

Cadila Pharmaceuticals Limited

February 07, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,018.36	CARE BBB+; Stable; ISSUER NOT COOPERATING*	Revised from CARE A; Stable and moved to ISSUER NOT COOPERATING category
Long-term / Short-term bank facilities	440.00	CARE BBB+; Stable/ CARE A2; ISSUER NOT COOPERATING*	Revised from CARE A; Stable/ CARE A1 and moved to ISSUER NOT COOPERATING category
Short-term bank facilities	120.00	CARE A2; ISSUER NOT COOPERATING*	Revised from CARE A1 and moved to ISSUER NOT COOPERATING category

Details of facilities in Annexure-1

*Issuer did not cooperate; based on best available information.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has been seeking information from Cadila Pharmaceuticals Limited (CPL) vide various e-mail communications, including e-mails dated October 19, 2023, November 23, 2023, November 27, 2023, November 30, 2023, December 05, 2023, January 01, 2024, January 04, 2024, January 08, 2024, January 29, 2024, and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant Securities and Exchange Board of India (SEBI) guidelines, CARE Ratings reviews the rating based on the best available information which, in CARE Ratings' opinion, is not sufficient to arrive at a fair rating. The ratings on CPL's bank facilities will now be denoted as CARE BBB+; Stable; ISSUER NOT COOPERATING and CARE A2; ISSUER NOT COOPERATING.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Revision in the ratings assigned to the bank facilities of CPL considers significantly lower-than-envisaged profitability and cash accruals for FY23 (refers to period April 01 to March 31). With sharp reduction in profitability and continued high reliance on external debt, the debt coverage indicators also deteriorated and remained weaker than expected during FY23.

Ratings continue to derive strength from CPL's established track record in the domestic pharmaceutical industry aided by its experienced management, strong product portfolio and wide marketing setup. CPL's well-equipped Research & Development (R&D) facilities enables it to launch niche and innovative products with its manufacturing facilities conforming to stipulations of various drug regulatory authorities. It has also aided in its gradually increasing presence in some of the key regulated export markets.

However, ratings continue to remain constrained on account of CPL's leveraged capital structure due to higher reliance on debt, and its moderate revenue concentration towards few brands and therapeutic segments in the domestic market albeit expectation of gradual diversification. Ratings are also constrained by CPL's presence in the price-controlled domestic formulation business along with inherent regulatory risks associated with pharmaceutical industry, and foreign exchange fluctuation risk. High exposure towards its relatively weaker subsidiaries and group companies by way of investments/loans & advances and extension of corporate guarantees constrain the ratings. CARE Ratings also considers the inherent implementation and stabilisation risks associated with large-size debt-funded green-field projects under its subsidiary, namely, CPL Pharmaceuticals Private Limited (CPPL).

Analytical approach: Combined, i.e., CPL - Standalone and its wholly-owned subsidiary, namely, CPPL, with factoring investment requirement in other group companies and subsidiaries as well as contingent liability towards corporate guarantee extended for debt availed by group entities. CPL's committed investments towards its various subsidiaries and group companies have also been suitably factored in for arriving at the ratings of CPL.

Outlook: Stable

Detailed description of the key rating drivers:

At the time of last rating on January 06, 2023, the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies i.e., FY23 audited financials).

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

Key strengths

Long track record of operations with experienced promoters and professional management

CPL has an operational track record of more than seven decades in the domestic pharmaceutical industry with an established brand, 'Cadila'. Dr Rajiv Modi, Chairman and Managing Director of CPL, is a second-generation promoter. He is well-qualified and holds a degree in B. Tech (Chemical) from IIT Bombay apart from doing his M.Sc. in Biochemical Engineering from University College, London and Ph.D. in Biological Science from the University of Michigan, Ann Arbor, USA. The promoter group has rich experience in the pharmaceutical industry. CPL's promoters are supported by well-qualified and experienced management personnel across various business verticals.

Established position in the domestic pharmaceutical industry with wide marketing and distribution network

CPL has an established position in the Indian pharmaceutical industry (IPI), ranking 28th in the domestic formulation market having market share of 0.78% as on September 30, 2022 (Source: Company). It has a large portfolio of more than 800 products spread across more than 300 brands. Moreover, two of its brands (Aciloc and Aciloc RD) are among the top 300 domestic formulation brands. CPL's products cover several therapeutic segments. CPL earned nearly 65% of its total formulation sales from top five therapeutic segments, including gastroenterology (29%), anti-infective (12%), dermatological (10%), cardiovascular system (7%), and pain/ analgesics (7%) during FY22. CPL endeavours to launch most of its new products in the growing chronic therapeutic segments. Its marketing and distribution network comprises a marketing workforce of over 2,400 medical representatives (MR) and total sales team of around 3,000 personnel spread across India. CPL's large marketing network covers over 2.5 lakh doctors including specialists and over 4,000 stockiest. As articulated by the management, per MR productivity of the company gradually improved and remained in the range of ₹3.5-4 lakh per month during FY22. CPL also has over 200 employees located outside India in various regions, including Africa, CIS, Japan, Russia and the USA for growing its export business.

Diversified operations with gradually increasing presence in the higher profit margin export markets

CPL is engaged in manufacturing formulations and APIs for domestic as well export markets. Share of API in CPL's total income remained at 21% during FY22. Globally, CPL markets its products in more than 100 countries, including regulated markets such as US and Europe through its own marketing and distribution network as well as through alliances with global pharmaceutical companies.

Export accounted for 38% of its revenue in FY23 (P.Y.: 37%), while domestic sales constituted the balance. CPL has expanded its reach in the US market which provides a good opportunity for growth. As on September 30, 2022, CPL had filed 33 abbreviated new drug applications (ANDAs) in the US (out of these, 26 ANDAs have been approved). Through its wholly-owned subsidiary, Satellite Overseas (Holdings) Limited (SOHL), CPL held 18.66% stake as on March 31, 2022 in Nivagen Pharmaceuticals LLC, USA, involved in marketing of generic formulations in the North American market and is also involved in research related to developing generic formulations. CPL owns around 29.99% equity stake as on March 31, 2022, in EQL Pharma AB (Sweden), which also markets CPL's products in the Nordic market and is also involved in research related to developing generic formulations.

Established R&D capabilities

CPL has a fully integrated, centralised and multi-disciplinary R&D centre spread over around 105,000 square feet, which is recognised by the Department of Science and Technology, Government of India, with more than 300 scientists. CPL's R&D efforts are directed at New Drug Delivery System (NDDS) and generic product development. The R&D centre of the company is well supported by captive clinical research facility with an installed capacity of around 200 beds. The facility is involved in conducting various types of activities, including bio-analytical (BA) & bio-equivalence (BE) studies, Phase-I clinical trials, late phase clinical studies (Phase-II and III) and pharmacovigilance. CPL spends around 3-4% of its total operating income (TOI) on research and development. CPL has entered into collaboration with several European pharmaceutical entities to jointly develop and market innovative as well as generic products. CPL has also received approval for launching two innovative novel products for sepsis and anti-rabies. Sepsivac, which is normally used to treat gram-negative sepsis in critical patients, was also used as a re-purposed drug in the treatment of critically ill COVID-19 patients. Rabies vaccine developed by CPL completes the treatment in three doses compared to five doses required by vaccines presently available in the market. CPL is also in an advanced stage of development of certain products in diabetic and cardiovascular therapeutic segments having good market and relatively limited competition.

Growing scale of operations

CPL's TOI grew by compounded annual growth rate (CAGR) of 9% over the period of last 5 years ended FY22. However, it declined marginally by around 1.5% and stood at ₹2,523 crore in FY23. Till FY22, the healthy growth in the domestic market was driven by strong volume growth, partially supported by COVID-19 tailwind in acute therapies like anti-infective apart from

growth in its existing therapies of gastroenterology. Due to easing out of pricing pressure in the US market, revenue from the export market grew by 4% on y-o-y basis during FY23.

Stable demand prospects for the IPI

The outlook for IPI is envisaged to remain stable in the medium to long term, backed by growth opportunities in terms of capitalising on major blockbuster drugs coming off-patent, paving the way for entry of generics, especially in the US market, and geographical diversification into emerging markets. In the domestic market, the growth in the formulations segment is expected to be led by a rise in chronic diseases, increasing per capita income, government initiatives like new national health protection schemes, the *Ayushman Bharat* programme, and improvement in the access to healthcare facilities along with growing penetration of health insurance.

Key weaknesses

Significantly lower-than-envisaged profitability and cash accruals

The operating profitability, net profit and gross cash accruals (GCA) declined sharply due to a significant increase in overhead cost. PBILDT, profit-after-tax (PAT) and GCA of the company remained lower by 67%, 91% and 61%, respectively, during FY23 as compared to FY23 (estimates). CPL's PBILDT margin declined by nearly 700 bps and stood at 3.78% during FY23 as compared to the envisaged level of 11-12%. The decline was primarily due to the increase in employee cost apart from major travelling cost incurred by the company in FY23. The travelling and conveyance cost have further increased to ₹209 crore in FY23 compared to ₹131 crore in FY22. Although the operating profitability declined and remained lower than envisaged, gross margin remained marginally better in FY23 over FY22 indicating continued steady pricing environment of CPL's products. Going forward, the improvement in its PBILDT margin shall remain key monitorable from credit perspective.

Expectation of significant increase in debt level due to large-size debt-funded capex plans leading to weaker than expected capital structure and debt coverage indicators

Earlier, CPL was planning to incur aggregate capex of nearly ₹400 crore on a standalone basis during FY22 to FY24 for the up-gradation and maintenance of its existing plants. The said capex was expected to be funded through term-debt drawl of around ₹265 crore and rest was to be funded through internal accruals. Envisaging higher demand for its products, CPL revised its capex plans on a standalone basis. It planned to incur capex of nearly ₹550 crore over FY23-FY24 towards expansion of its API and formulation manufacturing capacity at its existing facilities at Ankleshwar and Dholka, respectively, apart from routine, maintenance and replacement capex which was planned to be funded through term-debt of nearly ₹400 crore and rest to be funded through internal accruals. Moreover, through its subsidiary CPPL, CPL is setting up a new API manufacturing facility at Dahej (it already got allotment of land at Dahej), Gujarat and new formulation facility at Udaipur (it already owns a land in Udaipur).

The new API manufacturing plant at Dahej will be designed and build to comply with USFDA and other regulatory approvals and shall adhere to norms as per cGMP. Through CPPL, CPL is planning to set-up an injectable (formulation) plant at Udaipur. Presently, CPL does not have any major presence in the injectable products, which command higher margin as compared to oral solid products.

The estimated cost of the Dahej and Udaipur projects is nearly ₹200 crore and ₹220 crore, respectively, which are being funded through term loan of ₹141 crore and ₹154 crore, respectively, and balance through internal accruals/ equity infusion by CPL. As on March 31, 2022, CPPL has incurred cost of nearly ₹115 crore (incl. capital advance of ₹28 crore) and has availed a term debt of ₹29 crore. CPL had infused aggregate fund of ₹79 crore as on March 31, 2023. The Dahej capex commenced commercial operations from Q4FY24, whereas the Udaipur project is expected to commence the operations from FY25.

On an overall basis, the company is planning to incur capex of ₹950-1,000 crore which is being funded through term loan of ₹695 crore and remaining from internal accruals. Timely completion of the projects within the envisaged cost and early stabilisation of aforesaid projects would remain key monitorable. CPL was planning to set-up a manufacturing facility in Uzbekistan to cater the local market. However, presently, the company is not perusing said capex. Although CPL is considering few organic or inorganic expansion capex in overseas market, nothing is finalised yet.

Additionally, the company was planning to avail term debt of ₹350 crore over FY23-FY24 primarily to fund its R&D expenses (incl. reimbursement of R&D expenses), augmentation of net-working capital and other general corporate purpose. Hence, the debt level of the company is expected to increase over FY23-FY25. With these, the total debt of the company was earlier expected to increase to around ₹1,400 crore (including debt of CPPL) by March 31, 2024. The total debt of the company stood at ₹1,097 crore as on March 31, 2023 as against ₹717 crore as on March 31, 2022. While the adjusted debt (incl. guaranteed debt) is expected to increase to around ₹1,660 crore by March 31, 2024. The adjusted debt stood at around ₹1,390 crore as on March 31, 2023 as against ₹1,031 crore as on March 31, 2022.

Due to higher debt levels as envisaged, CPL's adjusted overall gearing (incl. guaranteed debt) and debt coverage indicators deteriorated during FY23 compared to earlier envisaged level. The adjusted overall gearing of the company stood at 1.50x as on March 31, 2023 and total debt (incl. guaranteed debt)/ PBILDT stood at 14.63x in FY23.

Significant exposure towards subsidiaries/associate entities

CPL has a significant exposure towards its subsidiaries and associate entities in the form of investments/loans & advances and corporate guarantees extended towards financial and performance liabilities of some of its subsidiaries. As on March 31, 2022, CPL had investments in equity/preference shares and had extended loans & advances aggregating around ₹635 crore to its subsidiaries and associate companies (around ₹550 crore as on March 31, 2022) which stood high at around 72% of its standalone tangible net worth (TNW) as of even date. CPL has extended a very large corporate guarantee of ₹293 crore outstanding as on March 31, 2023, which majorly include debt availed by CPL's wholly-owned subsidiary, Satellite Overseas Holdings Limited (SOHL) for the acquisition of a business jet aircraft. CPL earlier expected to use around 30% to 40% of the available flying hours for its captive purpose and rest was planned be commercially chartered. However, as per the recent understanding given by the management, the company has fully provided the cost of O&M of business-jet in projected P&L including debt servicing requirement.

IRM Energy Limited (IRMEL) is a special purpose vehicle (SPV) promoted by CPL for venturing into City Gas Distribution (CGD) business. IRMEL came out with IPO of ₹545 crore (entirely fresh issue) in October 2023. CPL along with IRM Trust holds around 50% equity stake in IRMEL. CPL invested around ₹57 crore in IRMEL towards its equity commitment in the project. However, IRMEL is generating adequate cash-flows and is expected to meet its capex requirement and debt servicing from its internal accruals, and CPL is not envisaged to extend any major support to it.

CPL Biologicals Pvt. Ltd. (CPL Bio) is a joint venture (JV) between CPL and US-based Novavax Inc, whereby the majority stake (80%) is being held by CPL and the rest is being held by Novavax Inc. As a part of the agreement, Novavax provided vaccine technology, while CPL was required to invest around ₹40 crore in CPL Bio in a gradual manner. CPL has completed its investment obligation and does not envisage any further investment in CPL Bio. CPL will reimburse R&D expenses to CPL Bio and will own all Intellectual property (IP) rights of products being developed by CPL Bio.

Cadila Pharmaceuticals (Ethiopia) Plc. (Cadila Ethiopia) operates a formulation manufacturing facility in Ethiopia for catering the demand of formulations in African markets. CPL holds 62.50% equity stake in the company. CPL does not envisage any investments in Cadila Ethiopia as its cash accruals are enough to meet its capex and working capital requirement.

SOHL is an overseas investment arm of CPL through which CPL has investments in several pharmaceutical/non-pharmaceutical entities and real-estate across US and Europe. SOHL's capital base increased and remained healthy at around £63.41 million as on March 31, 2022. Going forward, CPL is expected to invest aggregate amount of nearly ₹90-100 crore (excluding capital commitment towards CPPL for its on-going/ proposed Dahej and Udaipur plants) in its various subsidiaries during FY23 to FY25 for the servicing of the term-debt guaranteed by it. CPL's exposure to its subsidiaries/associates as above and its obligation to provide need-based support to them constrain the credit quality of CPL. Restricting its exposure to such entities within envisaged level and generating commensurate returns from such investments would be critical for CPL's credit quality going forward.

Moderate revenue concentration towards few brands in the domestic formulation market

Sales of the top 10 brands contributed around 59% of CPL's domestic formulation sales during FY22. Among its top 10 brands, two brands, viz. Aciloc and Aciloc RD contributed around 30% of domestic formulation sales, which underline moderate revenue concentration. Sales of one API product contributed around 50% of its total API sales during FY22 which also reflects revenue concentration. Significant dependence on a few products makes CPL's operations susceptible to any unforeseen regulatory actions.

Exposure to inherent regulatory risk

CPL is exposed to inherent regulatory risk since the players in the pharmaceutical industry need to manufacture products that meet the set quality standards of various drug regulators. Good manufacturing practice (GMP) is to be followed for the control and management of drugs manufacturing and for quality control testing of drugs. The government also controls the prices of pharmaceutical products through the Drug Price Control Order (DPCO). Around 200 products of CPL are covered under DPCO which contributed around 35% of its domestic formulation sales, restricting its pricing flexibility. The pharmaceutical industry is highly regulated in many other jurisdictions and requires various approvals, licenses, registrations and permissions for business activities. Each authority has their own requirement, and these authorities could delay or refuse to grant approval, even when the product has already been approved in another country. The approval process for a new product registration is complex, lengthy and expensive. Although the time taken to obtain approval varies by country, it generally takes from six months to several years from the date of application. Any delay or failure in getting approval for a new product launch could adversely affect the business prospects of the company. Given India's significant share in the US's generic market, the USFDA has

increased its scrutiny of manufacturing facilities and other regulatory compliances of the Indian Pharma companies supplying generic drugs to the US. Non-compliance may result in a regulatory ban on products/facilities (as in the recent cases of import alerts issued by the USFDA to top Indian Pharma companies) and may impact a company's future approvals from USFDA. However, CPL has Establishment Inspection Report (EIR) in place for its Dholka manufacturing facility. Moreover, its Ankleshwar API manufacturing facility was inspected by USFDA in August 2019 and was cleared without any observations.

Foreign exchange fluctuation risk

CPL derives around 35-40% of its total income from exports. It hedges half of its foreign currency exposure and keeps the other half unhedged. Hence, its profitability is susceptible to any adverse movement in the foreign exchange rates. CPL has given a corporate guarantee in respect of USD denominated term debt availed by SOHL and its subsidiaries. SOHL does not have any significant operating cash flows and CPL could be required to support SOHL for its term debt servicing, which further increases its exposure to foreign exchange risk.

Liquidity: Adequate

Liquidity of the company is supported by healthy GCA of ₹76 crore and negative cash flow from operations of ₹103 crore during FY23. Moreover, the company's debt levels have also increased for funding of capex, R&D and general corporate purpose including investment towards subsidiaries. It has cash & bank balance of ₹30 crore as on March 31, 2023. Current ratio of the company stood modest at unity as on March 31, 2023. Operating cycle of the company remained stable at 65 days in FY23 (66 days in FY22 and 72 days in FY21), which indicates better inventory and receivable management.

Applicable criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Consolidation & Combined approach](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Cadila Laboratories Limited was founded by late Indravadan Modi and Ramanbhai Patel in 1951. Subsequently, in 1995, it was divided into two companies, namely, Cadila Healthcare Limited, led by the Patel family, and Cadila Pharmaceuticals Limited (CPL), led by the Modi family.

CPL manufactures both formulations and API drugs for more than 45 therapeutic segments. The company has two API manufacturing facilities located at Ankleshwar (Gujarat), one formulation facility at Dholka (Gujarat) which is USFDA-approved and one formulation facility at Samba (Jammu). CPL also has a state-of-the-art R&D centre at Dholka and has formulation facilities in Ethiopia through its 62.50% JV with local Ethiopian partner. The company exports its products to various countries through its marketing set up in USA, Japan, UK, Africa and Russia. CPL's wholly-owned direct foreign subsidiary, SOHL, acts as an overseas investment arm of CPL. It has also invested into city gas distribution (CGD) business through its another subsidiary, IRMEL, in which CPL along with its promoter group holds around 50% equity share capital.

Brief financials of CPL (₹ crore)	FY21 (A)	FY22 (A)	FY22 (UA)	FY23 (UA)
	Standalone		Combined	
Total operating income	2,362	2,560	2,560	2,523
PBILDT	447	334	334	95
PAT	253	189	189	12
Overall gearing (times)	0.75	0.76	0.79	1.25
Adj. overall gearing (times)*	1.05	1.11	1.13	1.50
PBILDT Interest coverage (times)	9.43	9.53	9.52	1.57

A: Audited, UA: Unaudited, *Adjusted total debt includes corporate guarantees issued by CPL for the debt availed by its subsidiaries.

Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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 - LT/ ST-CC/PC/Bill discounting		-	-	-	440.00	CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING*
Non-fund-based - ST-BG/LC		-	-	-	120.00	CARE A2; ISSUER NOT COOPERATING*
Term loan-Long term		-	-	31/03/2032	1018.36	CARE BBB+; Stable; ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information.

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	Non-fund-based - ST-BG/LC	ST	120.00	CARE A2; ISSUER NOT COOPERATING*	-	1)CARE A1 (06-Jan-23)	1)CARE A1+ (28-Dec-21)	1)CARE A1+ (11-Feb-21)
2	Term loan-Long term	LT	1018.36	CARE BBB+; Stable; ISSUER NOT COOPERATING*	-	1)CARE A; Stable (06-Jan-23)	1)CARE A+; Stable (28-Dec-21)	1)CARE A+; Stable (11-Feb-21)
3	Fund-based - LT/ ST-CC/PC/Bill discounting	LT/ST*	440.00	CARE BBB+; Stable / CARE A2; ISSUER NOT COOPERATING*	-	1)CARE A; Stable / CARE A1 (06-Jan-23)	1)CARE A+; Stable / CARE A1+ (28-Dec-21)	1)CARE A+; Stable / CARE A1+ (11-Feb-21)
4	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	-	-	-	-	1)Withdrawn (28-Dec-21)	1)CARE A+; Stable / CARE A1+ (11-Feb-21)

*Issuer did not cooperate; based on best available information.

*Long term/Short term.

Annexure-3: Detailed explanation of 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	Fund-based - LT/ ST-CC/PC/Bill discounting	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of 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.

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About us:

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Disclaimer:

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