

## Cipla Limited

September 27, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term/short-term bank facilities	2,220.00 (Enhanced from 2,169.00)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
<b>Total bank facilities</b>	<b>2,220.00</b> <b>(₹ Two thousand two hundred twenty crore only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of the long-term rating and short-term rating for the bank facilities of Cipla Limited (Cipla) factors in the continuous growth in its scale of operations along with the improvement in its debt coverage indicators during FY22 (A) (refers to the period from April 1 to March 31) and Q1FY23 (UA). The rating also factors in the significant reduction in its debt levels with prepayment of term loans. The rating further continues to derive strength from the vast experience of its promoters in the pharmaceutical industry, its strong position in the domestic and export formulations markets, supported by a diversified product portfolio spanning multiple therapeutic segments (with a larger share in respiratory, anti-infectives, and cardiology) along with a healthy product pipeline consisting of respiratory products, Para IV opportunities, and partnered peptide injectables.

That said, the rating is also underpinned by Cipla's strong liquidity position. The rating 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 manufacturing plant.

### Rating sensitivities

#### Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- 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.
- Credit metrics deteriorating significantly because of the large debt-funded capex or acquisitions, with overall gearing increasing beyond 1.00x.

### Detailed description of the key rating drivers

#### Key rating strengths

**Reputed brand with leading market position across therapies:** Cipla is one of the leading pharmaceutical companies in India (ranked the third largest in India IQVIA MAT March 2022) and has a widespread presence across the globe through various subsidiaries and associates.

Cipla leads in respiratory therapy with a market share of 22.2% in India. Six of Cipla's brands are featured in the top 10 respiratory brands by value in India (as per IQVIA March 2022). It is also the second-largest inhaler-selling company globally.

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.

Cipla's product portfolio is well-diversified, with the top 10 products contributing 31% of the total operating income (TOI) in FY22 (PY: 25%).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Diversified revenue stream:** Cipla has 47 manufacturing facilities with a presence in over 86 markets. The company has a diversified product portfolio and leadership in domestic segments, including in respiratory, anti-infective, cardiac, gynaecology, and gastrointestinal therapies. The company's main markets are India (45% of the TOI in FY22), followed by the US (20% of the TOI in FY22) and South Africa, Sub-Saharan Africa, Global Access (SAGA) (17% of the TOI in FY22). Such diversity in the revenue geographically as well as in the product base insulates the company from significant adverse fluctuations in revenue.

**Robust product pipeline:** The company launched 93 new products across the world in FY22 (PY: 81). It also secured approvals of 12 abbreviated new drug applications (ANDAs) and filed for another 11 ANDAs in FY22. The company was granted 15 patents in FY22 and filed 13 new patents in the same period. Cumulatively, Cipla has a pipeline of 250 ANDAs and 165 are approved. In FY22, the company received approval for the first 505b2 version of the lanreotide injection. This approval expands its peptide portfolio and the company further expects to launch four complex generics injection products in FY2023-24. In September 2022, Cipla received the final approval for its ANDA for the Lenalidomide Capsule from the United States Food and Drug Administration (USFDA). CARE Ratings expects the commercialisation of the above product to benefit the company both, ie, in terms of fetching better revenues and increase in profitability margins.

**Robust operating and financial profile:** During FY22, the TOI grew by 14% y-o-y (PY: 12%), driven by strong momentum in India, the US, and the SAGA region, as well as support from COVID-19 products. Cipla's India business grew by 27% y-o-y, while in the US, the y-o-y growth was around 8%. In the SAGA region, the y-o-y growth in revenues was around 6%. The profitability margins moderated marginally, with the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin at 21.00% in FY22 as compared to 22.31 % in FY21 owing to a rise in the prices of raw materials and increased research and development (R&D) expenses due to new clinical trials related to a respiratory product (R&D expenses: ₹1,122 crore in FY22 and ₹924 crore in FY21). On a consolidated level, Cipla has a gross debt of ₹1,055.78 crore (PY: ₹2,014 crore) (inclusive of lease liabilities). The company prepaid US\$ 137 million in long-term debt taken for the acquisition of InvaGen Pharmaceuticals Inc during the year, which further improved its debt metrics. The overall gearing stood at 0.06x as on March 31, 2022, as against 0.13x as on March 31, 2021. The interest coverage stood comfortable, at 43.01x as on March 31, 2022, as against 26.64x as on March 31, 2021. The operating cycle has contracted from 137 days in FY21 to 125 days in FY22, owing to the proactive collection by the company to maintain liquidity. The collection period remains comfortable at 57 days.

#### **Key rating weaknesses**

**Liability under the NPPA:** In 2003, the company received a notice of demand from the NPPA, Government of India, 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 June 30, 2022. 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 0.26x as on March 31, 2022. Apart from the above, the company has ₹4,631 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 to 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 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 risks; exposure to pricing pressures:** Cipla sells its products in more than 86 markets 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 the strict regulatory environment in India and abroad, considering the nature of business.

In February 2020, Cipla received a warning letter from USFDA for its Goa facility. After all corrective actions in response, a warning letter was completed and a re-inspection of the site was carried out by USFDA from August 16-26, 2022. The company has now received six observations with some referencing to the observations made during the September 2019 inspections. There are no data integrity observations. The 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 ₹4,631 crore as on March 31, 2022. The company has prepaid its entire term debt obligations towards the acquisition of Invagen during FY22. It has term debt repayments of around ₹15 crore in FY23 and around ₹391 crore in FY24. The company continues to report healthy gross cash accruals (GCA) in excess of ₹3,000 crore per annum, which is adequate to meet its regular capex and incremental working capital requirements. Its working capital utilisation is low, which further adds to its financial flexibility.

### 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 subsidiaries and the common management. The subsidiaries of Cipla that have been consolidated are mentioned under Annexure-5.

### Applicable criteria

[Policy on Default Recognition](#)

[Consolidation](#)

[Financial ratios – Non-financial sector](#)

[Liquidity analysis of non-financial sector entities](#)

[Rating outlook and credit watch](#)

[Manufacturing companies](#)

[Pharmaceutical](#)

[Policy on Withdrawal of Ratings](#)

[Short-term instruments](#)

### About the company

Incorporated in 1935, Cipla was promoted by the late Dr KA Hamied and is currently spearheaded by Dr YK Hamied. The promoter group holds a 33.61% equity stake in the company as on June 30, 2022. It is engaged in the manufacturing of formulations and APIs, with over 93% of the sales being contributed from the formulation segment in FY22. Cipla has a diversified product portfolio of more than 1,500 different types of drugs in 65+ therapies with 50+ dosage forms. The company's products cater to various segments such as anti-infective, cardiac, gynaecology and gastrointestinal in over 86 markets across the world. Cipla is the market leader in the respiratory and urology segment in the domestic market. It has over 47 manufacturing facilities for APIs and formulations across the world.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
TOI	19,189	21,785	5,375
PBILD	4,282	4,574	1,247
PAT	2,389	2,547	706
Overall gearing (times)	0.13	0.06	NA
Interest coverage (times)	26.64	43.01	70.00

A: Audited, UA: Unaudited, 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 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
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	-	-	-	-	1,949.00	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 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.	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+ (October 05, 2021)	1)CARE A1+ (February 24, 2021)	1)CARE A1+ (January 07, 2020) 2)CARE A1+ (April 30, 2019) 3)CARE A1+ (April 02, 2019)
2.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	1,949.00	CARE AAA; Stable/CARE A1+	-	1)CARE AAA; Stable/CARE A1+ (October 05, 2021)	1)CARE A1+ (February 24, 2021)	1)CARE A1+ (January 07, 2020) 2)CARE A1+ (April 30, 2019) 3)CARE A1+ (April 02, 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.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

**Annexure-5: Bank lender details for this company**To view the lender-wise details of the bank facilities, please [click here](#).

**Note on 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.

**Annexure-6: Subsidiaries/associates being consolidated**

Sr. No.	Name of the Company	Percentage Ownership Interest
	<b>Subsidiaries (held directly)</b>	
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%
	<b>Subsidiaries (held indirectly)</b>	
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	Cipla Medpro Holdings Proprietary Ltd.	100.00%
22	Cipla Dibcare Proprietary Ltd.*	100.00%
23	Cipla Medpro Manufacturing (Pty) Limited (formerly known as Cipla Life Sciences Proprietary Ltd.)	100.00%
24	Cipla-Medpro Proprietary Ltd.	100.00%
25	Cipla-Medpro Distribution Centre Proprietary 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 Pharmaceutica Proprietary 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%
	<b>Associates (held directly)</b>	
46	AMPSolar Power Systems Private Limited	26.00%
47	GoAPPTIV Private Limited	20.61%
48	AMP Energy Green Eleven Private Limited	32.49%
49	Clean Max Auriga Power LLP	33%
	<b>Associates (held indirectly)</b>	
50	Stempeutics Research Pvt. Ltd.	37.44%
51	Avenue Therapeutics, Inc.	25.93%
52	Brandmed (pty) Ltd	30.00%
53	Iconphygital Private Limited	20.61%

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### About us:

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### Disclaimer:

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