

## Cipla Limited

April 30, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Short-term Bank Facilities (Fund-based)	2,922.00 (reduced from Rs.3,222.00 crore)	CARE A1+ (A One Plus)	Reaffirmed
Short-term Bank Facilities (Non-fund-based)	170.00	CARE A1+ (A One Plus)	Reaffirmed
<b>Total Facilities</b>	<b>3,092.00</b> <b>(Rupees Three thousand Ninety Two crore only)</b>		

*Details of instruments/facilities in Anneuxre-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of 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. Cipla has also consistently exhibited a strong financial risk profile with revenue growth, comfortable capital structure, debt coverage indicators and strong liquidity profile.

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

### 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 the third largest Pharmaceutical companies in India, third largest in South Africa (by market share), is one of the top 10 in terms of total prescriptions (TRx) all generic drug companies in the USA (as per IMS MAT March 2018), 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 FY18 (vis-à-vis 59% in FY17). The company has a diverse range of more than 1,500 products (with more than 50 dosage forms).

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

The company has 44 manufacturing facilities with presence in over 80 countries and over 100 global partners. 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.

##### **Robust operating profile**

The company reported a total operating income of Rs.15,226 crore in FY18 (vis-à-vis Rs.14,421 crore in FY17) at robust CAGR of 12.46% during FY13-FY18 on the back of successful product launches and global partnerships. In line with growth in topline, favourable product and geography mix and focus on cost optimisation in procurement and manufacturing resulted in improvement in PBILDT margins. Subsequent to improved PBILDT margin as well as lower interest expense expenses, PAT margins improved to 9.30% in FY18 from 7.18% in FY17.

##### **Strong financial risk profile**

Cipla's consolidated capital structure remained comfortable with long term debt-equity ratio of 0.25x and overall gearing of 0.28x as on March 31, 2018 as against 0.28x of long term debt equity and 0.32x of overall gearing as on March 31,

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

2017. Furthermore, its interest coverage ratio improved to 25.36x during FY18 (vis-à-vis 15.83x during FY17) while total debt/GCA improved to 1.99 times as on March 31, 2018 (vis-à-vis 2.56 times as on March 31, 2017). However, led by higher interest cost and marginally lower profit the Interest coverage declined to 20.36x during 9MFY19 (vis-à-vis 32.74x during 9MFY18) but continued to remain at comfortable levels.

#### **Liquidity analysis**

Cipla's liquidity profile continued to remain healthy on the backdrop of significant money market investments to the tune of Rs.1102.21 crore and unencumbered cash balances of Rs.853.46 crore as on March 31, 2018 (vis-à-vis 837.39 crore and Rs.610.35 crore respectively as on March 31, 2017) and unutilized bank facilities. Besides the company continues to report a healthy gross cash accruals of about Rs.2,000 crores per annum.

#### **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.

##### **Heightening of 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 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.

#### **Analytical approach:**

For arriving at the ratings, CARE has considered the audited consolidated financial statements published in the annual report during FY18. Cipla has various subsidiaries and associates and joint ventures. 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. List of companies that are consolidated to arrive at the ratings are given in Annexure 3 below.

#### **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 36.70% equity stake in the company as on December 31, 2018. The company is engaged in manufacturing of Formulations and Active Pharmaceutical Ingredients (APIs); with over 90% of sales being contributed from formulation segment in FY18 (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 has 44 state-of-the-art manufacturing facilities for API and formulations across the states of Maharashtra, Goa, Madhya Pradesh, Karnataka, Himachal Pradesh and Sikkim. It 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.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	14,420.61	15,226.30
PBILDT	2,522.63	2,896.97
PAT	1,035.42	1,416.57
Overall gearing (times)	0.32	0.28
Interest coverage (times)	15.83	25.36

A=Audited, Note: Financials are classified as per CARE Standards

**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](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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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**About CARE Ratings:**

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CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

## 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	-	-	-	2922.00	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	170.00	CARE A1+	1)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	2922.00	CARE A1+	1)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: List of subsidiaries and joint venture companies

Sr. No.	Name and address of the Company	Holding/ Subsidiary/ Associate	% shares held
1	Cipla FZE	Subsidiary	100.00
2	Goldencross Pharma Pvt. Ltd.	Subsidiary	100.00
3	Cipla (Mauritius) Ltd.	Subsidiary	100.00
4	Meditab Specialities Pvt. Ltd.	Subsidiary	100.00
5	Cipla Medpro South Africa (Pty) Ltd.	Subsidiary	100.00
6	Cipla Holding B.V.	Subsidiary	100.00
7	Cipla BioTec Pvt. Ltd.	Subsidiary	100.00
8	Cipla (EU) Ltd.	Subsidiary	100.00
9	Saba Investment Ltd.	Subsidiary	51.00
10	Jay Precision Pharmaceuticals Pvt.	Subsidiary	60.00
11	Cipla Health Ltd.	Subsidiary	70.20
12	Medispray Laboratories Pvt. Ltd.	Subsidiary	100.00

13	Sitec Labs Pvt. Ltd.	Subsidiary	100.00
14	Cipla (UK) Ltd.	Subsidiary	100.00
15	Cipla Australia Pty. Ltd.	Subsidiary	100.00
16	Meditab Holdings Ltd.	Subsidiary	100.00
17	Cipla İlaç Ticaret Anonim Şirketi*	Subsidiary	100.00
18	Cipla USA Inc.	Subsidiary	100.00
19	Cipla Kenya Ltd.	Subsidiary	100.00
20	Cipla Malaysia Sdn. Bhd.	Subsidiary	100.00
21	Cipla Europe NV,	Subsidiary	100.00
22	Cipla Quality Chemical Industries	Subsidiary	51.05
23	Galilee Marketing Proprietary Ltd.	Subsidiary	100.00
24	Inyanga Trading 386 Proprietary	Subsidiary	100.00
25	Xeragen Laboratories Proprietary	Subsidiary	100.00
26	Cipla Medpro Holdings Proprietary	Subsidiary	100.00
27	Cape to Cairo Exports Proprietary	Subsidiary	100.00
28	Cipla Dibcare Proprietary Ltd.	Subsidiary	100.00
29	Cipla Life Sciences Proprietary Ltd.	Subsidiary	100.00
30	Cipla-Medpro Proprietary Ltd.	Subsidiary	100.00
31	Cipla-Medpro Distribution Centre	Subsidiary	100.00
32	Cipla Medpro Botswana	Subsidiary	100.00
33	Cipla Nutrition Proprietary Ltd.	Subsidiary	100.00
34	Medpro Pharmaceutica	Subsidiary	100.00
35	Med Man Care Proprietary Ltd.	Subsidiary	100.00
36	Breathe Free Lanka (Private) Ltd.	Subsidiary	100.00
37	Medica Pharmaceutical Industries Company Ltd.	Subsidiary	50.49
38	Cipla Pharma Lanka (Private) Ltd.	Subsidiary	60.00
39	Cipla Brasil Importadora E	Subsidiary	100.00
40	Cipla Maroc S.A.	Subsidiary	60.00
41	Cipla Middle East Pharmaceuticals	Subsidiary	51.00
42	Quality Chemicals Limited	Subsidiary	51.00
43	Cipla Philippines Inc.	Subsidiary	100.00
44	InvaGen Pharmaceuticals Inc.	Subsidiary	100.00
45	Exelan Pharmaceuticals Inc.	Subsidiary	100.00
46	Cipla BioTec South Africa (Pty)	Subsidiary	100.00
47	CIPLA Algérie	Subsidiary	40.00
48	Anmaraté (Pty) Limited	Subsidiary	100.00
49	Cipla Technologies LLC, USA	Subsidiary	100.00
50	Stempeutics Research Pvt. Ltd.	Associate	48.99

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