December 17, 2020

RPG Life Sciences Limited: Ratings upgraded to [ICRA]A (Stable) / [ICRA]A1

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); upgraded from [ICRA]A- (Stable)
Long-term, Fund-based Facilities	40.00	40.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Short-term, Non-fund Based Facilities	25.92	25.92	[ICRA]A1; upgraded from [ICRA]A2+
Short-term, Non-fund Based Facilities	(2.00)^	0.00	-
Total	**100.92**	**100.92**	

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

Rationale

The rating upgrade factors in the considerable improvement in the operating performance of RPG Life Sciences Limited (RPGLS or the company) on the back of improvement in its sales hygiene and cost rationalisation measures adopted by the company over FY2020 and H1 FY2021. Such improvement is reflected in its ~13% YoY growth in revenues in FY2020 and an improvement in its operating profit margin (OPM) to ~16% in FY2020 (~10% in FY2019) and ~19% in H1 FY2021. 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, as reflected in total debt/ operating profit before depreciation, interest, tax and amortisation (TD/OPBDITA) of 0.2 time as on March 31, 2020 (1.1 time as on March 31, 2019) and 0.03 time as on September 30, 2020, along with interest coverage of 21.8 times in FY2020 (7.1 times in FY2019) and 66.6 times in H1 FY2021. This has also strengthened the company's liquidity profile, which was further supported by significant unutilised fund-based limits of Rs. 52.4 crore as on September 30, 2020.

The rating continues to factor in RPGLS' strong brands 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 domestic formulations segment witnessed a ~23% YoY growth in revenues in FY2020 on the back of a good monsoon, low base effect and initiatives undertaken by the management such as renewed focus on legacy brands, prescription generation, product portfolio augmentation and improvement in the company's sales hygiene by limiting its sales and expiry returns and discounted sales. While the performance of the company's other two segments, viz. international formulations (~4% YoY growth) and active pharmaceutical ingredients (APIs; ~1% YoY decline) was impacted in FY2020 on account of lower orders from a key customer and sharp decline in prices of a key product, healthy double digit growth in its major revenue contributing domestic formulations segment resulted in an overall company level YoY growth of ~13% in revenues in FY2020. In H1 FY2021, the company reported a YoY decline of ~2% in revenues, primarily on account of the impact of the ongoing Covid-19 pandemic on its domestic formulations (~5% YoY decline) and API (~14% YoY decline) 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. Nonetheless, the company's OPM improved further to ~19% in H1 FY2021, supported by the aforementioned initiatives undertaken by RPGLS along with pandemic induced saving on costs like travelling and conveyance for marketing and sales activities. Sustenance of such OPM witnessed in H1 FY2021, which is the highest in the company's history, remains to be seen.

The company derives 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 FY2022. 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 resulted in a robust capital structure and strong debt servicing indicators, as reflected by TD/OPBITDA of 0.2 time as on March 31, 2020 (1.1 times as on March 31, 2019) and 0.03 time as on September 30, 2020, and interest coverage of 21.8 times in FY2020 (7.1 times in FY2019) and 66.6 times in H1 FY2021. This has also strengthened the company's liquidity profile, which is further supported by significant unutilised fund-based limits of Rs. 52.4 crore as on September 30, 2020. The company enjoys financial flexibility as part of the RPG Group.

Expansion of product portfolio and geographical presence augur well for growth prospects – RPGLS launched 11 new products in its domestic formulations business and one in its international formulations business in FY2020. Furthermore, the company has already launched a couple of products in H1 FY2021 and will launch a few more products in H2 FY2021, aimed at revenue growth for the near to medium term. ICRA notes the company's focus on increasing its presence in existing geographies through new product launches, 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 monitorables.

Credit challenges

Small scale of operations with dependence on few products – At present the company has a smaller 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. Furthermore, ICRA notes the high coverage of the company's product basket under the National List of Essential Medicines (NLEM), restricting its ability to take price hikes. ICRA will continue to monitor the impact of any further increase in such coverage, which may negatively impact the company's growth and profit margins.

Regulatory non-compliance in the past – The company 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.

Liquidity position: Strong

RPGLS had external term loans of Rs. 0.3 crore as on September 30, 2020, which are scheduled to be repaid in FY2022. The company does not have any plans of availing any additional term loan for funding its capex plans, which in aggregate amount to Rs. 55-65 crore over FY2021-FY2023. 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 ~6% for the 12-month period ended September 30, 2020. Furthermore, the company enjoys financial flexibility as part of the RPG Group.

Rating sensitivities

Positive triggers – The rating is unlikely to be upgraded in the near term. However, a considerable increase in the company's scale of operations, while maintaining its strong credit profile, would be a positive.

Negative triggers – Negative pressure on RPGLS' rating could arise if there is a sustained deterioration in the company's operating performance, leading to moderation in its return on capital employed (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 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.

In H1 FY2021, RPGLS reported a profit after tax (PAT) of Rs. 20.2 crore on an operating income (OI) of Rs. 188.8 crore, against a PAT of Rs. 18.1 crore on an OI of Rs. 192.5 crore in H1 FY2020.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	330.2	375.6
PAT (Rs. crore)	10.8	29.0
OPBDIT/OI (%)	10.4%	16.1%
PAT/OI (%)	3.3%	7.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	1.1	0.2
Interest Coverage (times)	7.1	21.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2020	FY2019	FY2018
					17-Dec-2020	29-Nov-2019	20-Aug-2018	28-Jul-2017
1	Term Loans	Long-term	35.00	0.0	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based Bank Facilities	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]A2+	[ICRA]A2+	[ICRA]A2+
4	Non-fund Based Bank Facilities^	Short-term	(2.00)	-	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

^Sub-limit of long-term, fund-based facilities; Amount in Rs. crore; As on September 30, 2020

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	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	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: RPG Life Sciences Limited

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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.

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

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