August 24, 2017

Jagsonpal Pharmaceuticals Limited

Summary of rated instruments

Instrument	Amount Rated	Rating Action
	In Rs. Crore	
Fund-based limits	13.0 (reduced from Rs 33.0)	[ICRA]BB+(Stable) reaffirmed
Non-fund based limits	0.3	
Non-fund based limits	6.7	[ICRA]A4+ reaffirmed
Total	**20.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced ICRA double B plus) on the Rs. 13.30-crore[1] (reduced from Rs 33.30 crore) fund-based and non-fund based facilities of Jagsonpal Pharmaceuticals Limited (JPL)[2]. The outlook on the long-term rating is 'stable'. ICRA has also reaffirmed its short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) on the Rs 6.70 crore non-fund based limits of JPL.

Rationale

The ratings reaffirmation continues to factor in JPL's moderate brand presence in select therapeutic categories; the extensive experience of its promoters, with proven track record in the pharmaceutical industry; and the company's wide distribution network. The ratings also factor in JPL's comfortable capital structure and coverage indicators, amid low working capital limit utilization.

The ratings are, however, constrained by the company's stagnant operating scale in the absence of any new product launches and the decline in operating margins in FY2017 and Q1FY2018 owing to demonetisation and stock build up amid GST implementation. Further, JPL's working capital intensity continues to remain high, owing to the long receivables period and the large inventory requirements.

Going forward, the company's ability to achieve revenue growth, while improving its working capital cycle and increase the diversity in its product portfolio will be closely monitored.

Key rating drivers

Credit strengths

- **JPL's brand presence in select therapeutic categories with long track record in pharmaceutical industry** – The company has four-decade long track record of operations. JPL derives a majority of its revenues from domestic formulations sales (94% sales contribution in FY2017), with the remaining coming from bulk and intermediaries. The company deals in 44 therapeutic segments. The major brands, Maintaine and Metadec, continued to display good revenue contribution in FY2017. However, ICRA notes that the contribution of high-margin brands declined from FY2016.

- **Significant improvement in net worth, capitalisation and coverage indicators** – The company during the year booked an extraordinary income of Rs 12.9 crore by selling off its Rudrapur plant,

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

leading to significant improvement in its net worth. Further, the company has paid off working capital limits of Rs 20 crore, thereby lowering its debt levels. Given the comfortable net worth position (Rs 102.07 crore as against debt of Rs 7.93 crore in FY2017), the capital structure and debt coverage indicators remain comfortable.

Credit weaknesses

- **Stagnant scale of operations –** The company has not launched any new product in the last five years. Further, in FY2014, the company's bestselling drug, Parvon, was discontinued, leading to major revenue loss. The company's ability to diversify its portfolio and strengthen its long-term growth prospects will be a key rating factor.

- **Decline in operating margins in FY2017 and Q1FY2018 -** The company reported weak performance in Q4FY2017 and Q1FY2018 as the distributors started destocking the inventory because of GST, leading to decline in sales. Further, in Q1FY2018, the company posted operating losses as heavy discounts were offered on high-margin drugs to liquidate the inventory because of their low shelf life. The operating margins have also suffered because of higher contribution from low-margin product.

- **Stretched working capital cycle** – The company's working capital intensity has been gradually growing over the years on the back of increasing inventory requirement, averaging at 150-170 days. The same was exacerbated with GST implementation. Nevertheless, the company's dependence on external limits remains modest and the liquidity position remains satisfactory.

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

Links to applicable criteria:

Rating Methodology for Pharmaceutical Industry

About the company:

Jagsonpal Pharmaceuticals Ltd (JPL) is primarily a formulations company and has two manufacturing facilities - one each in Faridabad, Haryana and Rudrapur, Uttaranchal. The Faridabad facility started in 1964 and the Rudrapur facility became operational in April 2009. The Chairman and Managing Director, Mr. J S Kochar, and his family own 69.17% stake in JPL. The company has several brands, including Lycored, Indocap, JP and Metadec. The company's key brands include Lycored, Metadec, Indocap and Maintene, which, though based on old molecules, have continued to display stable growth. In 2017, the company sold off its Rudrapur plant citing ceasing of taxation benefits in GST regime and has outsourced the associated manufacturing.

In FY2017, the company reported a net profit of Rs. 11.9 crore on an operating income of Rs. 143.9 crore, as compared to a net profit of Rs. 3.2 crore on an operating income of Rs. 143.5 crore in the previous year.

Key Financial Indicators

Rs Crore	FY2016	FY2017
	Audited	Audited
Operating Income (Rs. crore)	143.5	143.9
PAT (Rs. crore)	3.2	11.9
OPBDIT/ OI (%)	8.2%	4.01%
RoCE (%)	7.1%	13.9%
Total Debt/ TNW (times)	0.43	0.08
Total Debt/ OPBDIT (times)	3.26	1.37
Interest coverage (times)	2.23	2.18
NWC/ OI (%)	51%	55%

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. Crores)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				Aug, 2017	Jul, 2016	Aug, 2015	Mar, 2014
1	Cash Credit	Long Term	13.0	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Bank Guarantee	Long Term	0.3				
3	Letter of Credit	Short Term	6.70	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

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 Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Cash Credit	-	-	-	13.0	[ICRA]BB+ (Stable)
Bank Guarantee	-	-	-	0.3	
Letter of Credit	-	-	-	6.70	[ICRA]A4+

Source: JPL

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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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