October 10, 2022(Revised)

Jagsonpal Pharmaceuticals Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund Based/Non-fund based-Unallocated	1.80	1.80	[ICRA]BBB (Positive)/[ICRA]A3+ reaffirmed; outlook revised to Positive from Stable
Total	1.80	1.80	

Instrument details are provided in Annexure-I

Rationale

The positive outlook on the ratings factor in the growth plans identified by Jagsonpal Pharmaceuticals Limited (JPL)'s new management following the acquisition by a professional private equity fund- Infinity Holdings in Q1 FY2023. In addition to driving company's growth through product portfolio expansion, the company has also been making efforts to improve its cost structure.

The ratings reaffirmation factor in JPL's long track record of operations, good brand presence, strong pan-India distribution network and healthy financial risk profile. The ratings also factor in the successful launch and scale up of Dydrogesterone molecule in FY2022.

The ratings are, however, constrained by JPL's moderate operating scale and limited growth in the existing brands till now with stiff competition due to the presence of a large number of generic drug manufacturers in the domestic branded generic segment. Further, some of the company's key brands have been under price control coverage or are based on old molecules, thus limiting the overall profitability. ICRA also considers JPL's complete dependence on third-party manufacturers through loan-licensing model which would require the company to ensure quality standards for the manufactured products.

Key rating drivers and their description

Credit strengths

Long track record as a formulation player– The company has an established track record in the branded pharmaceutical formulations industry, spanning more than 50 years. Over the years, the company has successfully launched and grown multiple brands in women healthcare, orthopedic and other over the counter (OTC) segments. The company derives around 25-30% of the revenues from gynaecology, 18-20% from orthopaedic and remaining from multiple therapeutic areas such as antibiotics, allergy management, immunity and cell protection as well as OTC products. The company has a sizeable portfolio in the gynaecology and orthopaedic segments and operates through three business units dedicated to pharmaceutical formulations (Pharma division), women healthcare (Naari division) and OTC products (Shovacare).

Good performance of recent product launch; growth plans under the aegis of new promoters In H2 FY2022, newly launched molecule, Dydrogesterone, has received well by the market and its sales scaled up to contribute 6% of JPL's FY2022 revenues. In Q1 FY2023, a private equity fund- Infinity Holdings acquired 43.7% of shareholding and JPL's ownership from Kochhar family. The company's board was also reconstituted and new seasoned professionals were brought on board. The new management has devised growth plans for the next two years which would focus on continuation of new product launches, brand portfolio expansion including in-licensing of third party brands which can use JPL's already established distribution network. Notably, till now, majority of JPL's top brands are based on old molecules which have witnessed stagnant growth in the past 2-3 years. The new management is also implementing cost structure improvements including work force restructuring and forging favorable third party manufacturing arrangements. ICRA will continue to monitor the results of these initiatives and the impact on the business risk and credit profile of JPL.

Large distribution network spread across the country - Over the years, JPL has developed a diversified distribution network across India and has made strong relationship with its suppliers, distributors, and other stakeholders. The company has a strong sales force of around 1000 distributed geographically across India though North and West India remain stronger target markets for JPL. The company derives almost 90-95% of its sales from domestic market and also has some API exports.

Healthy financial risk profile – JPL posted healthy revenue growth of 20% in FY2022 backed by scale of Dydrogesterone and increased anti-biotic sales during second Covid-19 wave. While margins stood healthy at ~17% in H1 FY2022, new launch expenses, transaction expenses for ownership change, high raw material costs and other one-time expenses resulted in weakening of operating margins over the next few quarters. Nevertheless, the company's financial risk profile remained healthy owing to debt free balance sheet and strong liquidity in the form of free cash balances and fixed deposits. Going forward, ICRA expects the funding requirements for the company to remain moderate owing to minimal capex requirements and moderate working capital intensity. However, any debt funded inorganic expansion or substantial depletion of liquidity and its impact on the credit profile will be a rating monitorable.

Credit challenges

Moderate scale of operations amid intense competition in generic formulations industry – Though JPL's top line has shown healthy growth in FY2022, it remains a moderate-sized player in the intensely competitive generic formulations industry. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some of these players also having a pan-India presence. This restricts the company's revenue growth and pricing flexibility. Also, many JPL's brands witnessed limited growth for the past 2-3 years due to high competition in their target segments.

Regulatory risks as is prevalent in the sector like price controls –Further, some of the company's key brands such as Lycored are under price control coverage, thus garnering lower margins. Currently, around 6-7% of the revenues are derived from the products which are under price control. Nonetheless, the shift in focus towards the high margin new products and new product launches are expected to augur well for the company.

Dependence on third party manufacturers – JPL has completely outsourced its manufacturing processes through loan licensing arrangement wherein, the company acts as the marketer of the formulations and utilises the already approved licensed manufacturing units of the vendors for its manufacturing process. Though this arrangement obviates the need of heavy investment in plant and machinery on the company's part, the adherence to the quality standards remains critical for the company.

Environmental and Social Risks

Environmental Considerations – JPL does not face any major physical climate risk. Currently, the company does not have any manufacturing operations of its own and has completely outsourced to reputed third party contract manufacturers. These manufacturers could face the tightening environmental regulations with regard to breach of the waste and pollution norms, which can lead to an increase in operating costs. These manufacturers would also require capital investments to upgrade their effluent treatment infrastructure to reduce waste generation. These additional costs could cascade to JPL.

Social Considerations – The industry faces social risks relating to product safety and the associated litigation risks. The company has a track record of not having to bear any material product safety or litigation issues which indicates its sensitivity towards responsible operations. Further, government intervention related to price caps/ control also remains a social risk for the pharmaceutical industry in view of the government's mandate to restrain the healthcare costs for people. In any case, given that only 6% of JPL's portfolio is currently under the ambit of price control, this isn't a material social risk.

Liquidity position: Strong

JPL has strong liquidity profile supported by Rs. 60-70 crore of unencumbered cash balances and liquid investments as on August 2022 and healthy cash flow from operations. The liquidity profile is further supported by minimal capital expenditure plans and zero debt servicing obligations.

Rating sensitivities

Positive factors – ICRA could upgrade JPL's ratings if it is able to sustain the revenue growth while maintaining the profitability margins. Regular new product launches leading to better diversification in the product portfolio, as well as increase in the overall scale of operations, could lead to a positive rating action.

Negative factors – ICRA could downgrade JPL's ratings if its working capital intensity deteriorates significantly on a sustained basis. Further, significant decline in scale or profitability on a sustained basis may result in a change in outlook to stable/ rating downgrade. Any potential debt-funded capital expenditure, which could result in weakening in its liquidity position on a sustained basis will remain a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

JPL is engaged in manufacturing of generic pharmaceutical formulations with focus on women healthcare, gynae and orthopaedic segments. Apart from these segments, the company also sells products in areas such as antibiotics, allergy management, immunity and cell protection etc. The company is listed on the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). The company has completely outsourced its manufacturing to third party contract manufacturers and has shut down its only plant in Faridabad in December 2021.

JPL was founded by Mr. Jagmohan S Kochhar in 1964 and has been managed by Mr. Kochhar's family for the last more than 50 years till FY2022. In Q1 FY2022, the Kochhar family transferred 43.7% of the shares and ownership to a Mauritius based professional private equity fund- Infinity Holdings and reduced their own stake to around25%. The fund has appointed a professional CEO who has significant experience in pharmaceutical industry and is devising and execute growth plans for the company.

Key financial indicators (audited)

JPL	FY2021	FY2022
Operating income	187.9	226.1
PAT	17.1	19.6
OPBDIT/OI	10.2%	11.4%
PAT/OI	9.1%	8.7%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.4	0.0
Interest coverage (times)	37.2	90.5

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

Status of non-cooperation with previous CRA: None

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of August 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2019
					Oct 10, 2022	Mar 10, 2022	Sept 30, 2021	Mar 04, 2021	Aug 19, 2020	Feb 07, 2019
1	Non-fund based	Long-term	-	-	-	-	-	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Non-fund based	Short-term	-	-	-	-	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+
3	Unallocated	Long-term / Short term	1.80	-	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term – Fund Based/Non Fund Based - Unallocated	Not applicable

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	Long-term / Short-term – Fund Based/Non Fund Based - Unallocated	NA	NA	-	1.80	[ICRA]BBB (Positive)/ [ICRA]A3+

Source: Company

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

Corrigendum

Rationale dated October 10, 2022 has been corrected with revision as detailed below:

There are two corrections in the Rating History table. The ratings for long term Non-fund based facilities and short term Non-fund facilities were incorrectly mentioned as [ICRA]BBB-(Stable) and [ICRA]A3 for the rating exercise dated Feb 07, 2019. Instead, the correct ratings were [ICRA]BB+(Stable) and [ICRA]A4+

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