IPCA Laboratories Limited (Revised)

December 18, 2019

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 its Silvassa facility and ongoing regulatory overhang on two of the other 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

- Sustained improvement in operating profitability to over 22%, led by improved revenue profile and continued benefits of backward integration
- Sustained ROCE of about 18%

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. Therapeutic Segments such as Pain Management, Cardiovascular and Anti-Diabetics and Anti-Malarials together accounted for approximately 70% revenues which stood at Rs.3,338 crore during FY19. Formulations continue to contribute larger portion of the revenues at 75% (PY:76%)with balance 25% (PY: 24%) contributed by API's and Intermediates in FY19. Out of which, domestic formulations constituted 61 % of total formulations business and grew by 15% in FY19 while balance the 39% came from exports formulations that grew by 20% in FY19.

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 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 19 was Rs.89.35 crore (2.50% of total turnover) as against Rs.118.10 crore in FY 18 (3.73% of the turnover in FY18) .

Improvement in financial performance in FY 19 and H1 FY 20

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

Revenues grew by 14% in FY 19 backed by strong growth in both API and formulations market. PBILDT margins also improved to 18.78% in FY 19 as against 14.15% in FY18 vis-à-vis 14.08% in FY17. The cost of raw material as a percentage of revenues has come down to 80.5% in FY 19 from ~ 85% in FY 18. This has been a result of better product mix and operational efficiencies. Consequently, PAT margin also improved from 7.17% in FY18 to 11.61% in FY19.

Comfortable financial risk profile: Capital structure continues to remain healthy with overall gearing at 0.18x as on March 31, 2019 vis-à-vis 0.26x as on March 31, 2018 mainly due to accretion to reserves and schedules repayment of term loans. The company continues to post strong cash profits and cash flow from operations resulting in comfortable total debt/PBILDT and total debt/GCA which improved to 0.74x and 0.86x respectively as on March 31, 2019 from 1.41x and 1.64x respectively as on March 31, 2018. Interest coverage improved to 35x in FY 19 from 18x in FY 18 mainly due to strong cash profits. In H1 FY 20, the PBILDT interest coverage has further improved to 57x while PBILDT margins also improved further to 21.72%.

Commencement of orders from Global Fund

The USFDA issues led to a stoppage of procurement by Global Fund. Since then, there has been gradual improvement in revenue from this business, largely on the back of country-specific tenders. IPCA has been selected as the panel supplier for Anti-Malarial medicines to the Global Fund Pooled Procurement mechanism and for private sector co-payment mechanism for an initial period of three years in FY19. The institutional revenues stood at Rs. 165 crore in FY 19.Orders from Global Fund have begun to flow in and are expected to further add to sales.

Key Rating Weaknesses

Working capital intensive nature of operations: The operating cycle elongated to 134 days mainly due to high inventory holding of 127 days as the company is required to maintain substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. Besides, collection period stood at 62 days in FY19 (61 days in FY 18 and 54 days in FY17). However working capital requirements are adequately funded by internal accruals and trade payables. As a result, average working capital utilization stands comfortable at 45% for last 12 months ended October 2019.

As on September 30, 2019; 23% of the receivables continued to remain outstanding for more than 90 days.

Ongoing Regulatory overhang: In January 2016, Ipca received warning letters from the USFDA for three facilities on which the regulator had earlier issued an import alert for not adhering to Current Good Manufacturing Practice (CGMP) regulations. USFDA after inspections at Ipca's manufacturing units situated at Ratlam (MP), SEZ Indore Pithampur (MP) and Piparia (Silvassa, Dadra and Nagar Haveli) had issued Form 483 observations which subsequently resulted in issuance of import alert on these manufacturing units. The USFDA had imposed bans on three of Ipca's facilities on account of operational and procedural lapses, however as stated by the management, no deviation notices were issued in terms of quality of products and no products were required to be recalled. Ipca completed remediation for all three facilities viz. API facility in Ratlam and formulations facilities in Pithampur and Silvassa, and invited the US FDA for re-inspection. On reinspection, the Silvassa manufacturing facility has been classified as "Official Action Indicated (OAI)" by USFDA since; which means that this facility is considered to be in an unacceptable state of compliance with regards to current good manufacturing practice (CGMP). However, IPCA is awaiting response from US FDA for the other facilities. Timely resolution of the regulatory issue and consequent revival of operations remain a key credit monitorable.

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.

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.

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.

Liquidity: Strong

Liquidity is marked by strong accruals (Rs. 612 crore in FY 19) and liquid investments to the tune of Rs.293 crore as on September 2019. Against these, IPCA acquired Ramdev Chemicals for a cash consideration of Rs. 108 crores in April 2019. IPCA also has repayments of Rs.114.63 crores of which it has repaid Rs. 59.91 crores till September 2019.The Company is undertaking capex of Rs.270 crores in FY20 which is expected to be funded by internal accruals. Its unutilized bank lines (at an average of 45% ending September 2019) and comfortable gearing at 0.18x add to its financial flexibility.

Analytical approach: Standalone (CARE had changed the analytical approach from 'Consolidated' to 'Standalone' on account of change in criteria for consolidating foreign subsidiaries)

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
Financial ratios-Non-Financial Sector

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 (76% of revenues) and 80 active pharmaceutical ingredients (APIs, 24% of revenues) with exports contributing nearly 50% 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)	FY18 (A)	FY19(A)
Total operating income	3277.66	3668.47
PBILDT	461.64	715.68
PAT	233.11	454.91
Overall gearing (times)	0.25	0.16
Interest coverage (times)	17.60	36.91

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 Facilities

Name of the Facility	ISIN	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	NA	NA	NA	NA	1140.0	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 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.	Fund-based/Non-fund-based-LT/ST	LT/ST	1140.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (27-Nov-18)	1)CARE AA; Stable / CARE A1+ (22-Mar-18) 2)CARE AA; Stable / CARE A1+ (26-Apr-17)	-

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.*

Contact us

Media Contact

Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Pulkit Agrawal
Contact no. - 022-67543505
Email ID- pulkit.agrawal@careratings.com

Relationship Contact

Mr. Ankur Sachdeva
Contact no. – +91-22-6754 3495
Email ID: ankur.sachdeva@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.

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