September 30, 2021

Jagsonpal Pharmaceuticals Limited: Ratings upgraded to [ICRA]BBB (Stable)/A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Non-Fund-based	0.30	-	-
Short-term Non-Fund-based	1.50	-	-
Long-term/ Short-term – Unallocated	-	1.80	[ICRA]BBB (Stable)/ [ICRA]A3+; rating upgraded from [ICRA]BBB- (Positive)/ [ICRA]A3; Outlook revised to Stable from Positive
Total	**1.80**	**1.80**	

**Instrument details are provided in Annexure-1*

Rationale

The rating upgrade takes into consideration the improvement in scale and profitability of Jagsonpal Pharmaceuticals Limited (JPL) in FY2021. While JPL's top line improved by 19% to Rs. 188 crore in FY2021 against Rs. 158.6 crore in FY2020, the operating margins nearly doubled to 10.20% from 5.20% in the same period. The growth in revenues and margins was driven by higher demand for its top selling products, primarily in the gynaecology segment. The rating upgrade also factors in the encouraging market acceptance for its new products, which should augur well for the company's growth in future. ICRA also notes the healthy improvement in JPL's working capital intensity on the back of sustained reduction in debtor days and inventory days. Further, the ratings favourably consider the company's comfortable liquidity position, as reflected by healthy cash and liquid investment (~Rs. 65 crore as on March 31, 2021). JPL has low reliance on external financing with its entire debt comprising interest-bearing unsecured loans from promoters with no fixed repayment date. Significant improvement in revenues and margins resulted in healthy financial risk profile with strong coverage and capital structure metrics. The ratings also derive comfort from JPL's five decade-long track record of operations.

The ratings are, however, constrained by JPL's modest operating scale compared to its peers and stiff competition due to the presence of a large number of generic drug manufacturers in the domestic branded generic segment. Further, some of the company's key brands have been under price control coverage or are based on old molecules, thus limiting the overall profitability. However, ICRA notes that the company has shifted its focus on high margin products and new launches, which lends some comfort. ICRA also considers JPL's dependence on third-party manufacturers as the company has outsourced most of its production process.

Key rating drivers and their description

Credit strengths

Long track record as a formulation player in domestic market – The promoters have extensive experience and the company has an established track record in the pharmaceutical formulations industry, spanning more than 15 years. Over the period, JPL has developed a strong relationship with its suppliers, distributors and other stakeholders.

Continued improvement in working capital intensity – JPL's working capital intensity has witnessed a sustained improvement since FY2018. The company's NWC/OI decreased to 28% in FY2019 and further to 27% in FY2020 from 56% in FY2018. Its working capital intensity improved further to 13% in FY2021. The reduction is primarily driven by initiatives undertaken by the management towards tightening collections and efficient inventory management practices, leading to a reduction in debtor days and inventory days.

Healthy financial risk profile – JPL posted healthy revenue growth in FY2021 backed by good performance of top brands and better profitability due to efficiency improvements in its selling network. The better cash accruals, coupled with its low debt position, kept the coverage indicators at comfortable levels as also seen in the previous year. It has no reliance on external debt as the total debt outstanding for the company as on March 31, 2021 comprised interest-bearing unsecured loans from promoters.

Credit challenges

Modest scale of operations amid intense competition in generic formulations industry – Though JPL's top line has shown healthy growth in FY2021, it remains a moderate-sized player in the intensely competitive generic formulations industry. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some of these players also having a pan-India presence. This restricts the company's revenue growth and pricing flexibility.

Dependence on third party manufacturers – JPL has outsourced ~90% of its manufacturing processes through loan licensing arrangement wherein, the company acts as the marketer of the formulations and utilises the already approved licensed manufacturing units of the vendors for its manufacturing process. Though this arrangement obviates the need of heavy investment in plant and machinery on the company's part, JPL's production activities remains dependent on outside parties.

Key products based on old molecules and key brands are under price control coverage – Majority of the JPL's top brands are based on old molecules. Further, some of the company's key brands such as Lycored are under price control coverage, thus garnering lower margins. Nonetheless, the shift in focus towards the high margin new products has led to an improvement in margins in Q1 FY2022. Moreover, JPL now plans on launching new products, which augurs well for the company.

Liquidity position: Strong

JPL's liquidity is **strong**, as characterised by cash and liquid investments of Rs. 63.50 crore as on March 31, 2021. While it does not have any liquidity cushion in terms of bank-sanctioned working capital facilities, the available cash and healthy accruals are sufficient to meet its working capital requirements. Further, absence of any long-term loan obligations and consistent lowering of working capital intensity support the company's short-term liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade JPL's ratings if it is able to sustain the revenue growth while maintaining the profitability margins. Regular new product launches leading to better diversification in the product portfolio, as well as increase in the overall scale of operations, could lead to a positive rating action.

Negative factors – ICRA could downgrade JPL's ratings if its working capital intensity deteriorates significantly. Further, significant decline in scale or profitability may result in a rating downgrade. Any potential debt-funded capital expenditure, which could result in weakening in its liquidity position, will remain a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of the entity.

About the company

Incorporated in 1964, JPL is involved in manufacturing generic pharmaceutical formulations. While the company has product offerings covering a wide area of other therapeutics as well, women healthcare and gynae remains the key areas of its R&D and sales. It generates 30-40% of its revenue from the gynaecology segment, followed by the anti-arthritis segment, which contributes to nearly 20-25% of the sales. Some of the key therapeutic areas covered by JPL's products include allergy management, immunity and cell protection, dentist and ENT, women healthcare, pregnancy care, bone and joint care.

The company is listed on the Bombay Stock Exchange (BSE). While JPL's facility is in Faridabad, nearly 90% of the manufacturing is outsourced to third-party manufacturers through loan licensing arrangement.

In Q1 FY2022, JPL's OI has seen a 40% growth over Q4 FY2021. In the first quarter of the current fiscal, its OI stood at Rs. 60.00 crore compared to Rs. 42.84 crore in Q4 FY2020. On a year-on-year basis, the OI grew by almost 90% as against to Rs. 31.61 crore in Q1 FY2021.

Key financial indicators

ICTPL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	158.6	187.9
PAT (Rs. crore)	7.9	17.1
OPBDIT/OI (%)	5.4%	10.2%
PAT/OI (%)	5.0%	9.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.4x	0.4x
Total Debt/OPBDIT (times)	0.8x	0.4x
Interest Coverage (times)	16.6x	37.2x

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2021	Date & Rating in FY2019
					Sept 30, 2021	Mar 4, 2020	Aug 19, 2020	Feb 7, 2019
1.	Non-fund based	Long-term	0.30	-	-	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2.	Non-fund based	Short-term	1.50	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+
3.	Unallocated	Long-term / Short term	1.80	-	[ICRA]BBB (Stable)/ [ICRA]A3+ Rating upgraded	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Unallocated	NA	NA	NA	1.80	[ICRA]BBB (Stable)/ [ICRA]A3+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

- Note Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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