Ipca Laboratories Limited

November 27, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	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 (Rupees One Thousand One Hundred and Forty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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, comfortable 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, geographic diversified profile and steady operational profile.
The aforementioned strengths are, however, partially offset by ongoing regulatory overhang on three of the manufacturing facilities impacting business operations as well as profitability 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.
Ability of the company to achieve envisaged level of profitability and effectively effective management of working capital cycle remains 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

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 Non-Steroidal Anti-Inflammatory Drugs (NSAID) Cardiovascular and Anti-Diabetics and Anti-Malarials together accounted for approximately 70% revenues which stood at Rs.3,338 crore. Formulations continue to contribute larger portion of the revenues at 76% with balance 24% contributed by API's and Intermediates. Out of which, domestic formulations continue to be at 60% in FY18 (refers to the period April 01 to March 31), while balance 40% coming from exports formulations which remained flat in FY18.

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. 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.

Steady operational performance with stable profitability margins: The total operating income remained stable at Rs.3,338 crore in FY18 (as against Rs.3,249 crore in FY17). The company's generic formulations business in the European market also suffered due to regulatory imposition against one of the company's major customer in UK. Nevertheless, PBILDT margins remained stable at 14.15% in FY18 vis-à-vis 14.08% in FY17. Consequently, PAT margin also improved by 117 bps from 6.00% in FY17 to 7.17% in FY18.
The total income increased by about 18% from Rs.1594 crore in H1FY18 to Rs.1879 crore in H1FY19. Similarly, PAT also more than doubled during the same period from Rs.76 crore to Rs.185 crore.

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

Comfortable financial risk profile: Capital structure continues to remain healthy with marginally improving trend at 0.26x as on March 31, 2018 vis-à-vis 0.31x as on March 31, 2017 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 consequent into comfortable total debt/PBILDT and total debt/GCA which improved to 1.41x and 1.64x respectively as on March 31, 2018 from 1.65x and 1.97x respectively as on March 31, 2017. Interest coverage continues to remain robust at 18x mainly due to strong cash profits.

Liquidity

Ipca's liquidity indicator derives comfort from cash and bank balance of Rs.134 crore and investments in mutual funds of Rs.30 crore, as on September 30, 2018. Furthermore, on consolidated basis it has cash and bank balance of Rs.150 crore and investments in mutual funds of Rs.69 crore, as on March 31, 2018. Besides, average working capital utilization (sanctioned limits of Rs.1,140 crore) stands at only 27% for last 12 months ended August 2018, signifying adequate cushion. Additionally, liquidity is further strengthened as Ipca is generating healthy cash flow from operations (CFO) and adequate free cash flow from operations (FCFO) despite incurring reasonable capex every year which is funded through a combination of internal accruals and debt. On cumulative basis, it has about Rs.265 crore of scheduled term loan repayments coming up in FY19 & FY20, out of which Rs.94 crore has already been repaid as on September 30, 2018 and remaining largely be repaid out of the internal accruals.

Key Rating Weaknesses

Working capital intensive nature of operations: The operating cycle remained elongated in FY18 at around 129 days mainly due to high inventory holding of 123 days as the company is required to maintain substantial inventory level to ensure adequate supply requirements due to diverse geographical regions. Besides, collection period stood at 61 days in FY18 (54 days in FY17). Working capital requirement is adequately funded by internal accruals and trade payables. As a result, average working capital utilization stands comfortable at 27% for last 12 months ended August 2018.

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. 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 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: 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.

Analytical approach:

For arriving at the ratings, CARE has considered audited consolidated financial statements published in annual report for FY18. Ipca has nine subsidiaries (incl. step down subsidiaries), three associates and one joint venture as per these audited financial statements. Consolidated financials has been considered owing to financial and operational linkages between the parent and its subsidiaries/associates/etc.

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
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)	FY17 (A)	FY18 (A)
Total operating income	3248.51	3337.51
PBILDT	457.37	472.22
PAT	194.55	239.43
Overall gearing (times)	0.31	0.26
Interest coverage (times)	17.65	17.93

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

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
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	1140.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (22-Mar-18) 2)CARE AA; Stable / CARE A1+ (26-Apr-17)	-	-

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CIN - L67190MH1993PLC071691