

## Cipla Limited

February 24, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short term Bank Facilities- Fund Based	1848.00 (reduced from 3002.00)	CARE A1+ (A One Plus)	Reaffirmed
Short term Bank Facilities- Non Fund Based	435.00 (enhanced from 170.00)		
<b>Total Facilities</b>	<b>2283.00</b> <b>(Rs. Two thousand two hundred and eighty three crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Cipla Limited (Cipla) continue to derive strength from the well-established and experienced promoters, dominant market position in the domestic pharmaceutical industry, strong and diversified product portfolio with integrated and diversified operations across various geographies. Cipla has also consistently exhibited a strong financial risk profile with revenue growth, comfortable capital structure, debt coverage indicators and strong liquidity profile.

### Rating Sensitivities

Negative Factors:

- Decline in operating profitability to below 15% either due to increased competition or regulatory issues.
- Weakening of financial and business profile as a result of crystallization of NPPA liability and/or any untoward regulatory issues.
- Credit metrics deteriorating significantly because of large debt-funded capex or acquisitions with overall gearing increasing beyond 1.00x

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### Extensive experience of promoters with established track record of operations

Incorporated in 1935 i.e. with a track record of more than 80 years, the company was promoted by late Dr. K.A. Hamied. Currently, Dr. Y.K. Hamied is Chairman of the company with experience of over five decades in pharmaceutical industry. Dr. Y.K. Hamied played a leading role in expanding the production of bulks drugs and APIs in India and was awarded the Padma Bhushan in 2005. The day-to-day operations of the company are managed by a team of qualified and experienced management spearheaded by Mr. Umang Vohra (Managing Director and Global CEO since September 1, 2016) with more than 30 years of experience in similar line of business.

#### Reputed brand with leading market position supported by robust pipeline

Cipla is one of the leading Pharmaceutical companies in India and third largest in South Africa (by market share), and has a widespread presence across the globe through various subsidiaries/associates. Cipla had launched its first product in 1937 and has since then expanded its portfolio to more than 1,500 different types of drugs. The company has a diversified product portfolio spread across various segments like anti-infective, cardiac, gynaecology and gastrointestinal, with considerable market share in niche segments like anti retro viral (HIV/AIDS) and respiratory in countries like South Africa and India respectively. Cipla leads in respiratory therapy that contributes to 22%+ of total revenues. In FY20 Cipla had over 50+ DMF filings. The Company has a pipeline of over 50 APIs across regulated markets, in various stages of development.

The Company launched 52 new products across the world in FY20. As on December 30, 2020 the Company had 85 ANDAs pending for approval. Cipla's R&D expense stood at 6.9% for FY20 (7.4% for FY19). Roughly 25% of the Cipla's domestic sales fall under NLEM/DPCO.

#### Diversified geographical as well as manufacturing presence

The company has 46 manufacturing facilities with presence in over 80 countries. The company has a diversified product portfolio and leadership in domestic segments including in respiratory, anti-infective, cardiac, gynaecology and gastrointestinal therapies; considerable market share in niche segments like HIV/AIDS and respiratory in countries like South Africa and India respectively. Such diversity in the revenue geographically as well as in product base insulates the company from significant adverse fluctuation in the revenue. The Company's revenues are also geographically well diversified with India contributing 39% and US contributing 23% to the total revenues.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Robust operating and financial profile**

During FY20 the total operating income grew by 5% to Rs.17132 crore (vis-à-vis Rs.16362 in FY19). The growth was mainly led by strong performance of branded business in India and the generic business in USA. On a consolidated level Cipla has gross debt of Rs.3089 crores primarily due to the debt funded acquisition of Invagen US and Mirren South Africa. Cipla prepaid Rs.1939 crore in FY20 leading to an improvement in its debt metrics. Overall gearing stood at 0.27x as on March 31, 2020 as against 0.40x as on March 31, 2019. Interest coverage stood comfortable at 17.00x in FY20.

**Key Rating Weaknesses****Liability under the NPPA**

In 2003, the company received notice of demand from the NPPA, Government of India on account of alleged overcharging in respect of certain drugs under the Drugs (Prices Control) Order, 1995. The matter was presented before various jurisdictional powers. The matter is currently subjudice and basis the facts and legal advice on the matter no provision is made by the company in respect of the notices of demand aggregating to Rs.1,736 crore.

Materialization of the liability and/or, any significant increase in the amount of the liability will remain a key rating monitorable.

**Regulatory risks**

The USFDA conducted an inspection at Cipla's Goa formulation site in Sep'19 and issued a form 483 with 12 observations. In February 2020, Cipla received a warning letter for its Goa facility. According to the company it has responded to the observations and is awaiting a response from USFDA. As per Cipla, the Goa facility contributes to less than 5% of its US business. Timely and positive resolution of these observations will remain a key rating monitorable.

**Liquidity: Strong:**

Cipla's liquidity profile continued to remain healthy on the backdrop of significant liquid investments to the tune of Rs.2746 crore as on December 30, 2020. Besides, the company continues to report healthy gross cash accruals. The Company's working capital utilization is low and further adds to its financial flexibility. The company has scheduled repayment of Rs. ~13.26 crore in FY21. Additionally it has prepaid Rs. 1032 crore in December 2020 towards the loan taken for Invagen acquisition.

**Analytical approach:** Consolidated. CARE has considered CIPLA's consolidated numbers since CIPLA has considerable overseas operations and inter linkages with its subsidiaries. These companies are fully consolidated due to operational and financial linkages, fungible cash-flows, common management and support provided by CIPLA to various subsidiaries/associates/etc. Moreover bulk of the debt is on the consolidated books. The list of companies that are consolidated to arrive at the ratings are given in Annexure 3 below.

**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 – Manufacturing Companies](#)

[Rating Methodology – Pharmaceutical Sector](#)

[Rating Methodology – Consolidation and Factoring Linkages in Ratings](#)

[Financial ratios - Non- Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the Company**

Incorporated in 1935, Cipla Limited (Cipla) has more than 80 years of experience in pharmaceutical industry. The company was promoted by late Dr. K.A. Hamied and is currently spearheaded by Dr. Y. K. Hamied. The promoter group holds 36.70% equity stake in the company as on December 2020. The company is engaged in manufacturing of Formulations and Active Pharmaceutical Ingredients (APIs); with over 90% of sales being contributed from formulation segment in FY20 (refers to the period April 1 to March 31). The company has 46 manufacturing facilities with presence in over 80 countries. The company has a diversified product portfolio and leadership in domestic segments including in respiratory, anti-infective, cardiac, gynaecology and gastro-intestinal therapies.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	16,604.84	17280.23
PBILDT	3339.73	3354.23
PAT	1,492.44	1,499.52
Overall gearing (times)	0.40	0.24
Interest coverage (times)	19.82	17.00

**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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	435.00	CARE A1+
Fund-based-Short Term	-	-	-	-	1848.00	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.	Non-fund-based - ST-BG/LC	ST	435.00	CARE A1+	-	1)CARE A1+ (07-Jan-20) 2)CARE A1+ (30-Apr-19) 3)CARE A1+ (02-Apr-19)	-	1)CARE A1+ (30-Mar-18) 2)CARE A1+ (11-May-17)
2.	Fund-based-Short Term	ST	1848.00	CARE A1+	-	1)CARE A1+ (07-Jan-20) 2)CARE A1+ (30-Apr-19) 3)CARE A1+ (02-Apr-19)	-	1)CARE A1+ (30-Mar-18) 2)CARE A1+ (11-May-17)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (11-May-17)
4.	Fund-based - ST-EPC/PSC	ST	-	-	-	-	-	1)Withdrawn (11-May-17)

**Annexure-3: Subsidiaries/Associates being Consolidated**

Name	% Holding
Goldencross Pharma Ltd.	100.00%
Meditab Specialities Ltd.	100.00%
Cipla BioTec Ltd.	100.00%
Jay Precision Pharmaceuticals Pvt. Ltd.	60.00%
Cipla Health Ltd.	100%
Medispray Laboratories Private Limited	100.00%
Sitec Labs Ltd.	100.00%
Cipla Pharmaceuticals Limited	100.00%
Cipla Medpro South Africa (Pty) Limited	100.00%
Cipla Holding B.V.	100.00%
Cipla (EU) Limited	100.00%
Saba Investment Limited	51.00%
Cipla (UK) Limited*	100.00%
Cipla Australia Pty Limited	100.00%
Meditab Holdings Limited	100.00%
Cipla USA Inc.	100.00%
Cipla Kenya Ltd.	100.00%
Cipla Malaysia Sdn. Bhd.	100.00%
Cipla Europe NV	100.00%
Cipla Quality Chemical Industries Limited.	51.05% 0.13% held by Cipla (EU)
Inyanga Trading 386 Proprietary Ltd.*	100.00%
Cipla Medpro Holdings Proprietary Ltd.*	100.00%
Cipla Dibcare Proprietary Ltd.*	100.00%
Cipla Life Sciences Proprietary Ltd.	100.00%
Cipla-Medpro Proprietary Ltd.	100.00%
Cipla-Medpro Distribution Centre Proprietary Ltd.	100.00%
Cipla Medpro Botswana Proprietary Ltd.	100.00%
Cipla OLTP (Pty) Ltd	100.00%
Medpro Pharmaceutical Proprietary Ltd.	100.00%
Breathe Free Lanka (Private) Ltd.	100.00%
Cipla Medica Pharmaceutical and Chemical Industries Limited.	50.49%
Cipla Brasil Importadora E Distribuidora De Medicamentos Ltda	100.00%
Cipla Maroc SA	60.00%
Cipla Middle East Pharmaceuticals FZ-LLC	51.00%
Cipla Philippines Inc.	100.00%
InvaGen Pharmaceuticals Inc.	100.00%
Exelan Pharmaceuticals Inc.	100.00%
Cipla Biotec South Africa (Pty) Limited	100.00%
CIPLA Algérie	40.00%
Stempeutics Research Pvt. Ltd.	40.25% (W.e.f. 2nd July, 2020) on a non-diluted basis 39.18% on a diluted basis
Cipla Technologies LLC	100.00%
Cipla Gulf FZ-LLC	100.00%
Mirren (Pty) Ltd	100.00%
Madison Pharmaceuticals Inc.	100.00%
Avenue Therapeutics, Inc.	33.33%
Wellthy Therapeutics Private Limited***	9.97 %

Brandmed (pty) Ltd	30.00%
Cipla Colombia SAS	100.00%
Cipla (China) Pharmaceutical Co., Ltd.	100.00%
AMPSolar Power Systems Private Limited	26%
Cipla (Jiangsu) Pharmaceutical Co., Ltd.	80.00%
Shanghai Desano Pharmaceuticals Co. Ltd	16.50%
Cipla Therapeutics Inc.	100.00%
GoAPPTIV Private Limited effective July 27, 2020	21.85%

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

Sr No	Name of instrument	Complexity level
1	Non-fund-based - ST-BG/LC	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

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