March 06, 2024

RPG Life Sciences Limited: Long-term rating upgraded to [ICRA]A+(Stable) and short-term rating reaffirmed at [ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loan^	35.00	35.00	[ICRA]A+(Stable); Upgraded from [ICRA]A(Stable)
Long-term – Fund-based Cash Credit	40.00	40.00	[ICRA]A+(Stable); Upgraded from [ICRA]A(Stable)
Short-term – Non-fund Based Facilities	25.92	25.92	[ICRA]A1; reaffirmed
Total	**100.92**	**100.92**	

**Instrument details are provided in Annexure-I, ^not yet sanctioned*

Rationale

The rating action on the bank lines of RPG Life Sciences Limited (RPGLS) considers the steady improvement in its financial performance marked by stable growth in its scale of operations (five-year revenue growth (CAGR) of ~12% for the period ending FY2024e), sustained improvement in operating margins (five-year OPBIDTA growth of ~29%) driven by measures taken by the management to optimise operating costs as well as through change in product mix. The stability in revenues and earnings is expected to continue over the medium term driven by new product development as well as capacity enhancements, with limited reliance on debt and no major debt-funded capital expenditure (capex) plans, leading to robust debt protection metrics.

RPGLS' operating performance remained healthy on the back of improvement in its sales and cost rationalisation measures in recent years. This is reflected in its 17% YoY growth in operating revenues in FY2023 and ~15% in 9M FY2024 on a YoY basis, along with an improvement in its operating profit margin (OPM) to 20.4% in FY2023 and 23.6% in 9M FY2024 from 19.8% in FY2022. The ratings continue to factor in RPGLS' strong brand portfolio in the Indian pharmaceutical industry, its diversified and integrated operations with presence in regulated markets, and its financial flexibility as part of the RPG Group. Its liquidity profile remains strong marked by sufficient unutilised fund-based limits and healthy free cash balances of ~Rs. 101.3 crore as of September 30, 2023. ICRA, however, will continue to monitor the usage of free cash, including any inorganic expansion and will assess the impact on RPGLS' credit profile in case of any material change in its liquidity profile.

The ratings, however, remains constrained by its growing, though relatively moderate, scale of operations with the company deriving most of its revenues from a few top brands in its domestic formulations business, resulting in product concentration risks. ICRA also notes that the management has re-evaluated its USA entry plans and will focus on other 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. For this, RPGLS is upgrading its Ankleshwar (Gujarat) formulations facility for approval under 'The Pharmaceutical Inspection Co-operation Scheme' (PIC/S). Successful execution of these plans and the ability of the company to grow its scale from the present levels remains a key rating monitorable.

The ratings also remain exposed to regulatory scrutiny and timely renewal of approvals from respective regulatory bodies. ICRA will continue to monitor the developments regarding the approval of manufacturing facilities by various health regulators and its likely impact on RPGLS. The ratings also factor in the relatively high share of acute therapies in the company's portfolio, coupled with the Drugs Prices Control Order (DPCO) segment, which it is looking to diversify to provide better stability to cash flows and insulation against input price fluctuations, to an extent.

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 its brands, which continue to enjoy strong market share in their respective therapeutic segments. It 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 – Aided by adequate retained cash flows and unencumbered cash and liquid investments, RPGLS' dependence on external debt has remained limited. With its debt-free status and improved operating performance, it has a robust capital structure and coverage metrics. Further, the company also enjoys financial flexibility as part of the RPG Group.

Expansion of product portfolio and geographical presence augur well for growth prospects – RPGLS launched six new products in FY2023 and 12 new products in H1 FY2024 in its domestic and international formulations businesses. Sales from new products have been inching up in terms of sales share and stood at around 20% for all launches since FY2018. ICRA notes the company's focus on increasing its presence in existing geographies through new product launches in niche categories, and on exploring new markets. Successful execution of these plans and their impact on the company's revenue growth and profitability are key rating monitorables.

Steady growth in top line and improving operating margins – The company reported healthy revenue growth of 17% to Rs. 512.9 crore in FY2023 and by 15% to Rs. 455.1 crore in 9M FY2024 on a YoY basis, owing to healthy demand for all its three business segments—i.e., domestic formulations, international formulations, and active pharmaceutical ingredients (APIs). The revenue growth can also be attributed to improvement in sales hygiene and healthy sales of new products. The company is expected to report revenue growth of 10-15% in FY2024; and this performance trend is expected to continue over the medium term, driven by new product development as well as capacity enhancements. Further, the operating margins also improved to 20.4% in FY2023 and 23.6% in 9M FY2024 from 19.8% in FY2022 owing to various cost rationalisation measures of the company, including optimisation of costs and product re-engineering, which are expected to be sustainable in nature.

Credit challenges

Moderate scale of operations with dependence on few products – Although growing, RPGLS' scale of operations is moderate. It is a mid-sized player among 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 from a few top brands in its domestic formulations business, resulting in product concentration risks. Also, the share of acute therapies remains significant at present, which RPGLS is looking to diversify by entering chronic categories to provide better stability to cash flows, going forward.

Entity remains exposed to regulatory risks related to approval and compliances – The company operates in the pharmaceutical space, which is highly regulated and subject to specific regulatory approvals as per operating territories. The company holds European Union Good Manufacturing Practice (EU GMP), World Health Organization Good Manufacturing Practices (WHO GMP), Therapeutic Goods Administration (TGA) Australia, Pharmaceuticals and Medical Devices Agency (PMDA) Japan, and Narcotic Drugs and Psychotropic Substances (NDPS) certifications, which are reviewed on a periodic basis by their respective regulatory agencies. Any suspension of these certifications can impact RPGLS' exports to these regulated and semi-regulated markets. ICRA will continue to closely monitor the developments regarding approvals for the company's manufacturing facilities by various health regulators and their likely impact on RPGLS.

Susceptibility of margins to raw material price fluctuations – The key raw materials and intermediates for some of the products in the company's portfolio are dependent on imports and, hence, its margins are susceptible to volatility in raw material prices. Also, about 35% of the company's portfolio is under the Drugs Prices Control Order (DPCO) and National Pharmaceutical Pricing Authority (NPPA) regulations, effectively capping the pass through of increase in input costs. However, comfort is taken from the adequate stocking of raw materials to assuage any volatility in raw material prices and the company's efforts towards launching new products in the non-DPCO space to decrease the share of DPCO coverage in its product portfolio.

Environmental and Social Risks

Environmental considerations: RPG does not face any major physical climate risk. However, it remains exposed to tightening environmental regulations for breach of waste and pollution norms, which can lead to an increase in operating costs and new capacity instalment costs. This can also require capital investments to upgrade its effluent treatment infrastructure to reduce its carbon footprint and waste generation. Further, the regulatory environment across the globe is becoming increasingly stringent, making entry into new geographies more challenging. However, the company assesses and identifies potential environmental risks, taking adequate measures and precautions by engineering control measures on a continuous basis. The company's plant at Navi Mumbai has a full-fledged Effluent Treatment Plant (ETP), which involves primary, secondary and tertiary systems to treat and process sewage water. The Real Time Online Effluent Monitoring System (RTOEMS) installed at the ETP monitors and continuously transmits data to the Central Pollution Control Board and Maharashtra Pollution Control Board. The company's plant at Ankleshwar, Gujarat, with a full-fledged ETP, treats industrial wastewater and sends it to the final ETP of the vendor. The company adopts relevant techniques and methods, such as safety audits and periodic assessments for environmental, health and safety risks, and undertakes all required remedial measures, as and when needed.

Social considerations: The industry faces social risks related to product safety and associated litigation risk, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. However, the company undertakes periodic internal and external audits to ensure the compliance of Occupational Health and Safety (OHS) management system within the manufacturing operation. Further, Government intervention related to price caps/ control also remains a social risk faced by entities in the pharmaceutical industry. However, the company has been taking all required regulatory approvals/ certificates before introducing any new products in the market. The company holds EU GMP, WHO GMP, TGA Australia, PMDA Japan, and NDPS certifications for manufacturing various bulk drugs, which are periodically reviewed by the respective regulatory agencies.

Liquidity position: Strong

The company's liquidity is strong and is debt free. RPGLS' cash flow from operations are expected to remain healthy in the near term, supported by healthy operating margins and largely stable working capital requirements. RPGLS has significant cushion available in the form of undrawn working capital limits of Rs. 40.0 crore (as on December 31, 2023). Moreover, the company had cash and liquid investments to the tune of Rs. 101.3 crore as on September 30, 2023. The comfortable working capital cycle too has aided in better liquidity management. Furthermore, the company enjoys financial flexibility as part of the RPG Group. ICRA, however, will continue to monitor the usage of the free cash, including any inorganic expansion and will assess the impact on the company's credit profile in case of any material change in its liquidity profile.

Rating sensitivities

Positive factors – Significant growth in the company's scale of operations while maintaining healthy margin levels and coverage indicators/ liquidity 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 or its working capital cycle, adversely impacting its liquidity profile. Any adverse observations by any regulatory authorities impacting its revenues and profitability, would also be a negative rating trigger. Furthermore, any major debt-funded capex/ large inorganic expansion, leading to weakening credit metrics will also be a negative rating trigger. Specific credit metric of TD/OPBIDTA (Total debt/ Operating profit before depreciation, interest, taxes and amortisation) above 2.0 times 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 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 RPG Enterprises, is an integrated pharmaceutical company operating across domestic and international markets in the branded formulations, global generics and API space. With manufacturing facilities in Ankleshwar (Gujarat) and Navi Mumbai (Maharashtra), RPGLS has a presence in therapeutic areas such as nephrology, cardiovascular, gastro-intestinal and pain management, with strong domestic brands such as Lomotil, Azoran, Aldactone and Tricaine. The company's business operations are divided into three business segments—domestic formulations, international formulations, and APIs. Its domestic formulations business comprises the branded generics market of India (earlier also included rest of world, or RoW, markets, which was clubbed with international formulations with effect from FY2014). Its international formulations division caters to developed markets as well as RoW markets (included only developed markets till FY2013). Earlier, RPGLS was also involved in manufacturing biotech APIs. However, it exited the same by selling its biotech unit on a slump sale to Intas Pharmaceuticals Limited on May 26, 2016, for a consideration of Rs. 25.0 crore.

Key financial indicators (audited)

RPGLS Standalone	FY2022	FY2023	H1 FY2024
Operating income	440.2	512.9	301.4
PAT	51.5	67.6	48.0
OPBDIT/OI	19.8%	20.4%	23.1%
PAT/OI	11.7%	13.2%	15.9%
Total outside liabilities/Tangible net worth (times)	0.3	0.4	0.4
Total debt/OPBDIT (times)	0.0	0.0	0.0
Interest coverage (times)	61.9	90.8	409.0

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; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 06, 2024	Dec 15, 2022	Feb 28, 2022	Dec 17, 2020
1	**Term loans***	Long-Term	35.00	0.0	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
2	**Cash Credit**	Long-Term	40.00	--	**[ICRA]A+ (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**
3	**Non-fund Based Bank Facilities**	Short-Term	25.92	--	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**

**Term Loan is not sanctioned*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term Loan	Simple
Long-term - Fund-based-Cash Credit	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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans***	NA	NA	NA	35.00	[ICRA]A+ (Stable)
NA	**Cash Credit**	NA	NA	NA	40.00	[ICRA]A+ (Stable)
NA	**Non-fund Based Bank Facilities**	NA	NA	NA	25.92	[ICRA]A1

*Source: Company, *not yet sanctioned*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

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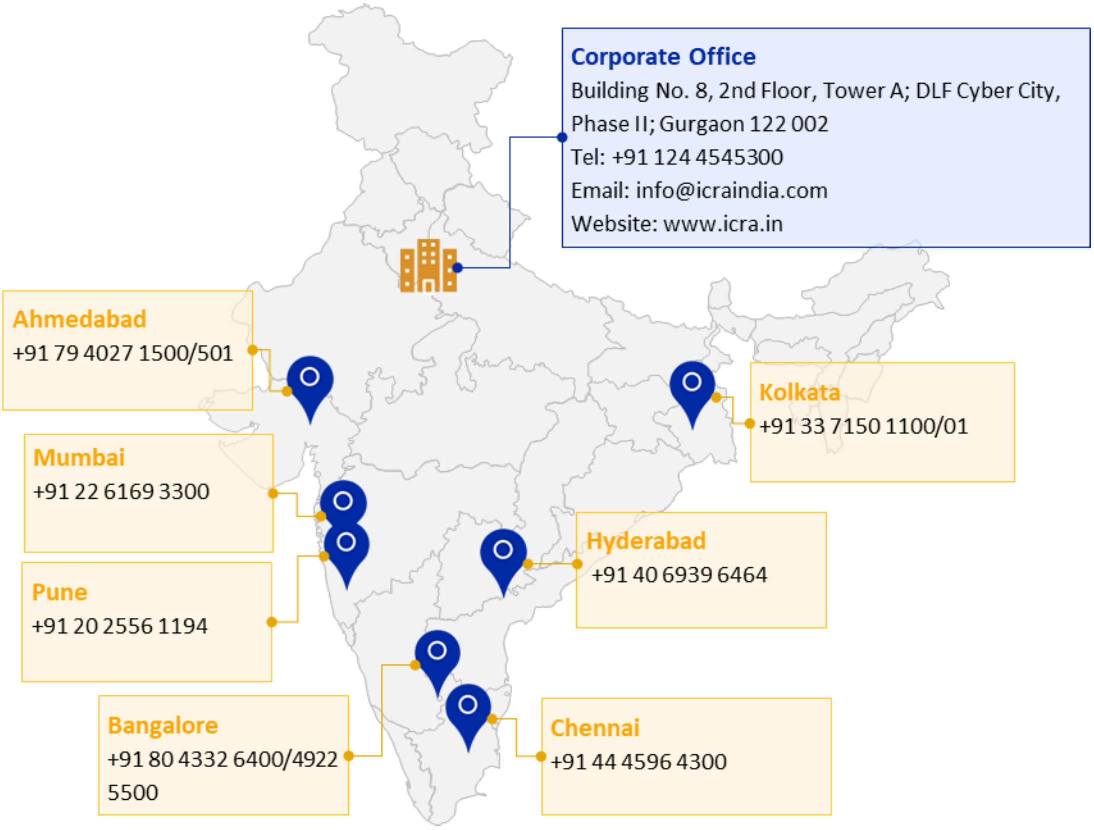

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