Cipla Limited

March 30, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Short-term Bank Facilities (Fund-based)	3,192.00	**CARE A1+ (A One Plus)**	Reaffirmed
Short-term Bank Facilities (Non-fund-based)	58.41	**CARE A1+ (A One Plus)**	Reaffirmed
Total Facilities	**3,250.41 (Rupees Three Thousand Two Hundred Fifty crore and Forty One lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The 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. The ratings also positively factor synergies derived from various partnerships/acquisitions and a strong product pipeline. Cipla has also consistently exhibited a strong financial risk profile with robust revenue growth, comfortable capital structure and debt coverage indicators.

The ratings also factor in the synergies derived from two major USA-based acquisitions by Cipla for USD 550 million (approximately Rs.3,659 crore), expected to provide Cipla with a manufacturing footprint and access to a strong customer base and product pipeline in the USA market in future. Though the acquisitions are majorly debt funded, the debt raised does not significantly impact the credit profile of Cipla.

Any further large debt-funded capital expenditure or acquisition, potential liability arising from pending litigation with National Pharmaceutical Pricing Authority, and any adverse impact on account of regulatory changes are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Reputed brand with leading market position supported by robust pipeline: Cipla is the third largest Pharmaceutical company in India, fourth largest in South Africa (by market share), ninth largest in total prescriptions (TRx) amongst all generic drug companies in the USA (as per IMS MAT March 2017), and has a widespread presence across the globe through various subsidiaries/associates as reflected in around 62% of consolidated net revenue being contributed through sales outside India in FY17 (vis-à-vis 60% in FY16).

Cipla was one of the first Indian pharmaceutical companies to develop and manufacture APIs; the key raw material for manufacturing drugs. In API, Cipla has a portfolio of around 200 generic and complex products and has key strategic alliances in place with more than 300 global partners to support the development of new entities as an additional focus area. In respiratory (which contributed about 19% to consolidated revenue in FY17), Cipla has delivered treatments for chronic obstructive airway diseases through innovative delivery mechanisms for over 30 years and is one of the leading suppliers of inhaled medications and devices. Cipla Global Access is a tender based institutional business concentrating on four key therapy areas: HIV/ AIDS, malaria, multi drug-resistant tuberculosis and reproductive health.

Diversified geographical as well as manufacturing presence: The Company has 43 manufacturing facilities with presence in over 80 countries. Also, for majority of export market Cipla follows a low-risk model where the partner is responsible for regulatory filings, litigations, marketing and distribution while Cipla contributes in the form of product development and manufacturing. Through this model Cipla plans to reduce the legal risk and avoid capital cost of establishing its own manufacturing facilities in these geographies. The company has a diversified product portfolio and leadership in domestic segments including in respiratory, anti-infective, cardiac, gynaecology and gastro-intestinal therapies; considerable

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

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.

Robust operating profile: On a consolidated level, Cipla reported a total operating income of Rs.14,421 crore in FY17 (vis-à-vis Rs.13,714 crore in FY16) at robust CAGR of 15.3% during FY13-FY17 on the back of successful product launches and global partnerships. However, owing to change in product mix, higher investments in R&D, increased expenses being incurred due to shift to a mix of front end selling and partnership model from existing B2B model for de-risking business in countries including North America, Europe and Africa, ongoing complexity reduction initiatives and supply constraint owing to manufacturing capacity bottleneck in FY16 (in Europe, part of South African market and other developing countries), Cipla's PBILDT margin declined to 17.49% in FY17 (vis-à-vis 18.96% in FY16). In the past, Cipla has focused on formulation sales in the unregulated markets of India, Middle East, Africa and Eastern Europe and CIS countries. The margins of Cipla are more dependent on Indian markets and the growth of business of bulk drugs, which Cipla sells to other generic manufacturers. Subsequent to decline in PBILDT margin as well as higher depreciation expenses, PAT margins also marginally declined to 7.18% in FY17 from 10.09% in FY16. Furthermore, during 9MFY18, the company achieved a total operating income of Rs.11,839 crore (vis-à-vis Rs.11,254 crore during 9MFY17) lead by a strong Q3 due to key therapeutic areas outperforming the market in India (growth led by Cardiac, Anti-infective Respiratory and Derma Segments) and recording its highest ever quarterly sales in South Africa. Subsequently PBILDT margin also improved to 20.26% during 9MFY18 (vis-à-vis 18.17% during 9MFY17).

Strong financial risk profile with healthy liquidity: Despite debt funded acquisition of InvaGen and Exelan in FY16 (loans to the extent of Rs.3643 crore taken in wholly owned subsidiaries [wherein Cipla Limited has given a guarantee for repayment of Principal and Interest), Cipla's consolidated capital structure remained comfortable with long term debt-equity ratio marginally declining to 0.28x but overall gearing marginally improving to 0.32x as on March 31, 2017 (vis-à-vis 0.02x and 0.44x respectively as on March 31, 2016). Furthermore, its interest coverage ratio improved to 15.83x during FY17 (vis-à-vis 12.58x during FY16) while total debt/GCA remained stable at 2.56 times as on March 31, 2017 (vis-à-vis 2.61 times as on March 31, 2016). Interest coverage further improved to 28.72x with reduction in interest expenses during 9MFY18 (vis-à-vis 15.63x during 9MFY17).
Moreover Cipla has maintained a healthy liquidity profile with significant money market investments to the tune of Rs.837.39 crore and unencumbered cash balances of Rs.610.35 crore as on March 31, 2017 (vis-à-vis 582.34 crore and Rs.858.15 crore respectively as on March 31, 2016).

Landmark acquisitions to significantly improve manufacturing footprint and access to strong customer base in USA with marginal impact on the debt coverage indicators: In September 2015, the company through a 100% subsidiary (Cipla (EU) Limited), acquired US based InvaGen Pharmaceuticals Inc. (InvaGen) and Exelan Pharmaceuticals Inc. (Exelan) for an all cash consideration of USD 550 Million (Rs.3559.33 crore @ INR 64.72/USD). The transaction was completed by February 18, 2016 and was fully debt funded. The subsidiary tied up for a bridge loan of USD 550 Million in foreign currency and has converted the same to a long term loan of around 5 years (with repayments starting in September 2019) guaranteed by Cipla in H1FY17. There is a natural hedge expected for managing foreign currency fluctuation risk during tenure of loan since majority of income in the company is from operations outside India i.e. in foreign currency.

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.1,769 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 (Rs.916.72 crore including unquoted investments of Rs.580.56 crore as on March 31, 2016). However, any significant increase in the amount of the liability will remain a key rating monitorable.

Analytical approach:
CARE has analyzed Cipla's credit profile by considering the consolidated financial statements of the company owing to financial and operational linkages between the parent and subsidiaries.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Methodology for Short Term Ratings
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Rating Methodology-Pharmaceutical Sector
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 37.24% equity stake in the company as on December 31, 2017. The company is engaged in manufacturing of Formulations and Active Pharmaceutical Ingredients (APIs); with over 90% of sales being contributed from formulation segment in FY17 (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 150 countries across the globe (spread in 5 continents). Cipla also undertakes manufacturing/marketing outside India of various drug products through in-licensing agreements with 180 global partners. 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).

In September 2015, the company signed definitive agreements to acquire two US based companies, InvaGen Pharmaceuticals Inc. and Exelan Pharmaceuticals Inc. for an all cash consideration of USD 550 Million (approximately Rs.3,659 crore) and the transaction was completed by mid of February 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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	-	-	-	170.00	CARE A1+
Fund-based - ST-EPC/PSC	-	-	-	3434.74	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Non-fund-based - ST-BG/LC	ST	170.00	CARE A1+	1)CARE A1+ (11-May-17)	1)CARE A1+ (16-Mar-17)	1)CARE A1+ (21-Jan-16)	1)CARE A1+ (06-Jan-15)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (16-Mar-17)	1)CARE AAA (21-Jan-16)	1)CARE AAA (06-Jan-15)
3.	Fund-based - ST-EPC/PSC	ST	3434.74	CARE A1+	1)CARE A1+ (11-May-17)	1)CARE A1+ (16-Mar-17)	1)CARE A1+ (21-Jan-16)	1)CARE A1+ (06-Jan-15)
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)	-	-	-

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