Cipla Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	2,268.00 (Enhanced from 2,220.00)	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned of bank facilities of Cipla Limited (Cipla) factor in the company's strong business profile with a leading and dominant share in multiple therapeutic segments, such as respiratory, urology, anti-infective, and cardiology in the domestic and international markets. Ratings also consider the company's vast product portfolio of over 1,500 products spanning multiple therapeutic segments, and a healthy product pipeline consisting of respiratory products, peptide injectables, and other complex assets. Ratings also factor in the continuous growth in its scale of operations and the improvement in its debt coverage indicators in FY24 (refers to April 1 to March 31) and Q1FY25 (UA), the immense experience of its promoters in the pharmaceuticals industry, and its strong liquidity position. However, ratings continue to reflect the regulatory risks associated with the geographies in which Cipla operates. CARE Ratings Limited (CARE Ratings) continues to monitor the update regarding the pending litigation with National Pharmaceutical Pricing Authority (NPPA) for pricing issue and the observations received from USFDA for Goa and Pithampur manufacturing plants.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Declining operating profitability to below 15% either due to increased competition or regulatory issues.
- Weakening of financial and business profiles as a result of crystallisation of NPPA liability and/or untoward regulatory issues.
- Significantly deteriorating credit metrics because of large debt-funded capex or acquisitions resulting in 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 financial and operational linkages between the parent and subsidiaries and 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 key rating drivers:

Key strengths

Reputed brand with leading market position across therapies

Cipla is one of the leading pharmaceutical companies in India. Per the IQVIA MAT February 2024, the company is ranked third largest in India and is ranked first in the pharma prescription market of South Africa. The company is second-largest Indian exporter to emerging markets and the sixth-largest Indian exporter to Europe. It has a widespread presence across the globe through subsidiaries/associates. The company has 21 brands (PY: 20) in top 300 India Pharma Market (IPM) brands and 22 brands with sales greater than ₹100 crore in IPM. Cipla leads in respiratory therapy with a market share of 24.60% in India followed by urology and chronic segment, where the company in domestic market stands at second position with the market share of 11.90% and 8.60%, respectively. The company has 11 brands (PY: 9) clocking ₹200 crore revenue.

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

Diversified product portfolio and geographical presence
The company features a broad range of products and a substantial global footprint with presence in 78 countries. Its diverse portfolio includes therapies for respiratory issues, anti-infectives, cardiac conditions, urology, and gastro-intestinal health. The company operates in both regulated and semi-regulated markets. In FY24, domestic sales represented 43% of total revenue, followed by 30% from the US, 12% from Emerging Markets and Europe, and 12% from South Africa.

Continuous launch of new products with strong product pipeline
Cipla has five well-equipped research and development (R&D) facility with more than 1,600 dedicated employees. Driven by strong research and development (R&D), Cipla has been launching new products every year. The company expended ₹1,571 crore on R&D, which comprises about 6% of its total operating income (TOI) of FY24. In FY24, the company has launched 101 new products across the world. The newly launched products cater to asthma, chronic pulmonary disease, acid refluxes, stomach diseases, oncology, Influenza A & Influenza B, and anti-retroviral. It has also filed 12 abbreviated new drug applications (ANDAs) (including one NDAs) and have received five approvals. The company has 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 market supported by continuous launch of new products.

Accredited manufacturing facilities
Cipla has 46 state-of-the-art manufacturing facilities for API and formulations across six countries. The company has manufacturing sites across India in 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 manufacturing capacity to produce 28.34 bn tablets and capsules, 726.90 mn respules, 51.60 mn oral liquids,43.20 mn nasal spray, 129.10 mn aerosol pMDI,1.86 mn lyophillsed injections, and 0.70 mn form fill seal eyedrops. The company's manufacturing facilities have approvals from major regulators including India's Central Drugs Standard Control Organisation, US's Food and Drug Administration (FDA), UK's Medicines and Healthcare Products Regulatory Agency (MHRA), World Health Organisation (WHO), South African Health Products Regulatory Authority, National Medical Products Administration, China, Therapeutic Goods Administration, Australia, and Brazil's National Health Surveillance Agency (ANVISA).

Steady growth in operation with improving margins
The company has witnessed continuous growth in its revenue and operating margins over FY19-FY24. Its revenue from operation has improved at compounded annual growth rate (CAGR) of ~9.50% from ₹16,405 crore in FY19 to ₹25,875 crore in FY24. In FY24, the company has registered healthy revenue growth of over 13% to ₹25,875 crore from ₹22,818 crore reported in FY23. In Q1FY25, the company registered revenue of ₹6,694 crore (Q1FY24: ₹6,329 crore) improved by ~6% Y-o-Y. Its operating margins have also been steady and have improved over time. In FY24, company reported operating margins of 24.70%, which improved by 232 bps from FY23. The improvement in margin is the result of product mix and rationalisation of cost and improved operating efficiency.

Comfortable capital structure and debt coverage indicators
The company's capital structure continued to remain comfortable as on March 31, 2024. Debt to equity ratio stood at 0.01x as on March 31, 2023 (0.03x as on March 31, 2023). Overall gearing improved and was also below unity and stood at 0.02x as on March 31, 2024, as against 0.04x as on March 31, 2023. At the back of healthy cash accruals, other debt risk metrics such as total debt to gross cash accruals (TD/GCA) have improved in FY24 to 0.11x (against 0.23x in FY23), interest coverage parameters (PBILDT/interest and PBIT/interest) also improved to 71.11x and 59.42x in FY24 (46.49x and 35.79x in FY23) considering the increase in profitability. CARE Ratings expects that the company's credit risk profile will continue to remain comfortable supported by strong cash and liquid investments and no large debt-funded capex/acquisition.

Key weaknesses
Liability under NPPA
In 2003, the company received a notice of demand from the NPPA, Government of India, considering the alleged overcharging in respect of certain drugs under the Drugs (Prices Control) Order, 1995. The matter was presented before 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 ₹3,707 crore as on March 31, 2024. The materialisation of the liability and/or significant increase in the amount of the liability will remain a key rating monitorable. In its analysis, CARE Ratings 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 0.17x as on March 31, 2025. Apart from the above, the company has over ₹8,000 crore in the form of cash and liquid investments, which provides an adequate liquidity cushion.

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

Regulatory risk
Cipla sells its products in 78 countries across the world with its production units spread across various locations. Also, the company has entered in-licensing agreements with global partners across countries for manufacturing/marketing of drugs. Hence, the company is required to comply with laws, rules and regulations and operate under strict 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 US FDA. Upon inspection, Goa and Indore plant has received observations. CARE Ratings will continue to monitor the developments with respect to the resolutions of US FDA observations. Moreover, CARE Ratings also observes that other plants inspected by US FDA, where the company has not received observation or have received voluntary action indicated (VAI) includes Kurkumbh and Patalganga in Maharashtra, a plant in China, and two plants in the US (InvaGen and Central Islip).

Liquidity: Strong

Cipla's liquidity profile continued to remain healthy on the backdrop of significant liquid investments of over ₹8,000 crore as on March 31, 2024. The company has no term debt repayments. The company continues to report healthy GCA of about ₹5,000 crore per annum. The company's working capital utilisation is low which further adds to its financial flexibility. With overall gearing at 0.03x as on March 31, 2024, and with the unutilised lines providing the additional cushion, CARE Ratings expects Cipla to have comfortable liquidity position. The company's current ratio also stood comfortable at 3.75x as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

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

In case of Cipla, to reduce the impacts of company's operations on the environment, the company has implemented measures across its manufacturing facilities to increase efficiency in consumption of resources. The company has replaced usage of furnace oil with pressurised natural gas in the boilers, installed rooftop solar panels and solar trees for electricity generation, have replaced polythene packaging with glue pasting for inner cartons in aerosol products and have also implemented ZLD treatment process, which treats and reuse the liquid effluents and eliminates its discharge into surface water. The company has also undertaken couple of projects as a part of technology and automation initiatives. For product quality and safety, the company has standard operating procedures (SOP) and has a dedicated quality assurance team overseeing the compliance to the laid SOPs. The company also assesses the quality standards of their vendors, suppliers and contract manufacturing organisations (CMOs) to verify their adherence to the laid down internal SOPs and cGMP requirement. The company from time-to-time conducts product quality testing in-house. The company's manufacturing units 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 CSR strategy and works towards enhancing community health, education, and skill development.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & 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 30.91% equity stake in the company as on June 30, 2024. It is engaged in manufacturing formulations and APIs, with over 97% of the sales being contributed from the formulation segment in FY24. Cipla has a diversified product portfolio of more than 1,500 different types of drugs catering to segments such as anti-infective, cardiac, gynaecology, and gastrointestinal in 78 markets across the world.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	22,818.19	25,875.02	6,693.94
PBILDT	5,092.04	6,391.98	1,715.80
PAT	2,832.89	4,153.72	1,175.46
Overall gearing (times)	0.04	0.02	-
Interest coverage (times)	46.49	71.11	95.58

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	277.00	CARE AAA; Stable / CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	1991.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	277.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (09-Oct-23)	1)CARE AAA; Stable / CARE A1+ (27-Sep-22)	1)CARE AAA; Stable / CARE A1+ (05-Oct-21)
2	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	1991.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (09-Oct-23)	1)CARE AAA; Stable / CARE A1+ (27-Sep-22)	1)CARE AAA; Stable / CARE A1+ (05-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Goldencross Pharma Ltd.	Full	Subsidiary
2	Meditab Specialities Ltd.	Full	Subsidiary
3	Cipla Medpro South Africa (Pty) Limited	Full	Subsidiary
4	Cipla Holding B.V.	Full	Subsidiary
5	Cipla Pharma and Life Sciences Limited	Full	Subsidiary
6	Cipla (EU) Limited	Full	Subsidiary
7	Saba Investment Limited	Full	Subsidiary
8	Jay Precision Pharmaceuticals Pvt. Ltd.	Full	Subsidiary
9	Cipla Health Ltd.	Full	Subsidiary
10	Cipla Pharmaceuticals Limited	Full	Subsidiary
11	Cipla Digital Health Limited	Full	Subsidiary
12	Cipla Australia Pty Limited	Full	Subsidiary
13	Medispray Laboratories Private Limited	Full	Subsidiary
14	Sitec Labs Ltd.	Full	Subsidiary
15	Meditab Holdings Limited	Full	Subsidiary
16	Cipla USA Inc.	Full	Subsidiary

17	Cipla Kenya Ltd.	Full	Subsidiary
18	Cipla Malaysia Sdn. Bhd.	Full	Subsidiary
19	Cipla Europe NV	Full	Subsidiary
20	Cipla Quality Chemical Industries Limited	Full	Subsidiary
21	Actor Pharma (Pty) Limited	Full	Subsidiary
22	Mexico S.A. de CV	Full	Subsidiary
23	Cipla Dibcare Pty Ltd.	Full	Subsidiary
24	Cipla Medpro Manufacturing (Pty) Limited	Full	Subsidiary
25	Cipla-Medpro (Pty) Limited	Full	Subsidiary
26	Cipla-Medpro Distribution Centre (Pty) Ltd.	Full	Subsidiary
27	Cipla Medpro Holdings (Pty) Limited	Full	Subsidiary
28	Cipla Medpro Botswana (Pty) Limited	Full	Subsidiary
29	Cipla Select (Pty) Limited	Full	Subsidiary
30	Medpro Pharmaceutical (Pty) Ltd.	Full	Subsidiary
31	Breathe Free Lanka (Private) Ltd.	Full	Subsidiary
32	Cipla Medica Pharmaceutical and Chemical Industries Limited	Full	Subsidiary
33	Cipla Brasil Importadora E Distribuidora De Medicamentos Ltda	Full	Subsidiary
34	Cipla Maroc SA	Full	Subsidiary
35	Cipla Middle East Pharmaceuticals FZ-LLC	Full	Subsidiary
36	Cipla Philippines Inc.	Full	Subsidiary
37	InvaGen Pharmaceuticals Inc.	Full	Subsidiary
38	Exelan Pharmaceuticals Inc.	Full	Subsidiary
39	CIPLA Algérie	Full	Subsidiary
40	Cipla Technologies LLC	Full	Subsidiary
41	Cipla Gulf FZ-LLC	Full	Subsidiary
42	Mirren (Pty) Ltd	Full	Subsidiary
43	Madison Pharmaceuticals Inc.	Full	Subsidiary
44	Cipla Colombia SAS	Full	Subsidiary
45	Cipla (China) Pharmaceutical Co., Ltd.	Full	Subsidiary
46	Cipla (Jiangsu) Pharmaceutical Co., Ltd.	Full	Subsidiary
47	Cipla Therapeutics Inc.	Full	Subsidiary
48	Aspergen Inc	Full	Subsidiary
49	AMPSolar Power Systems Private Limited	Proportionate	Associate
50	GoAPPTIV Private Limited	Proportionate	Associate
51	AMP Energy Green Eleven Private Limited	Proportionate	Associate
52	Clean Max Auriga Power LLP	Proportionate	Associate
53	Achira Labs Private Limited	Proportionate	Associate
54	Stempeutics Research Pvt. Ltd.	Proportionate	Associate
55	Avenue Therapeutics Inc	Proportionate	Associate
56	Brandmed (pty) Ltd	Proportionate	Associate
57	Iconphygital Private Limited	Proportionate	Associate
58	Pactiv Healthcare Private Limited	Proportionate	Associate
59	MKC Biotherapeutics Inc	Proportionate	Associate
60	Cipla Health Employee Stock Option Trust	Full	Trust
61	The Cipla Empowerment Trust	Full	Trust

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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