February 28, 2022

# RPG Life Sciences Limited: Ratings Reaffirmed

### Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Loans | 35.00 | 35.00 | [ICRA]A (Stable); Reaffirmed |
| Long-term, Fund-based Facilities | 40.00 | 40.00 | [ICRA]A (Stable); Reaffirmed |
| Short-term, Non-fund Based Facilities | 25.92 | 25.92 | [ICRA]A1; Reaffirmed |
| **Total** | **100.92** | **100.92** | |

**Instrument details are provided in Annexure-1*

## Rationale

The reaffirmation of the rating continues to factor in RPG Life Sciences Limited's (RPGLS) strong brand portfolio in the Indian pharmaceutical industry, its diversified and integrated operations with presence in regulated markets, and financial flexibility arising from being part of the RPG Group. The operating performance also posted an improvement on the back of improvement in its sales hygiene and cost rationalisation measures adopted by the company in the recent years. Such improvement is reflected in its ~4% YoY growth and ~15% annualised growth in operating revenues in FY2021 and 9M FY2022 and an improvement in its operating profit margin (OPM) to~18% in FY2021 and ~22% in 9M FY2022 (~16% in FY2020). Coupled with a decline in the company's debt levels, aided by healthy cash flows and no major debt-funded capital expenditure (capex), this has resulted in a robust capital structure and strong coverage indicators. Liquidity profile also remains strong marked by sufficient unutilised fund-based limits and healthy free cash balances.

The company's revenue growth moderated in FY2021 to ~4% YoY (13.8% YoY growth in FY2020) primarily on account of the impact of the ongoing pandemic on its domestic formulations (~1.4% YoY growth) and API (~0.8% YoY growth) segments. The impact has been higher on the acute segment (which drives ~50% of RPGLS' domestic formulations sales), which resulted from people staying indoors and reduced out-of-home consumption and social gatherings although the revenues from international formulations business grew by ~15% in FY2021 on the back off robust offtake from both regulated and semi-regulated markets. Nonetheless, the company's OPM improved further to ~18% in FY2021, supported by the opex optimisation initiatives undertaken by RPGLS along with the pandemic. The rebound in revenues seen in 9M FY2022 has been primarily driven by its legacy portfolio which aided a ~21% growth (annualised) in domestic formulations business and ~17% growth in the API segment (annualised) while the revenues from the international business has been flat owing to weak demand dynamics in some of the regulated markets and military coup in Myanmar which constitutes a significant portion of the international revenues.

The long-term rating however remains constrained by the moderate scale of operations, with the company deriving most of its revenues for its domestic formulations business from a few top brands, resulting in product concentration risks. ICRA also notes that the management has re-evaluated its USA entry plans, and will focus only on non-US markets over the medium term. However, the company continues to focus on increasing its presence in existing geographies through new product launches, and on exploring new markets to expand its geographical presence. For this, the company is upgrading its Ankleshwar (Gujarat) formulations facility for approval under 'The Pharmaceutical Inspection Co-operation Scheme' (PIC/S). Such upgradation is being undertaken in phases, to avoid complete shutdown of the facility, and the same is expected to be completed by FY2024. Successful execution of these plans and their impact on the company's revenue growth and profitability is a key rating monitorable. ICRA notes the instances of regulatory non-compliances by the company in the past, which had an impact on its business. ICRA will continue to closely monitor the developments regarding approval of manufacturing facilities by various health regulators and its likely impact on RPGLS.

The Stable outlook reflects ICRA's opinion that RPGLS will continue to benefit from its established products in the domestic and international formulations businesses along with its strong financial risk profile and financial flexibility enjoyed as part of the RPG Group.

## Key rating drivers and their description

### Credit strengths

**Strong brands in the Indian pharmaceutical industry** – The company's domestic formulations business benefits from its strong research and development (R&D) and from its brands, which continue to enjoy strong market share in their respective therapeutic segments. The company operates in various therapeutic areas, which include among others, nephrology (immunosuppressants), gastro-intestinal (anti-diarrheal), pain management and cardio vascular treatments. The domestic formulations business continues to be its major revenue driver.

**Robust capital structure and strong debt servicing indicators; enjoys financial flexibility as part of the RPG Group** – Coupled with a decline in the company's debt levels, aided by healthy cash flows and no major debt-funded capex, the company's improved operating performance. This has resulted in a robust capital structure and strong coverage indicators, as reflected in TD/OPBDITA of 0.03x in FY2021 (0.2 time as on March 31, 2020 and 1.1 time as on March 31, 2019) and 0.01x as on September 30, 2021, along with interest coverage of 39.7x in FY2021 (21.8 times in FY2020 and 7.1 times in FY2019) and ~64.5 times in 9M FY2022.

**Expansion of product portfolio and geographical presence augur well for growth prospects** – RPGLS launched four new products in its domestic formulations business and international formulations businesses in FY2021 and seven new products in 9M FY2022. ICRA notes the company's focus on increasing its presence in existing geographies through new product launches catering to niche segments, and on exploring new markets to expand its geographical presence. Successful execution of these plans and their impact on the company's revenue growth and profitability are key rating monitorable.

### Credit challenges

**Moderate scale of operations with dependence on few products** – At present the company has a moderate scale of operations than its peers in the Indian pharmaceutical industry, which limits its competitiveness in the market. ICRA also notes that the company derives most of its revenues for its domestic formulations business from a few top brands, resulting in product concentration risks.

**Regulatory risks related to approval and compliances; with instances of non-compliance in the past** -– The company operates in the pharmaceutical space, which is highly regulated and operates on approval from specific regulatory approvals as per its operating territories. ICRA notes that RPGLS had failed to receive the European Union Good Manufacturing Practices (EU GMP) certification for its API facility in Navi Mumbai in FY2012, which it received subsequently in FY2014. Since then, the company has been compliant with the EU GMP regulations. The company had also received a warning letter from the United States Food and Drug Administration (USFDA) in FY2013 for its API facility in Thane (Maharashtra) as well as its formulations facility in Ankleshwar (Gujarat). However, this did not have any material impact as RPGLS is not present in the US market. ICRA will continue to closely monitor the developments regarding approval of manufacturing facilities by various health regulators and its likely impact on RPGLS.

**Susceptibility of margins to raw material price fluctuations -**The key starting materials and intermediates for few of the products in the company's portfolio are dependent on imports and hence the margins are susceptible to volatility in raw material prices especially since they are derivatives of crude oil. Also, the company's pricing power is constrained by Drugs Prices Control Order (DPCO) and National Pharmaceutical Pricing Authority (NPPA) regulations, hence effectively capping the pass through in increase of input costs. However, comfort is taken from the adequate stocking of raw materials to assuage any volatility in raw material prices and decreasing share of DPCO coverage in its product portfolio. The impact of rising input costs is reflected in moderation of OPM in Q3 FY2022 to 20.9% against 22.9% in Q2 FY2022.

## Liquidity position: Strong

The company does not have any term loan repayment. RPGLS' cash flow from operations (CFO) are expected to remain healthy in the near term, supported by an improvement in OPM and largely stable working capital intensity. RPGLS has significant cushion available in the form of undrawn working capital limits. Its average utilisation of fund-based limits of Rs. 52.5 crore was ~0.4% for the 12-month period ended December 31, 2021. Above this the company had cash and liquid investments to the tune of Rs. 60 crores as on September 30, 2021. Comfortable working capital cycle too aids in better liquidity management. Furthermore, the company enjoys financial flexibility as part of the RPG Group.

## Rating Sensitivities

**Positive factors–** Steady and sustained increase in the company's scale of operations while maintaining healthy margin levels and coverage indicators would be a positive trigger for a rating upgrade.

**Negative factors –** Negative pressure on RPGLS' rating could arise if there is a sustained deterioration in the company's operating performance, leading to moderation in its RoCE below 16%, on a sustained basis. Any adverse observations by any regulatory authorities impacting its revenues and profitability, would also be a negative trigger. Furthermore, any major debt-funded capex / any large inorganic expansion, leading to weakening credit metrics on a sustained basis, would also pose a downward pressure on RPGLS' rating.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Pharmaceutical Industry |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the company. |

## About the company

RPG Life Sciences Limited, a part of the RPG Group, is an integrated pharmaceutical company operating in the domestic and international markets in the branded formulations, global generics and APIs space. With manufacturing facilities at Ankleshwar (Gujarat) and Navi Mumbai (Maharashtra), RPGLS has a presence in various therapeutic areas like nephrology, cardiovascular, gastro-intestinal, pain management, etc, with strong domestic brands such as Lomotil, Azoran, Aldactone and Tricaine. The company's business operations are divided into three different business segments—domestic formulations, international formulations and APIs. Its domestic formulations business comprises the branded generics market of India. Its international formulations division comprises formulations for developed markets as well as the rest of the world (RoW) markets. Earlier, RPGLS was also involved in biotech APIs. However, it exited the same through sale of its biotech unit on a slump sale basis to Intas Pharmaceuticals Limited on May 26, 2016.

**Key financial indicators (audited)**

| RPGLS Standalone | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 375.6 | 389.2 |
| PAT (Rs. crore) | 29.0 | 40.0 |
| OPBDIT/OI (%) | 16.1% | 18.3% |
| PAT/OI (%) | 7.7% | 10.3% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.5 | 0.4 |
| Total Debt^/OPBDIT (times) | 0.2 | 0.03 |
| Interest Coverage (times) | 21.8 | 39.7 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; The above ratios are adjusted as per ICRA's calculation wherever necessary; ^includes lease liability;*

**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 | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | Feb 28, 2022 | Dec 17, 2020 | Nov 29, 2019 | Aug 20,2018 |
| 1 | Term Loans* | Term Loans | 35.00 | NA | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 2 | Fund-based Bank Facilities | Fund-based Bank Facilities | 40.00 | -- | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A-(Stable) | [ICRA]A-(Stable) |
| 3 | Non-fund Based Bank Facilities | Non-fund Based Bank Facilities | 25.92 | | [ICRA]A1 | [ICRA]A1 | [ICRA]A2+ | [ICRA]A2+ |

**Term Loan is not sanctioned*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|---|---|
| Long-term Loans | Simple |
| Long-term, Fund-based Facilities | Simple |
| Short-term, Non-fund Based Facilities | Very simple |

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: [www.icra.in](http://www.icra.in)

## 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 | Long-term Loans | Not yet sanctioned | NA | NA | 35.00 | [ICRA]A (Stable) |
| NA | Long-term, Fund-based Facilities | NA | NA | NA | 40.00 | [ICRA]A (Stable) |
| NA | Short-term, Non-fund Based Facilities | NA | NA | NA | 25.92 | [ICRA]A1+ |

***Source:*** *Company*

### Annexure-2: List of entities considered for consolidated analysis- Not applicable

## ANALYST CONTACTS

**Shamsher Dewan**
+91 95-60555399
shamsherd@icraindia.com

**Srikumar Krishnamurthy**
+91-98-84086366
ksrikumar@icraindia.com

**Suprio Banerjee**
+91- 98-20244979
supriob@icraindia.com

**Sachidanand Thillai**
+91-74015 51867
sachidanand.thillai@icraindia.com

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**
+91 80 4332 6401
jayantac@icraindia.com

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**
Tel: +91 124 4545 860
communications@icraindia.com

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

## 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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## ICRA Limited

### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

### Branches




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