

RPG Life Sciences Limited

August 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term loans	20.00	35.00	[ICRA]A- (Stable); Re-affirmed
Long-term, fund-based facilities	40.00	40.00	[ICRA]A- (Stable); Re-affirmed
Short-term, non-fund based facilities	25.92	25.92	[ICRA]A2+; Re-affirmed
Short-term, non-fund based facilities (2.00)^		(2.00)^	[ICRA]A2+; Re-affirmed
Total	85.92	100.92	

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

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus)¹ assigned to the Rs. 35.00-crore² (enhanced from Rs. 20.00 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 factors in the strong capital structure and debt servicing indicators of the company aided by healthy revenue growth and consistent improvement in profitability. The company had acquired seven brands from Sun Pharmaceutical Industries Limited in FY2017 for a consideration of Rs. 43.9 crore, which was partly funded through a term loan of Rs. 20 crore. Despite this addition to borrowings, RPGLS was able to maintain a strong credit profile on the back of healthy internal accruals.

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 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 exports formulations and active pharmaceutical ingredients (API) businesses, which have also resulted in lower profitability. While some of the domestic brands have witnessed a ramp up over the last two to three years, maintaining such growth 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 notes the impact on the global generics (exports formulations) business in FY2018 due to the subdued performance of its business from the Rest of World (RoW) markets. Furthermore, the company continues to face high client concentration in its global generics business, though the same has reduced to some extent in FY2018. However, the company is ramping up its exports formulations business through new product launches and foray into new geographical

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

markets, including the USA. Successful execution of the same, further resulting in an improvement in profitability levels amid increased research and development (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, 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.

Outlook: Stable

ICRA expects RPGLS to continue to benefit from its established products in the domestic and exports formulations businesses. The outlook may be revised to Positive if substantial growth in revenues and profitability of the company further strengthens its financial risk profile. The outlook may be revised to Negative in case the company faces any headwinds in its US entry plans, especially when it is investing in product and process development and incurring other high operating expenses for readying its operations for the US markets. Furthermore, any major debt-funded capital expenditure, or stretch in its working capital cycle, which may weaken its liquidity is also a negative factor.

Key rating drivers

Credit strengths

Strong brands in the Indian pharmaceutical industry - The company's domestic formulations business benefits from its strong R&D division and brands, which continue to enjoy strong market share in their respective therapeutic segments. The company has a presence in various therapeutic areas, which include among others, immunosuppressants, anti-diarrheal, pain management and cardio vascular treatments. The domestic formulations business continues to be the major revenue driver.

Healthy capital structure and debt servicing indicators; enjoys financial flexibility as part of the RPG Group - The gearing of the company as on March 31, 2018 at 0.4 time witnessed some moderation over the previous fiscal (0.3 time), primarily owing to an increase in working capital intensity. However, it continued to remain strong. Moreover, the debt servicing metrics improved vis-à-vis FY2017, on the back of an improved operating performance. Furthermore, the company enjoys financial flexibility as part of the RPG Group.

Expansion of product portfolio and efforts towards US entry plans augur well for growth prospects - RPGLS has launched six new products in the domestic formulations business in FY2018, and two in its exports formulations business. The company is also in the process of launching two new products in the exports formulations business during FY2019, aimed at reducing product and client concentration risks. Furthermore, it has also stepped up its efforts of foraying into the US market, which is expected to help increase its scale of operations and geographical diversification.

Credit challenges

Small scale of operations with dependence on few products - The company has a small scale of operations at present as compared to its peers in the Indian pharmaceutical industry, which limits its competitiveness in the market. ICRA also notes that the company derives majority of its revenues for its domestic formulations business from a top few brands, thus resulting in product concentration risks.

High product and client concentration risk for the global generics business - The company's exports formulations business faces high product and client concentration risks, with majority of its revenues generated by a few clients and a single product. Nonetheless, ICRA notes that RPGLS has launched two new products in FY2018.

Regulatory non-compliance in the past - The company had received a warning letter from the United States Food and Drug Administration (USFDA) in FY2013, for its API facility in Thane as well as its formulations facility in Ankleshwar (Gujarat). Although the USFDA warning letter had no immediate impact on RPGLS (since it did not have any product for the US market), such non-compliance has had a negative impact on the brand image and business prospects of the company.

Weak return indicators - Although there has been an improvement in the firm's return metrics over the last couple of years on the back of an improvement in its operating performance, they continue to remain moderate on account of relatively high depreciation and amortisation charges.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Pharmaceutical Industry](#)

About the company:

RPGLS 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 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— global formulations, global generics and APIs. Its global formulations business comprises the branded generics market of India (earlier also included 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.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	293.8	344.1
PAT (Rs. crore)	21.0	13.4
OPBDITA/OI (%)	9.9%	11.4%
RoCE (%)	15.8%	12.9%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDITA (times)	1.5	1.4
Interest coverage (times)	7.8	8.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
			March 2018 (Rs. crore)	August 2018	July 2017	June 2016	December 2015	
1	Term loans	35.00	15.64	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	
2	Fund-based facilities	40.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	
3	Non-fund based facilities	25.92	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	
4	Non-fund based facilities [^]	(2.00)	-	[ICRA]A2+	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term loans	October 2016	8.65%	October 2020	20.00	[ICRA]A- (Stable)
NA	Long-term loans	Not yet sanctioned			15.00	[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]A2+
NA	Short-term, non-fund based facilities [^]	NA	NA	NA	(2.00)	[ICRA]A2+

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

Source: RPG Life Sciences Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Rushit Doshi

+91 22 6114 3422

rushit.doshi@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:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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