IPCA Laboratories Limited

March 22,2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term/Short Term Bank Facilities (Fund Based/Non-fund Based)	1,140.00	CARE AA; Stable/CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Total Facilities	**1,140.00 (Rs. One hundred forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Reaffirmation of ratings assigned to the bank facilities of IPCA Laboratories Limited (Ipca) continue to derive strength from strong business profile of the company backed by diversified product portfolio with backward integrated operations, geographic diversified profile and comfortable financial risk profile.

The rating positively factors long track record and experience of promoter in pharmaceutical industry. The Rating also takes cognizance of bouquet of well- established brands catering to multiple therapeutic segments, accredited manufacturing facilities with well-equipped R&D facilities and well-established marketing network.

The aforementioned strengths are however partially offset by ongoing regulatory overhang on three of the manufacturing facilities impacting the overall scale of operations and operating profitability of the company. Additionally, the rating is also constrained by working capital intensive nature of operations, heightened regulatory scrutiny, 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.

Ability of the company to achieve envisaged level of profitability and effectively manage working capital cycle amidst the regulatory changes and foreign currency fluctuations would remain key rating sensitivities. Furthermore, any significant delay in resolution of pending USFDA regulatory issues remains key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with long track record in the pharmaceutical industry: Company has successful track record of around six decades in the Pharmaceutical business. 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. Board is ably supported by qualified and professional senior management team heading various verticals with adequate and relevant experience in their respective fields.

Diversified product portfolio with established brands spread across multiple therapeutic segments: 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 Non-Steroidal Anti-Inflammatory Drugs (NSAID) Cardiovasculars & Anti-Diabetics and Anti-Malarials togather accounted for ~75% revenue. Overall 70% of the revenue was derived from Formulations and balance from APIs. Exports formulations (~31% of turnover) have growth at 6.3% CAGR in FY11-17. During FY17, the APIs and Intermediates business grew ~8% YoY to Rs. 710 crore. Nearly 80% of the revenue from this segment is from exports. The

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

Company exports its APIs across the globe. Most of the international clientele in this segment are formulations manufacturers including several multinational companies.

Accredited manufacturing facilities with R&D focus approach: Company has 17 manufacturing plants. The company's manufacturing facilities have accreditations from major accrediting agencies of the world including India's Central Drugs Standard Control Organization, UK's Medicines and Healthcare Products Regulatory Agency (MHRA), World Health Organization (WHO), European Directorate for the Quality of Medicines (EDQM) 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. Besides, Ipca has R&D centers at Mumbai, Ratlam, Athal and Ranu. The R&D expenditure of the company during FY17 was Rs.125.67 crore (4.06% of the turnover).

Moderate growth in revenue and improvement in profitability margins: Operating revenue of the company grew 10% YoY to Rs3,249 crore led by growth in the export formulation segment. Company's generic formulations business in the European market also suffered due to Brexit and resultant significant currency fluctuations. Nevertheless, PBILDT margins still improved by 4% on account of factors such as better product mix with improved realizations and rationalization of expenses. Going forwards company's profitability is expected to increase led by contribution from institutional sales, lower remediation costs and continues impetus on cost rationalization efforts. *Going forward, sustaining growth in revenues and profitability margins backed by new product launches and increasing penetration in various geographies amidst increasing competition would be rating monitorable*.

Comfortable financial risk profile albeit working capital intensive nature of operations: Company's capital structure continued to remain healthy with overall gearing ratio of the company at 0.22x as on March 31, 2017. Overall operating cycle remained elongated due to stretched Inventory holding (123 days in FY17). Company is required to maintain substantial inventory level to ensure adequate supply requirements of the diverse geographical regions. Interest coverage and Total Debt to Gross Cash Accruals (TD/GCA) continued to remain comfortable at 17.65x and 1.97x respectively. *In absence of any large debt-funded capex and steady accruals, the financial risk profile is expected to remain strong over the medium term.*

Re-qualification for the Global Fund tender: In April 2016, the Global Fund, Geneva which is responsible for providing financial aid to various diseases restrained from allocating any volume of Artemisinin-based Combination Therapy (ACTs) drugs to the company on account of warning letters being issued by US FDA to the company. IPCA had taken remedial measures to correct procedural lapses and consequently in November 2017, IPCA was selected by the Global Fund as their panel supplier of anti-malarial medicines for a period of three years.

Key Rating Weaknesses

Ongoing Regulatory overhang: In January 2016, Ipca received warning letters from the US FDA for three facilities on which the regulator had earlier imposed an import ban for not adhering to Current Good Manufacturing Practice (cGMP) regulations. The USFDA had imposed import alert on three of Ipca's facilities on account of procedural lapses (while no deviation notices were issued in terms of quality of products and no products were required to be recalled). At present, Ipca has completed remediation for all three facilities viz. API facility in Ratlam and formulations facilities in Pithampur and Silvassa, and has invited the US FDA for re-inspection. *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 intense 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 intense increasing competition, increasing regulation and increased sensitivity towards product performance.

Foreign exchange fluctuation risk: On consolidated basis, the company is an export oriented company with around 50% of its overall revenues is earned in foreign currency mainly denominated in USD (US Dollar), Pound Sterling and Euro and exposure towards the same is hedged regularly .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.

Intense competition from both MNCs and Indian companies in India and abroad: The company faces intense competition in the domestic as well as regulated markets that it operates in. Pricing pressure, increasing regulation, increased sensitivity towards product performance are the key issues in the pharmaceutical industry.

Analytical approach:
CARE has analysed Ipca'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

Criteria for Short Term Instruments

Rating Methodology: Factoring Linkages in Ratings

Rating Methodology - Manufacturing Companies

Rating Methodology - Pharmaceutical 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 alongwith two other co-promoters took over the management of IPCA. It is a fully integrated Indian pharmaceutical company manufacturing over 350 formulations and 80 Active Pharmaceutical Ingredients (APIs) for various therapeutic segments. It manufactures Formulations, APIs and Drug intermediates. It produces formulations that include oral liquids, tablets, dry powders, and capsules. Its product range includes pain management, cardiovascular, antimalarial, antiemetic, antibiotic, analgesic, antidiabetic medicines and formulations for cough and cold therapy, skin problems, and problems with the central nervous system. The company is one of India's largest suppliers of bulk drugs, such as atenolol (antihypertensive), chloroquine and artemisinin derivatives (antimalarial), furosemide (diuretic), and pyrantel salts (anthelmintic).

Consolidated Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	2,954	3,249
PBILDT	304	457
PAT	93	195
Overall gearing (times)	0.39	0.31
Interest coverage (times)	8.80	17.65

A: Audited

Status of non-cooperation with previous CRA: None

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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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
Fund-based/Non-fund-based-LT/ST	-	-	-	1140.00	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 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.	Fund-based/Non-fund-based-LT/ST	LT/ST	1140.00	CARE AA; Stable / CARE A1+	1)CARE AA; Stable / CARE A1+ (26-Apr-17)	-	-	-

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