctuations in revenue.

Continuous launch of new products with product pipeline
Cipla has five well-equipped research and development (R&D) facilities, with more than 1,600 dedicated employees. Driven by strong R&D, Cipla has been launching new products every year. The company has spent ₹1,344 crore on R&D, which comprises about 6% of its TOI of FY23. Furthermore, during FY23, the company has launched 78 new products, filed 14 abbreviated new drug applications (ANDAs), and has received approvals for seven ANDAs. It has also filed 1,280 drug master files (DMFs), 266 ANDAs, and has been granted 303 patents to date. The company has a healthy product pipeline consisting of respiratory products, peptide injectables, and other complex assets. CARE Ratings expects that Cipla will continue to maintain its dominant position in the domestic and international pharmaceutical markets, supported by the continuous launch of its new products.

Accredited manufacturing facilities
Cipla has 47 state-of-the-art manufacturing facilities for API and formulations across six countries. The company has manufacturing sites across India in the states of Maharashtra, Goa, Madhya Pradesh, Karnataka, Himachal Pradesh, and Sikkim. Apart from India, the company has manufacturing plants in the US, South Africa, and China. It has a manufacturing capacity to produce 30.54 billion tablets and capsules, 773.60 million respules, 51.60 million oral liquids, 48 million nasal spray, 125.80 million aerosol pMDI, 1.63 million lyophillsed injections, and 2.50 million form fill seal eyedrops. The company's manufacturing facilities have approvals from all the major regulators, including India's Central Drugs Standard Control Organisation, the US' Food and Drug Administration (FDA), the UK's Medicines and Healthcare Products Regulatory Agency (MHRA), the World Health Organization (WHO), the South African Health Products Regulatory Authority, the National Medical Products Administration, China; Therapeutic Goods Administration, Australia; and Brazil's National Health Surveillance Agency (ANVISA).

Steady growth in operations with improving margins
The company has witnessed continuous growth in its revenue and operating margins over FY18-FY23. Its revenue from operations has improved at a CAGR of 8.50% from ₹15,174 crore in FY18 to ₹22,818 crore in FY23. Furthermore, during FY23, the company has registered a moderate revenue growth of about 4.75% to ₹22,818 crore from ₹21,785 crore in FY22. In Q1FY24, the company registered a revenue of ₹6,329 crore (Q1FY23: ₹5,375 crore), improved by around 18% y-o-y. Its operating margins have improved from 18.75% in FY18 to 22.32% in FY23. The improvement in the margins is a result of the product mix coupled with the rationalisation of cost and improved operating efficiency.

Comfortable capital structure and debt coverage indicators
The capital structure of the company continued to remain comfortable as on March 31, 2023. The debt-to-equity ratio stood at 0.03x as on March 31, 2023 (0.04x as on March 31, 2022). Furthermore, the overall gearing improved and was also below unity and stood at 0.04x as on March 31, 2023, as against 0.06x as on March 31, 2022. At the back of healthy cash accruals, the other debt risk metrics such as term debt/gross cash accruals (GCA) and total debt (TD)/GCA have also improved in FY23 to 0.16x and 0.24x, respectively (against 0.20x and 0.32x, respectively, in FY22). The total term loans outstanding has decreased from ₹430.80 crore in FY22 to ₹332.46 crore in FY23. The interest coverage parameters (PBILDT/interest and profit before interest and taxes [PBIT]/interest) also improved to 46.49x and 37.18x, respectively, during FY23 (43.01x and 33.70x, respectively, during FY22) on account of the increase in profitability.

Key weaknesses
Liability under the NPPA
In 2003, the company received a notice of demand from the NPPA, Government of India (GoI), on account of the alleged overcharging in respect of certain drugs under the Drugs (Prices Control) Order, 1995. The matter was presented before various

jurisdictional powers. It is currently subjudice, and basis the facts and legal advice on the matter, no provision (apart from ₹119.75 crore as on June 30, 2022) is made by the company in respect of the notices of demand aggregating to ₹3,703 crore as on March 31, 2023. The materialisation 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 in the scenario, wherein, if the liability materialises and the same has to be funded by debt, even then the adjusted overall gearing remains comfortable at 0.21x as on March 31, 2023. Apart from the above, the company has ₹6,264 crore in the form of cash and liquid investments, which provides an adequate liquidity cushion.

Acquisitions risk

With a robust cash flow, the company may look at developing strategic strengths in focused therapies and expand its geographical presence. Post the large debt-funded acquisitions of the US-based Invagen Pharmaceuticals Inc and Exelan Pharmaceuticals Inc in FY16 for a total of US$ 550 million, Cipla did not venture into any large-size capex. However, any significant outflow will remain a key credit monitorable.

Regulatory risk

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 into various in-licensing agreements with various global partners across countries for the manufacturing and marketing of various drugs. Hence, the company is required to comply with various laws, rules and regulations, and operate under strict the regulatory environment in India and abroad, considering the nature of business. In recent years, the company's Goa and Indore plants in India and InvaGen plant in the US was inspected by the US FDA. Upon inspection, the Goa plant has received six observations, Indore eight observations, and InvaGen five observations. CARE Ratings will continue to monitor the developments with respect to the resolutions of the US FDA's observations.

Liquidity: Strong

Cipla's liquidity profile continues to remain healthy on the backdrop of significant liquid investments to the tune of ₹6,264.08 crore as on March 31, 2023. The company generated healthy cash accruals to the tune of ₹3,790 crore during FY23. It has term debt repayments of about ₹344 crore in FY24. The working capital utilisation is low, which further adds to its financial flexibility. With the overall gearing at 0.04x as on March 31, 2023, and with the unutilised lines providing additional cushion, CARE Ratings expects Cipla to have a comfortable liquidity position. The current ratio of the company also stood comfortable at 3.27x as on March 31, 2023.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

For the pharma industry, the main factor of ESG affecting the sector is social aspects like product safety and quality, human capital and development, and access to healthcare. Governance remains a universal concept affecting all the sectors and geographies. Among the ESG factors, most of the pharma companies seem to be focusing on product quality and safety, and regulatory compliance in governance. Since these companies have exposure to different geographies, each having its own regulatory requirements, which are continuously evolving, any non-compliance with regulations or the scrutiny process can result in product withdrawals, recalls, regulatory action, declining sales, reputational damage, increased litigation, and related expenses. It may also result in regulatory ban on products and facilities (as in the recent cases of import alerts issued by the US FDA to top pharma companies) and may impact a company's future approvals from regulators like the US FDA.

In case of Cipla, to reduce the impact of its operations on the environment, the company has implemented measures across its manufacturing facilities to increase efficiency in the consumption of resources. The company has replaced the usage of furnace oil with pressurised natural gas in the boilers, installed rooftop solar panels and solar trees for electricity generation, has replaced polythene packaging with glue pasting for inner cartons in aerosol products, and has also implemented the zero liquid discharge (ZLD) treatment process, which treats and reuses the liquid effluents and eliminates its discharge into surface water. Company has also undertaken couple of projects as a part of technology and automation initiatives. For product quality and safety, Cipla has standard operating procedures (SOP) and has a dedicated quality assurance team who oversees the compliance to the laid SOPs. The company also assesses the quality standards of their vendors, suppliers, and CMOs to verify their adherence to the laid down internal SOPs and current good manufacturing practice (cGMP) requirements. The company, time to time, conducts product quality testing in-house. The manufacturing units of Cipla are equipped with specialised quality control laboratories dedicated to testing materials and drug products using advanced instruments. For the well-being of society at large, the company has its corporate social responsibility (CSR) strategy and works towards enhancing community health, education, and skill development.

Applicable criteria

Policy on default recognition
Consolidation
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 and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals and biotechnology	Pharmaceuticals

Incorporated in 1935, Cipla was promoted by the late Dr K A Hamied and is currently spearheaded by Dr Y K Hamied. The promoter group holds a 33.40% equity stake in the company as on June 30, 2023. It is engaged in the manufacturing of formulations and APIs, with over 97% of the sales being contributed from the formulation segment in FY23. Cipla has a diversified product portfolio of more than 1,500 different types of drugs, catering to various segments such as anti-infective, cardiac, gynaecology, and gastrointestinal in over 80 markets across the world.

Brief Financials consolidated (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	21,784.96	22,818.19	6,328.89
PBILDT	4574.40	5092.04	1,494.00
PAT	2546.65	2832.89	998.07
Overall gearing (times)	0.06	0.04	-
Interest coverage (times)	43.01	46.49	91.16

A: Audited; UA: Unaudited. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer 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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	271.00	CARE AAA; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	1949.00	CARE AAA; Stable / CARE A1+

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 2023-2024	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
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	271.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (27-Sep-22)	1)CARE AAA; Stable / CARE A1+ (05-Oct-21)	1)CARE A1+ (24-Feb-21)
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	1949.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (27-Sep-22)	1)CARE AAA; Stable / CARE A1+ (05-Oct-21)	1)CARE A1+ (24-Feb-21)

*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

Sr. No.	Name of the Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

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

Annexure-6 : List of subsidiaries/associates being consolidated as on March 31, 2023

Sr. No.	Name of the Company	Percentage Ownership Interest
	Subsidiaries (held directly)	

Sr. No.	Name of the Company	Percentage Ownership Interest
1	Goldencross Pharma Ltd.	100.00%
2	Meditab Specialities Ltd.	100.00%
3	Cipla Medpro South Africa (Pty) Limited	100.00%
4	Cipla Holding B.V.	100.00%
5	Cipla Pharma and Life Sciences Limited (formerly known as Cipla BioTec Ltd.)	100.00%
6	Cipla (EU) Limited	100.00%
7	Saba Investment Limited	51.00%
8	Jay Precision Pharmaceuticals Pvt. Ltd.	60.00%
9	Cipla Health Ltd.	100.00%
10	Cipla Pharmaceuticals Limited	100.00%
11	Cipla Digital Health Limited	100.00%
	Subsidiaries (held indirectly)	
12	Cipla Australia Pty Limited	100.00%
13	Medispray Laboratories Private Limited	100.00%
14	Sitec Labs Ltd.	100.00%
15	Meditab Holdings Limited	100.00%
16	Cipla USA Inc.	100.00%
17	Cipla Kenya Ltd.	100.00%
18	Cipla Malaysia Sdn. Bhd.	100.00%
19	Cipla Europe NV	100.00%
20	Cipla Quality Chemical Industries Limited	51.18%
21	Aspergen Inc	60.00%
22	Cipla Dibcare Pty Ltd.	100.00%
23	Cipla Medpro Manufacturing (Pty) Limited (formerly known as Cipla Life Sciences Proprietary Ltd.)	100.00%
24	Cipla-Medpro (Pty) Ltd.	100.00%
25	Cipla-Medpro Distribution Centre (Pty) Ltd.	100.00%
26	Cipla Medpro Botswana Proprietary Ltd.	100.00%
27	Cipla Select (Pty) Limited (formerly known as Cipla OLTP (Pty) Limited)	100.00%
28	Medpro Pharmaceutical (Pty) Ltd.	100.00%
29	Breathe Free Lanka (Private) Ltd.	100.00%
30	Cipla Medica Pharmaceutical and Chemical Industries Limited	50.49%
31	Cipla Brasil Importadora E Distribuidora De Medicamentos Ltda	100.00%
32	Cipla Maroc SA	60.00%
33	Cipla Middle East Pharmaceuticals FZ-LLC	51.00%
34	Cipla Philippines Inc.	100.00%
35	InvaGen Pharmaceuticals Inc.	100.00%
36	Exelan Pharmaceuticals Inc.	100.00%
37	CIPLA Algérie	40.00%
38	Cipla Technologies LLC	100.00%
39	Cipla Gulf FZ-LLC	100.00%
40	Mirren (Pty) Ltd	100.00%
41	Madison Pharmaceuticals Inc.	100.00%
42	Cipla Colombia SAS	100.00%
43	Cipla (China) Pharmaceutical Co., Ltd.	100.00%
44	Cipla (Jiangsu) Pharmaceutical Co., Ltd.	80.00%
45	Cipla Therapeutics Inc.	100.00%
	Associates (held directly)	
46	AMPSolar Power Systems Private Limited	26.00%
47	GoAPPTIV Private Limited	22.02%
48	AMP Energy Green Eleven Private Limited	32.49%
49	Clean Max Auriga Power LLP	33.00%
50	Achira Labs Private Limited	21.05%
	Associates (held indirectly)	
50	Stempeutics Research Pvt. Ltd.	33.18%
51	Brandmed (pty) Ltd	30.00%
52	Iconphygital Private Limited	20.61%
	Other consolidating entities	
53	Cipla Health Employee Stock Option Trust	100%

Sr. No.	Name of the Company	Percentage Ownership Interest
54	The Cipla Empowerment Trust	100%

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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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