# IPCA Laboratories Limited

January 29, 2021

**Ratings**

| Facilities | Amount (Rs. crore) | Rating1 | Rating Action |
|---|---|---|---|
| Long term/Short term Bank Facilities | 1,140.00 | CARE AA; Stable/ CARE A1+ (Double A; Outlook: Stable/ A One Plus) | Reaffirmed |
| Total Facilities | 1,140.00 (Rs. One Thousand One hundred and forty crore only) | | |

*Details of instruments/facilities in Annexure-1*

The reaffirmation of the rating assigned to the bank facilities of IPCA Laboratories Limited (IPCA) continue to derive strength from strong business profile backed by presence across multiple therapeutic segments and largely integrated operations, improved financial risk profile and wide experience of the promoter family in the pharmaceutical industry. The rating also positively factors in bouquet of established brands catering to varied therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities, diversified geographic profile and steady operational profile.
The aforementioned strengths are, however, partially offset by Ongoing Action Indicated (OAI) status granted by USFDA to three of IPCA's manufacturing facilities and working capital intensive nature of operations. Furthermore, the ratings continue to be constrained by heightened regulatory scrutiny and dependence on regulated market along with intense competition from both MNCs and Indian companies, price regulations in emerging countries like India and exposure to foreign exchange fluctuation risk.

Rating Sensitivities

*Positive Factors*

- Resolution of ongoing regulatory issues on the Company's mfg units.
- Sustained ROCE of about 22%

*Negative Factors*

- Weakening of financial profile because of significant increase in working capital requirements and/or large debt-funded capex or acquisitions

**Detailed description of the key rating drivers**

***Key Rating Strengths***

**Strong business profile backed by presence across multiple therapeutic segments and largely integrated operations:** Over the years IPCA has come long way from being an anti-malarial player to player catering to multiple therapeutic segments. IPCA is a strongly positioned in therapies like Pain, Rheumatology, Antimalarials and Hair care therapy in India.
The company's revenues are geographically well diversified with nearly half of its revenues coming from exports. Even within exports, the Company sells to both regulated and non regulated markets, with sales to Europe being the highest at 30% in FY20.
Formulations continue to contribute larger portion of the revenues at 73% (PY:75% )with balance contributed by API's and Intermediates in FY20. Domestic formulations constituted 61 % of total formulations business and grew by 16% in FY20 while balance came from exports formulations that grew by 17% in FY20. Within the domestic formulation business, the product portfolio is well diversified with the top 10 drugs contributing to ~ 56% of the total domestic formulation revenue. Pain management constitutes ~ 47% of its domestic sales while anti diabetics constitute the maximum share of around 30% of its exports. The Active Pharamceutical Ingredients (APIs) business grew by 33% in FY20.
Being a panel supplier for Global Fund for its anti-malarial medicines, IPCA also earned a revenue of Rs. 170 crores in H1FY21.

**Experienced management with long track record in the pharmaceutical industry**: IPCA is promoted by Mr Premchand Godha, (Chairman and Managing Director) having experience of over five decades in pharmaceutical industry. The day-to-day operations of the company are managed by a team of qualified and experienced management spearheaded by Mr Ajit Kumar Jain (Joint Managing Director) having more than 30 years of experience in similar line of business. The Board is ably supported by qualified and professional senior management team heading various verticals with adequate and relevant experience in their respective fields.

**Accredited manufacturing facilities with R&D focus approach:** The company has 17 manufacturing plants across India which have accreditations from agencies such as UK's Medicine and Healthcare Products Regulatory Agency (MHRA), World Health Organization (WHO), European Directorate for the Quality of Medicines (EDQM), India's Central Drugs Standard Control

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Organization along with several country wise regulatory approvals. The wide infrastructure of the company is well served with large pool of Intellectual Property knowhow supported by large team of in-house scientists. The R&D expenditure of the company during FY 20 was Rs.101.04 crores (2.35% of total turnover) as against Rs.89.35 crore (2.50% of the turnover) in FY 19.

**Comfortable financial risk profile**

Revenues grew by 23% in FY 20 backed by strong growth in both API and formulations market. PBILDT margins also improved to 21.78% in FY 20 as against 19.71% in FY19. The cost of sales has come down to 78% in FY 20 from ~ 80% in FY 19. This has been a result of growth in sales and increased operational efficiencies. Consequently, PAT margin also improved from 12.37% in FY19 to 14.76% in FY20. PBILDT margins further improved to 34.69% in H1FY21 as against 21.72% in H1 FY20 led by increase in sales of hydroxychloroquine sulphate used in the treatment of Covid-19 in both domestic and export markets during Q1FY21 as well as reduction in operating expenses. Other than antimalarial and antibacterial business, all other business segments showed recovery in demand.

IPCA's capital structure continues to remain healthy with overall gearing at 0.14x as on March 31, 2020 vis-à-vis 0.16x as on March 31, 2019 mainly due to accretion to reserves and repayment of term loan as per schedule. The company continues to post strong cash profits and cash flow from operations consequent into comfortable total debt/PBILDT and total debt/GCA which improved to 0.55x and 0.63x respectively as on March 31, 2020 from 0.70x and 0.83x respectively as on March 31, 2019. Interest coverage improved from 37x in FY 19 from 51x in FY 20 mainly due to strong cash profits.

***Key Rating Weaknesses***

**Working capital intensive nature of operations:** The operating cycle elongated further to 144 days mainly due to high inventory holding of 135 days as the company is required to maintain substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. Besides, collection period was stable at 61 days in FY20 (62 days in FY 19 and 62 days in FY18). However working capital requirements are adequately funded by internal accruals and trade payables. As a result, average working capital utilization stands comfortable at 41% for last 12 months ended December 2020.

As on September 30, 2020; 18% of the receivables continued to remain outstanding for more than 90 days.

**Regulatory risk:** IPCA has its presence in multiple countries across the world. Considering, the nature of the product usage and application, and consequent impacts, IPCA is required to comply with various laws, rules and regulations and operate under strict regulatory environment. Thus, infringement in any of the law, and any significant adverse change in the import/export policy or environmental/regulatory policies in the area of operations of the company, can have a serious consequence on the operations of the company. Nevertheless, the company is continuously taking adequate steps to address the regulatory risks.

**Ongoing Regulatory overhang:** The Company's formulations manufacturing sites at Silvassa and SEZ Indore and APIs manufacturing site at Ratlam continue to be under US FDA import alert. However, in March 2020, following drug shortages due to Covid 19 the US FDA gave exemption from import alert to APIs Chloroquine Phosphate and Hydroxycholoroquine Sulphate manufactured at the Company's Ratlam APIs manufacturing site and formulations of Hydroxychloroquine Sulphate manufactured at Company's SEZ Indore and Piparia (Silvassa) manufacturing sites.

In August 2019 the US FDA inspected the Company's formulations manufacturing unit situated at Piparia (Silvassa). This inspection resulted into issue of 3 observations in Form 483 by US FDA. The Company has responded to these observations and is awaiting re-inspection by US FDA of its other two manufacturing facilities which are under import alert. Currently the Company has no business in USA and therefore current operations remain unaffected from the outcome of the said inspections .Timely resolution of the regulatory issue and consequent revival of operations remain a key credit monitorable.

**Increasing pricing pressures and prevailing intense competition in the global generics market:** IPCA faces competition and pricing pressure in the global generics market. Globally, the generic players are facing severe price erosions, significant government pressures to reduce prices along with increasing competition, increasing regulation and increased sensitivity towards product performance. Sales under the National List of Essential Medicines (NLEM) were about 24.0% in FY20 from 23%in FY19.

**Foreign exchange fluctuation risk:** Around 50% of the revenue is earned in foreign currency mainly denominated in USD (US Dollar), Pound Sterling and Euro and exposure towards the same is hedged on net basis. The company keeps its borrowings in foreign currency exposure open and to that extent is exposed to the currency fluctuation risks. However, there is a partial natural hedge available as company's receivables and borrowings are in US Dollars which partially mitigates the risk.

**Industry Outlook**

With unlocking of economy and announcement of various unlock guidelines, the patient footfalls are gaining traction in healthcare units as demand from non-Covid-19 patients is gathering pace. Also, hospitals and patients are adapting themselves to the Covid-19 environment and social distancing norms. Thus the operations of healthcare industry are estimated to return to normal levels only from Q3FY21 onwards which is expected to augur well for the Indian pharma industry as it will result in higher prescription of medicines from hospitals, clinics, OPD centres, local clinics and doctors. However, we might not see operations at pre-Covid level rates in the current quarter for all the areas of ailments primarily non-high priority treatments (dermatology, orthopaedic etc.) which, in turn, will restrict prescription of these drugs. It is to be noted that the e-consultations and other home care services will provide support to the pharma industry.

In addition to this, the industry will continue to see demand from the domestic as well as international markets for some of the antivirals, antimalarials and antibiotics given the spread of Covid-19. Moreover, the demand for Indian drugs in the international market will be supported by new product launches thereby aiding the Indian pharma exports. Thus, the demand for drugs is expected to remain steady to a large extent. However, the industry is likely to face delay in product launches and clinical trials given the current scenario. Besides, Covid-19 has also led to deferment of physical inspections by the USFDA which has delayed in commencement of the pharma units and also launch of products.
For the year FY21, the overall Indian pharma industry is expected to increase in the range of 9%-10% backed by an estimated domestic growth of about 7% and around 12%-13% rise in pharma exports.

**Liquidity: Strong**
Liquidity is marked by strong accruals; and liquid investments to the tune of Rs.787 crore as at December 31, 2020. IPCA expects capex of Rs.275 crores in FY 21 and Rs 513 crs in FY22, to be funded entirely by internal accruals. IPCA also has repayments of Rs.68.25 crores of which it has repaid Rs.61 crores till December 2020. Its unutilized bank lines (at an average of 40-45% ending August 2020) and comfortable gearing at 0.14x add to its financial flexibility.

**Analytical approach:** Standalone
**Applicable Criteria**
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Criteria for Short Term Instruments
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Financial ratios – Non-Financial Sector
Rating Methodology – Pharmaceutical Sector
Rating Methodology - Manufacturing Companies

**About the Company**
Ipca Laboratories Limited (Ipca) was founded by a group of businessmen and medical professionals in 1949. In 1975, Mr Premchand Godha along with two other co-promoters took over the management of IPCA. It is a fully integrated indian pharmaceutical company manufacturing over 350 formulations (73% of revenues) and 80 active pharmaceutical ingredients (APIs, 27% of revenues) with exports contributing 48% of revenues. It manufactures formulations (which include oral liquids, tablets, dry powders, capsules, etc.), APIs and drug intermediates. Major therapeutic segments include cardiovasculars and anti-diabetics, pain management, anti-malarials, etc. with about 75% of the revenues contributed by these three therapeutic segments.

| Brief Financials (Rs. crore) | FY19(A) | FY20(A) |
|---|---|---|
| Total operating income | 3677.52 | 4419.61 |
| PBILDT | 724.73 | 953.68 |
| PAT | 454.91 | 652.46 |
| Overall gearing (times) | 0.14 | 0.13 |
| Interest coverage (times) | 28.51 | 41.14 |

*A: Audited*
**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based/Non-fund-based-LT/ST | - | - | - | 1140.00 | CARE AA; Stable / 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. | Fund-based/Non-fund-based-LT/ST | LT/ST | 1140.00 | CARE AA; Stable / CARE A1+ | - | 1)CARE AA; Stable / CARE A1+ (18-Dec-19) | 1)CARE AA; Stable / CARE A1+ (27-Nov-18) | 1)CARE AA; Stable / CARE A1+ (22-Mar-18)<br>2)CARE AA; Stable / CARE A1+ (26-Apr-17) |

**Annexure 3: Complexity level of various instruments rated for this Company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based/Non-fund-based-LT/ST | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**
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