

## Cipla Limited

January 07, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities (Fund-based)	3,002.00 (enhanced from 2922.00)	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
Short-term Bank Facilities (Non-fund-based)	90.00 (reduced from 170.00)	<b>CARE A1+ (A One Plus)</b>	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>3,092.00 (Rupees Three thousand and Ninety Two crore only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bank facilities of Cipla Limited (Cipla) continues to derive strength from the company's reputed brand, having global presence and dominant market position in the domestic pharmaceutical industry, well-established and experienced promoters, 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.

The rating is however tempered by the NPPA issue overhang, risk arising from acquisitions and regulatory risks inherent in the industry.

#### Rating Sensitivities

##### *Negative Factors*

- Decline in operating profitability to below 15%
- 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 as reflected in 61% of consolidated net revenue being contributed through sales outside India in FY19 (vis-à-vis 61% in FY18). The company has a diverse range of more than 1,500 products (with more than 50 dosage forms).

As on September 2019, the company had 63 under approval ANDAs (Abbreviated New Drug Applications). The approvals for the above filings are expected from FY20 onwards, thus, providing medium to long term revenue visibility for the company.

##### **Diversified geographical as well as manufacturing presence**

The company has 46 manufacturing facilities with presence in over 80 markets. The company has a diversified product portfolio and leadership in domestic segments including in respiratory, anti-infective, cardiac, gynecology and gastro-intestinal 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.

<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**

The company reported a consolidated total operating income of Rs.16,362 crore in FY19 (vis-à-vis Rs.15219 in FY18) at a CAGR of 10% during FY15-FY19 on the back of successful product launches and global partnerships. In line with growth in topline, favourable product and geography mix resulted in improvement in PBILDT margins and subsequent improvement in PAT margins.

Cipla has a consolidated total debt of Rs. 4316 crores primarily due to the debt funded acquisitions of Invagen US and Mirren South Africa. The borrowings of Invagen are guaranteed by Cipla. On a consolidated basis, Cipla has an overall gearing of 0.40x as on March 31, 2019 as against 0.41x as on March 31, 2018. Interest coverage reduced from 25.4x in FY 18 to 19.8x in FY 19 owing to higher interest costs in FY19. However the debt coverage indicators still remain comfortable.

The operating cycle has stretched from 135 days in FY 18 to 147 days in FY 19 owing to increased debtors. The outstanding receivables as on March 31, 2019 were Rs. 4150.72 crores (as against Rs. 3102.45 crores as on March 31, 2018). This has come down to Rs. 3919.68 crores as on September 30, 2019.

**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. In an earlier order, the Hon'ble Supreme Court has already restrained the Government from taking any coercive action against the company. Although the recent decision of the Supreme Court dated October 21, 2016, referred above was in favor of the Government, basis the facts and legal advice on the matter with the Bombay High Court, no provision was made by the company in respect of the notices of demand received till date aggregating to Rs.1,736 crore. In case of materialization of the liability, the same is not expected to critically impact the liquidity profile of the company, in view of the strong cash accruals and sufficient cash and cash equivalents maintained by the company. However, any significant increase in the amount of the liability will remain a key rating monitorable.

**Regulatory risks**

Cipla sells its products in more than 80 countries 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 manufacturing/marketing of various drugs. Hence, the company is required to comply with various laws, rules and regulations and operate under strict regulatory environment in India and abroad considering the nature of business. The USFDA conducted an inspection at Cipla's (CIPLA) Goa formulation site from 16- 27th Sep'19 and issued a form 483 with 12 observations. The Goa plant contributes less than 2.5% of the Company's sales as a single source facility.

The regulatory risks have emerged as a significant risk factor affecting the financial and credit risk profile of the company and can have a serious consequence on the operations, in case, of any infringement of any law.

**Acquisitions risk**

Cipla has been actively acquiring assets to grow inorganically and strengthen its market position. In FY 19, Cipla's total cash outflow was ~ Rs. 500 crore in acquisitions of Mirren Proprietary Ltd, South Africa and Avenue Therapeutics Inc, US. The total outflow towards acquisitions in FY 20 so far has been ~Rs. 77 crore. Any large debt-funded capex or acquisitions may adversely affect the capital structure and 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.1765 crore as on September 30, 2019. Besides, the company continues to report healthy gross cash accruals of over Rs. 2,000 crores per annum. The Company's working capital utilization is low and further adds to its financial flexibility. The Company has prepaid Rs. 756 crores in September 2019 a year ahead of schedule.

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

### 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 36.68% equity stake in the company as on September 30, 2019. The company is engaged in manufacturing of Formulations and Active Pharmaceutical Ingredients (APIs); with over 90% of sales being contributed from formulation segment in FY19 (refers to the period April 1 to March 31).

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. The company commenced exporting products in 1964 and currently, has presence in more than 80 markets across the globe. Cipla has 46 state-of-the-art manufacturing facilities for API and formulations in various countries. In India they have facilities across the states of Maharashtra, Goa, Madhya Pradesh, Karnataka, Himachal Pradesh and Sikkim. The major markets that Cipla serves are India, South Africa, USA, Uganda, Middle East, Europe, Sri Lanka and Australia. The company's manufacturing facilities have approvals from all the major regulators including India's Central Drugs Standard Control Organisation, USA's Food and Drug Administration (FDA), UK's Medicines and Healthcare Products Regulatory Agency (MHRA), World Health Organisation (WHO), South Africa's Medicines Control Council (MCC) and Brazil's National Health Surveillance Agency (ANVISA).

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	15,226.30	16,604.84
PBILDT	2,896.97	3339.73
PAT	1,416.57	1,492.44
Overall gearing (times)	0.41	0.40
Interest coverage (times)	25.36	19.82

A=Audited

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

**Any other information: Not Applicable**

### 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
Non-fund-based - ST-BG/LC	-	-	-	90.00	CARE A1+
Fund-based - ST-EPC/PSC	-	-	-	3002.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - ST-BG/LC	ST	90.00	CARE A1+	1)CARE A1+ (30-Apr-19) 2)CARE A1+ (02-Apr-19)	-	1)CARE A1+ (30-Mar-18) 2)CARE A1+ (11-May-17)	1)CARE A1+ (16-Mar-17)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (16-Mar-17)
3.	Fund-based - ST-EPC/PSC	ST	3002.00	CARE A1+	1)CARE A1+ (30-Apr-19) 2)CARE A1+ (02-Apr-19)	-	1)CARE A1+ (30-Mar-18) 2)CARE A1+ (11-May-17)	1)CARE A1+ (16-Mar-17)
4.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	1)Withdrawn (11-May-17)	-
5.	Fund-based - ST-EPC/PSC	ST	-	-	-	-	1)Withdrawn (11-May-17)	-

## Annexure 3:-Entities being consolidated

Sr. No.	Subsidiaries	Holding
1.	Goldencross Pharma Pvt. Ltd.	100%
2.	Cipla (Mauritius) Ltd.	100%
3.	Meditab Specialities Pvt. Ltd.	100%
4.	Cipla Medpro South Africa (Pty) Ltd.	100%
5.	Cipla Holding B.V.	100%
6.	Cipla BioTec Pvt. Ltd.	100%
7.	Cipla (EU) Ltd.	100%
8.	Saba Investment Ltd.	51%
9.	Jay Precision Pharmaceuticals Pvt.	60%
10.	Cipla Health Ltd.	73.84%
11.	Medispray Laboratories Pvt. Ltd.	100%
12.	Sitec Labs Pvt. Ltd.	100%
13.	Cipla (UK) Ltd.	100%
14.	Cipla Australia Pty. Ltd.	100%
15.	Meditab Holdings Ltd.	100%
16.	Cipla İlaç Ticaret Anonim Şirketi	100%
17.	Cipla USA Inc.	100%
18.	Cipla Kenya Ltd.	100%
19.	Cipla Malaysia Sdn. Bhd.	100%
20.	Cipla Europe NV,	100%
21.	Cipla Quality Chemical Industries	51.18%
22.	Inyanga Trading 386 Proprietary	100%

Sr. No.	Subsidiaries	Holding
23.	Cipla Medpro Holdings Proprietary	100%
24.	Cape to Cairo Exports Proprietary	100%
25.	Cipla Dibcare Proprietary Ltd.	100%
26.	Cipla Life Sciences Proprietary Ltd.	100%
27.	Cipla-Medpro Proprietary Ltd.	100%
28.	Cipla-Medpro Distribution Centre	100%
29.	Cipla Medpro Botswana	100%
30.	Cipla Nutrition Proprietary Ltd.	100%
31.	Medpro Pharmaceutica Proprietary Ltd	100%
32.	Breathe Free Lanka (Private) Ltd.	100%
33.	Medica Pharmaceutical Industries Company Ltd.	50.49%
34.	Cipla Pharma Lanka (Private) Ltd.	60%
35.	Cipla Brasil Importadora E	100%
36.	Cipla Maroc S.A.	60%
37.	Cipla Middle East Pharmaceuticals	51%
38.	Quality Chemicals Limited	51%
39.	Cipla Philippines Inc.	100%
40.	InvaGen Pharmaceuticals Inc.	100%
41.	Exelan Pharmaceuticals Inc.	100%
42.	Cipla BioTec South Africa (Pty)	100%
43.	CIPLA Algérie	40%
44.	Anmaraté (Pty) Limited	100%
45.	Cipla Technologies LLC, USA	100%
46.	Cipla Gulf FZ-LLC	100%
47.	Mirren Proprietary Limited	100%
48.	Madison Pharmaceuticals Inc.	100%
	<b>Others</b>	
49.	Cipla Employee Stock option Trust	100%
50.	Cipla Health Employee Stock option trust	100%
	<b>Associates</b>	
51.	Stempeutics Research Pvt. Ltd.	48.99%
52.	Avenue Therapeutics Inc	33.30%

**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](http://www.careratings.com). 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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