# Cipla Limited

May 11, 2017

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Short-term Bank Facilities (Fund-based) | 3,434.74 (Enhanced from Rs.2,957.00 crore) | **CARE A1+ (A One Plus)** | Reaffirmed |
| Short-term Bank Facilities (Fund-based) | - | **-** | Withdrawn |
| Short-term Bank Facilities (Non-fund-based) | 170.00 (Enhanced from Rs.50.00 crore) | **CARE A1+ (A One Plus)** | Reaffirmed |
| Short-term Bank Facilities (Non-fund-based) | - | **-** | Withdrawn |
| **Total Facilities** | **3,604.74 (Rupees Three thousand Six hundred and four crore and Seventy Four lakhs only)** | | |

*Details of instruments/facilities in Anneuxre-1*

## Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings 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 of Cipla 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.

CARE, has withdrawn the rating assigned to a portion of the short-term bank facilities (Fund-based and Non-fund based) of the company, with immediate effect, at the request of the company for withdrawal of rating assigned by CARE and on receipt of No Objection Certificate (NOC) from the lenders of the company.

## Detailed description of the key rating drivers

### Key Rating Strengths

**Reputed brand with leading market position supported by robust pipeline**

Cipla is one of the leading players in generic pharmaceutical business in India and South Africa, with a widespread presence across the globe through various subsidiaries/associates as reflected in around 40% of consolidated net sales being contributed through sales outside India in FY16 (refers to the period April 1 to March 31). The company has a diverse range of more than 1,500 products and 180 global partners. Cipla's products are currently aiding more than 1.70 million HIV patients, 55 million malaria patients and 0.30 million patients in the area of reproductive and women's health. Cipla has restructured its core business areas into strategic business units (SBUs) which are APIs, respiratory and Global Access enabling innovation and streamlining of global operations.

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

**Geographical as well as product diversification**

The company has presence in more than 150 countries with various manufacturing facilities in India and also undertakes manufacturing/marketing outside India of various drug products through in-licensing agreements/other partnerships agreements with 180 global partners. Also, for majority of exports 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. The company has a diversified product portfolio and leadership in domestic segments including in respiratory, anti-infective, cardiac, gynaecology and gastro-intestinal therapies and a 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 revenue growth**

Despite challenges faced in few geographies, the company reported a total operating income of Rs.13,781 crore in FY16 at robust CAGR of 17.18% during FY14-FY16 on the back of successful product launches and global partnerships. However, the PBILDT margin subdued in FY16 at 19.00% as compared with 19.74% in FY15 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). 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. However, the PAT margins increased to 11.29% in FY16 from 10.84% in FY15 on account of lower interest expenses on lower working capital utilization. Also, the acquisitions in FY16 are expected to be margin accretive in the future and profitability margins are expected to improve going forward.

**Strong financial risk profile**

During FY16, the internal accruals of the company and working capital bank borrowings funded increase in fixed assets and working capital operations. The overall gearing ratio of the company increased as compared with previous year at 0.43 times as on March 31, 2016, due to increase in debt for acquisition of two US-based companies, where bridge loans to the extent of Rs.3,653 crore were taken by the company's wholly-owned subsidiary in the UK, Cipla (EU) Ltd.. Cipla has given a guarantee to the bankers for repayment of principal and interest on this loan. There was an improvement in interest coverage ratio to 16.23 times in FY16 (13.30 in FY15), while total debt/GCA deteriorated to 2.39 times as on March 31, 2016 (1.01 times as on March 31, 2015) on account of increase in debt.

**Landmark acquisitions to significantly improve manufacturing footprint and access to strong customer base in USA with marginal impact on the debt coverage indicators**

In February 2016, the company through a 100% subsidiary (Cipla (EU) Limited), acquired two US based companies, InvaGen and Exelan for an all cash consideration of USD 550 mn (approximately Rs.3,659 crore). The transaction was completed on February 18, 2016 and was fully debt funded (debt in foreign currency). Through the acquisition of InvaGen and Exelan, Cipla has gained access to about 42 approved ANDAs, 32 marketed products, and 30 pipeline products which are expected to be approved over the next 4 years.

The above transaction has positively impacted for scaling operations of the company in USA market (contribution of 2% at Rs.266 crore to net sales and 5% of total PAT income in FY16); however the debt profile of the company has been marginally impacted since the transaction was fully debt funded. The overall gearing has deteriorated to 0.43 times as on March 31, 2016 from 0.16 times as on March 31, 2015.Nevertheless, the same continues to be at comfortable level.

**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 (CIN: L24239MH1935PLC002380) has more than eight decades of experience in pharmaceutical industry. The company was promoted by late Dr K. A. Hamied and is currently spearheaded by Dr Y. K. Hamied. As on December 31, 2016, the promoter group held 37.49% equity stake in the company. The company is engaged in manufacturing of formulations and active pharmaceutical ingredients (APIs).
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). The company's seven manufacturing facilities are spread across India and it also undertakes manufacturing/marketing outside India for various drug products through in-licensing agreements/partnerships 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), amongst others.
During February 2016, the company acquired two US-based companies, InvaGen Pharmaceuticals Inc. (InvaGen) and Exelan Pharmaceuticals Inc. (Exelan) for an all cash consideration of USD 550 million (approximately Rs.3,659 crore).
At a consolidated level, the profit after tax (PAT) of Cipla stood Rs.1,555 crore on total operating income of Rs.13,781 crore in FY16 vis-à-vis PAT of Rs.1,187 crore on total operating income of Rs.11,412 crore in FY15. Also, in 9MFY17 (unaudited), Cipla's PAT stood at Rs.1,131 crore on a total operating income of Rs.10,992 crore vis-à-vis PAT of Rs.1,477 crore on a total operating income of Rs.10,445 crore in 9MFY16 (unaudited).

**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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



**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+ |
| Non-fund-based - ST-BG/LC | - | - | - | 0.00 | Withdrawn |
| Fund-based - ST-EPC/PSC | - | - | - | 0.00 | Withdrawn |

**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+ (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+ (16-Mar-17) | 1)CARE A1+ (21-Jan-16) | 1)CARE A1+ (06-Jan-15) |

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