July 28, 2017

RPG Life Sciences Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term loans	20.00 (reduced from 22.00)	[ICRA]A- (stable); re-affirmed
Long-term, fund-based bank facilities	40.00	[ICRA]A- (stable); re-affirmed
Short-term, non-fund based facilities	25.92	[ICRA]A2+; re-affirmed
Short-term, non-fund based facilities	(2.00)^	[ICRA]A2+; re-affirmed

^*Sub-limit of long-term, fund-based facilities*
*Instrument details are provided in Annexure-1

Rating action
ICRA has re-affirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus)[1] assigned to the Rs. 20.00 crore[2] (reduced from Rs. 22.00 crore) long-term loans and the Rs. 40.00 crore long-term, fund-based bank facilities of RPG Life Sciences Limited (RPGLS). ICRA has also re-affirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 25.92 crore short-term, non-fund based bank facilities and the Rs. 2.00 crore short-term, non-fund based bank facilities, which are a sub-limit of the long-term, fund-based bank facilities of RPGLS. The outlook on the long-term rating is 'stable'.

Rationale
The ratings re-affirmation takes into account the strong capital structure and debt servicing indicators of the company on the back of an improvement in the profitability of the domestic formulations business and the active pharmaceutical ingredients (API) business in FY2017. ICRA notes that the company has acquired seven brands from Sun Pharmaceutical Industries Limited in FY2017 for a consideration of Rs. 43.9 crore, which has been partly funded through a term loan of Rs. 20 crore. Despite this addition to borrowings, RPGLS has been able to maintain a strong credit profile on the back of robust internal accruals driven by an improvement in the domestic field force productivity and change in customer mix for the API business, and cash flows from the sale of the biotech unit in FY2017.

The ratings continue to factor in RPGLS' strong brands in the Indian pharmaceutical industry, its diversified and integrated operations, with presence in the regulated markets, and financial flexibility arising from being a part of the RPG Group.

The ratings are, however, constrained by the small scale of operations of the company in the domestic formulations market as well as the export formulations and API businesses, which have also resulted in lower profitability. While some of the domestic brands have witnessed a ramp up over the last three years, arresting a decline on these existing brands through life cycle management and brand-building initiatives, or launching new strong brands in the domestic formulations business is critical for improvement of scale in the domestic formulations business. ICRA also notes the disruption caused in the domestic pharmaceuticals industry in the current year due to the implementation of the Goods and Services Tax (GST). Furthermore, the Global Generics business continues to face high product and client

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[2] 100 lakh = 1 crore = 10 million

concentration. ICRA, however, notes that the management is ramping up its exports formulations business through new product launches and foraying into new geographical markets, including the USA. Successful execution of the same, further resulting in an improvement in profitability levels amid increased R&D investments are the key rating sensitivities.

The ratings also take into account the instances of regulatory non-compliances by the company in the past (subsequently EU GMP certificate was received in FY2014), which have impacted its business prospects. ICRA will continue to closely monitor the developments regarding approval of manufacturing facilities by various health regulators and its likely impact on RPGLS.

Key rating drivers

Credit strengths
- Strong brands in the Indian pharmaceutical industry
- Financial flexibility arising from being part of the RPG Group
- Improvement in field force productivity has resulted in improvement in profitability in FY2017
- Healthy capital structure and debt servicing indicators
- Efforts underway to expand product portfolio in the domestic and semi-regulated markets as well as enter the US market; augurs well for the growth prospects

Credit weaknesses
- Small scale of operations with dependence on a few products
- High product and client concentration for the Global Generics business
- Weak return indicators

Description of key rating drivers:
RPGLS, a part of the diversified RPG Group, operates in the formulations as well as the API segments, catering to Indian and international markets (exports accounted for 32% of FY2017 sales, with formulations sales to regulated markets comprising 34% of total exports).

RPGLS's domestic formulations business has witnessed an improvement in operating profit margin on account of modest revenue growth and improved productivity of field force—from Rs. 3.6 lakh per person per month for FY2016 to Rs. 3.9 lakh per person per month for FY2017. However, the implementation of the GST is expected to have impacted the sales and profitability of the Indian pharmaceutical industry in Q1 FY2018. Recovery of the same over the next three quarters is a key rating sensitivity. Furthermore, the Global Generics business has not been able to scale up its product basket and add customers. However, ICRA notes that RPGLS is widening its product basket with five new product launches, most of which would be launched in FY2018. Furthermore, RPGLS has also started product development for the US market, and has four products to be launched over FY2019 to FY2022 subject to the closure of warning letter and approvals receipt from the United States Food and Drug Administration (USFDA). Thus, going forward, the credit profile of RPGLS would critically depend on its ability to scale up the revenues from the brands acquired for the domestic market, success of the new product launches in the international markets and profitability improvement despite increasing R&D investments.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodology as indicated below.

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Pharmaceutical Industry

About the company:
RPG Life Sciences Limited, a part of RPG Enterprises, is an integrated pharmaceutical company operating in the domestic and international markets in the branded formulations, global generics and APIs space. With manufacturing facilities located at Ankleshwar (Gujarat) and Navi Mumbai (Maharashtra), RPGLS has a presence in therapeutic areas such as nephrology, cardiovascular, gastro-intestinal, pain management, with strong domestic brands such as Lomotil, Azoran, Aldactone and Tricaine. The company's business operations are divided into three different business segments—global formulations, global generics and synthetic APIs. Its global formulations business comprises the branded generics market of India (earlier also included Rest of World (RoW), excluding developed markets, however, was clubbed with global generics with effect from FY2014). Its global generics division comprises formulations for the developed markets as well as ROW markets (included only developed markets till FY2013). 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.

For the 12-month period ended March 31, 2017, RPGLS reported a profit after tax (PAT) of Rs. 20.5 crore on an operating income (OI) of Rs. 306.4 crore, as against a PAT of Rs. 11.6 crore on an OI of Rs. 279.1 crore for the 12-month period ended March 31, 2016.

Key financial indicators (Audited)

	FY2016	**FY2017**
Operating Income (Rs. crore)	279.1	306.4
PAT (Rs. crore)	11.6	20.5
OPBDIT/ OI (%)	8.5%	9.6%
RoCE (%)	9.1%	14.3%
Total Debt/ TNW (times)	0.17	0.29
Total Debt/ OPBDIT (times)	0.95	1.53
Interest coverage (times)	9.50	11.11
NWC/ OI (%)	15.8%	19.9%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	June 2016	December 2015	October 2014
1	Term Loan	Long-term	20.00	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)
2	Cash Credit	Long-term	40.00	[ICRA]A- (stable)	[ICRA]A- (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)
3	Letter of Credit / Bank Guarantee	Short-term	25.92	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4	Letter of Credit / Bank Guarantee*	Short-term	(2.00)	[ICRA]A2+	[ICRA]A2+	-	-

^Sub-limit of long-term, fund-based facilities

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Term Loan	October 2016	9.45%	October 2020	20.00	[ICRA]A- (stable)
Cash Credit 1	-	-	-	10.85	[ICRA]A- (stable)
Cash Credit 2	-	-	-	13.75	[ICRA]A- (stable)
Cash Credit 3	-	-	-	10.00	[ICRA]A- (stable)
Cash Credit 4	-	-	-	5.40	[ICRA]A- (stable)
Letter of Credit / Bank Guarantee 1	-	-	-	8.92	[ICRA]A2+
Letter of Credit / Bank Guarantee 2	-	-	-	7.00	[ICRA]A2+
Letter of Credit / Bank Guarantee 3	-	-	-	10.00	[ICRA]A2+
Letter of Credit / Bank Guarantee 4*	-	-	-	(2.00)	[ICRA]A2+

^*Sub-limit of long-term, fund-based facilities*
Source: RPG Life Sciences Limited

Contact Details

Analyst Contacts

Subrata Ray
+22 6114 3408
subrata@icraindia.com

Kinjal Shah
+22 6114 3442
kinjal.shah@icraindia.com

Gaurav Jain
+20 6606 9922
gaurav.jain@icraindia.com

Relationship Contact
Jayanta Chatterjee
+80 4432 6401
jayantc@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.

For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	