November 30, 2023

Intas Pharmaceuticals Limited: Ratings reaffirmed

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 limit	1500.00	1500.00	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Total	**1500.00**	**1500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Intas Pharmaceuticals Limited (IPL) factor in its established position as one of the leading Indian pharmaceutical companies with a geographically diversified revenue mix and its healthy financial profile, as marked by its strong cash accrual generation and liquidity position, as well as comfortable capital structure with robust debt protection metrics.

IPL is ranked sixth[1] in the Indian pharmaceutical market (IPM) (ranked ninth in FY2021) supported by its strong performance in key therapeutic areas such as central nervous system (CNS), cardio-vascular system (CVS) and anti-diabetics. IPL's revenues from the domestic market grew to ~ Rs. 6,753 crore in FY2023 (+13% YoY). Moreover, despite continued pricing pressure, IPL also reported steady growth in its other key market, i.e. Europe, with revenues of ~ Rs. 7,570 crore in FY2023 (+9% YoY) supported by new product launches and sales volume growth of key molecules such as filgrastim and pegfilgrastim. IPL is one of the first Indian companies to launch biosimilar products in the European markets, having three products in the market at present. Continued investments in specialty products (including oncology and biosimilars) are expected to drive its growth in export markets over the medium term. However, IPL's ability to generate commensurate returns on the same will be the key in sustaining the company's return indicators.

ICRA notes the import alert and warning letter issued by the United States Food & Drug Administration (USFDA) to IPL's manufacturing facility located at Pharmez SEZ, Ahmedabad (Gujarat) in June 2023, impacting the exports from this facility to the US market. This led to moderation in growth momentum and contraction in operating margins to 18.6% in FY2023 (21.7% in FY2022) on account of additional expenses, including failure to supply (FTS) penalties. However, its capital structure and debt protection metrics remained comfortable, aided by healthy internal accrual generation and a reduction in debt levels. While further moderation in margins is likely in FY2024 on account of the import alert and additional expenses to be incurred towards resolution of the same, the margins are expected to gradually improve post FY2024 on account of gradual growth of revenues from the US market and steady performance in other key markets. ICRA also notes that the company is undertaking measures to ensure the resolution of the import alert at the earliest. Accordingly, the overall credit profile of the company is expected to remain strong despite the import alert, given the relatively lower contribution of the US business to its overall revenues (15% in FY2023).

ICRA also notes that ~21% of IPL's domestic formulations portfolio falls under the National List of Essential Medicines (NLEM) and is exposed to possibility of more price caps under the Drugs Prices Control Order (DPCO). However, comfort can be drawn from the fact that this has not had any major impact on the margins of the company.

The ratings continue to factor in IPL's exposure to regulatory risks and foreign currency fluctuations (due to exports, imports and foreign currency borrowings). Resolution of the existing import alert will be key to IPL's growth in the US. ICRA also notes the ongoing litigations and any adverse impact of the same on the operations and financials of the company would be a key

[1] *Source: Company (as per IQVIA MAT, August 2023 data)*

rating sensitivity. Further, any large inorganic investment by the company would also remain an event risk, and the impact of such investments on its business and credit profiles would be monitored on a case-by-case basis.

The Stable outlook on the long-term rating reflects ICRA's opinion that IPL will continue to benefit from its established business position in the domestic market, diversified presence in the international markets and healthy product pipeline. This, coupled with healthy internal accrual generation and a strong liquidity position, will continue to support the company's credit profile.

Key rating drivers and their description

Credit strengths

Leading player in the Indian branded formulations segment – IPL has continued to maintain a strong market position in IPM with a market share of 3.41% in FY2023 (3.15% in FY2021) and was ranked seventh[2] in IPM. Its rank further improved to sixth in August 2023. The company continues to have a strong market position in some of the key lifestyle-related therapeutic segments, such as CNS and CVS. Revenues from the domestic market grew by 13% YoY to ~ Rs. 6,753 crore in FY2023 driven by broad-based growth across key therapeutic areas and improving sales force productivity. Going forward, IPL's domestic business is expected to continue to grow supported by the growth of key therapies such as CNS, CVS, anti-diabetics and new product launches.

Geographically diversified revenue mix – IPL has a well-diversified geographical presence across Europe (39% of FY2023 revenue), the domestic market (34%), the US (15%) and the Rest of World (RoW; 13%). The company had concluded its largest acquisition with the GBP 603 million takeover of Actavis UK and Ireland in FY2017. The acquisition has helped IPL in growing scale in its core UK market, providing an established supply chain, better bargaining power with customers and access to an additional customer base. The company continues to be a major player within the generic hospital segment, estimated to be one of the top suppliers of such products across Europe by turnover and the largest provider of generic chemotherapy by volume in the European Union.

While the import alert by the USFDA is expected to impact IPL's US business, the overall performance of the company is expected to remain strong supported by a strong presence in the European and domestic markets. The RoW business is also expected to continue to grow over the near-to-medium term supported by healthy contributions from growing markets such as Brazil, Mexico and South Africa.

Healthy financial profile as marked by healthy capitalisation, coverage indicators and strong liquidity position – The financial profile of IPL continues to remain healthy marked by total debt (including lease liabilities) of Rs. 1,596.2 crore against unencumbered cash and cash equivalent of Rs. 3,436.3 crore as on March 31, 2023. Accordingly, the capitalisation and coverage indicators of IPL continued to remain strong with total debt/OPBDITA, net debt/OPBDITA, TOL/TNW and interest coverage of 0.4 times, -0.5 times, 0.5 times and 29.7 times, respectively. Further, the liquidity profile also continues to remain strong aided by robust cash flow generation and cash, cash equivalents and liquid investments of ~Rs. 3,800 crore (at consolidated level) as on September 30, 2023, in addition to surplus liquidity available in the form of unutilised working capital limits.

Credit challenges

Exposure to regulatory risks and litigations; pending resolution of import alert by USFDA for a key manufacturing facility – The company's operations remain exposed to regulatory risks, arising out of the greater scrutiny by regulatory agencies as well as pricing controls in the domestic market. The USFDA issued an import alert to IPL's manufacturing facility located in Pharmez SEZ, Ahmedabad (Gujarat) in June 2023. Given that the resolution of the import alert could take some time, the development will adversely impact IPL's new product approvals and launches in the US generics. Accordingly, the company's revenues from the US are likely to be moderated with an impact on earnings owing to costs associated with remediation measures and

[2] *Source: Company (as per IQVIA MAT, March 2023 data)*

fulfilling existing contracts. IPL's biosimilars facility at Moraiya was earlier issued a Form 483, which is expected to be addressed shortly, pending inspections by the USFDA. The company's ability to generate adequate returns on its ongoing investments in the biosimilar space, especially in the US, would be dependent on the development and approval process for the generic equivalents. Moreover, ~21% of IPL's domestic formulations business is covered under NLEM, thereby exposing it to future price control measures or the addition of more products to the list of NLEM drugs.

ICRA also notes the various ongoing litigations, including the penalty imposed by the competition and markets authority (CMA) on the group based on the infringement order against IPL's UK-based subsidiary, i.e. Accord UK. IPL has legally contested CMA's order, with the matter presently being sub-judice. Any materially adverse impact (higher than earlier order amount) of the ongoing litigations on the operations and financials of the company would be a key rating sensitivity.

Vulnerability of profitability to forex fluctuations – The company's revenues and margins remain susceptible to unfavourable forex movements as ~66% of its revenues are received from overseas markets. However, the hedging mechanism adopted by IPL mitigates the risk to a large extent.

High investments in biosimilars business are expected to continue over the near-to-medium term; commensurate returns will be key in sustaining the return indicators – Increasing competition in the biosimilars space is likely to result in increased pricing pressure for IPL. However, the company's healthy biosimilars product portfolio (including its pipeline) and its global footprint are likely to mitigate competitive threats to a large extent. IPL is one of the first Indian companies to launch biosimilar products in the European markets, having three products in the market at present with a healthy market share for these products. IPL also derives a sizeable part of the revenues in this segment from the domestic market, currently having commercialised 14 products. Going forward, IPL's presence in the biosimilars space is expected to increase globally, including in developed markets (the US and Europe) through owned as well as in-licenced products. IPL has made high investments in the biosimilars business in recent years and the same is expected to continue over the near-to-medium term. Its ability to generate commensurate returns on the same will be key in sustaining the company's return indicators over the medium term.

Liquidity position: Strong

The liquidity position of IPL is strong, supported by healthy cash flow generation and unencumbered cash, cash equivalents and liquid investments of ~Rs. 3,800 crore (at consolidated level) as on September 30, 2023. IPL also had unutilised working capital limits of ~ Rs. 2,270 crore (at standalone level) as on July 31, 2023. Notwithstanding some moderation in revenue growth and margins in FY2024, IPL's retained cash flows are expected to remain healthy to meet the capital expenditure (capex) requirements of IPL (~Rs. 1,500 crore in FY2024 and ~Rs. 1,150 crore in FY2025) and long-term debt repayments of ~Rs. 224 crore in FY2024.

Rating sensitivities

Positive factors – The ratings may be upgraded if IPL reports sustained improvement in its revenues while maintaining its profitability margins across its key geographies, leading to sustained improvement in return indicators and further strengthening of its financial risk profile.

Negative factors – The ratings may be downgraded if there is a weakening in the company's revenues and profitability and/or increase in debt levels, leading to an increase in net debt/ OPBDITA to above 1.0 times on a sustained basis. Any regulatory noncompliance issued to IPL for its products and/or manufacturing facilities, which may impact its product launches and, thereby, its revenues and profitability, would also be a negative trigger. Large debt-funded inorganic investments by the company or any adverse outcome of ongoing litigations would remain an event risk, and the impact of the same on the company's business and credit profile would be monitored on a case-by-case basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IPL. As on March 31, 2023, the company had 12 subsidiaries and 26 step-down subsidiaries, which are all enlisted in Annexure II.

About the company

Incorporated in 1985, IPL is the flagship company of the Ahmedabad-based Chudgar Group. The company commenced operations by setting up a small manufacturing facility focused on chronic therapeutic segments, including neurology and psychiatry, before gradually gaining a meaningful presence in the domestic formulations market by the 1990s. Over the years, the company has diversified into wide therapeutic areas and ventured into international markets by exporting generic drugs and through contract manufacturing.

IPL is ranked as the sixth largest domestic formulations company, as per IQVIA MAT August 2023, generating nearly 34% of its turnover (for FY2023) from its domestic business. The company operates 17 manufacturing facilities, with 13 in India, and the remaining is spread over the UK (2), Greece and Mexico. IPL's manufacturing facilities are approved by various regulatory authorities, including the USFDA, UK MHRA, MCC (South Africa), TGA (Australia) and ANVISA (Brazil). IPL's promoters, the Chudgar family currently owns a 83.84% stake in the company with 7.13% being held by Temasek Holdings, 6.02% by Chrys Capital through four different funds and 3% by Abu Dhabi Investment Authority through its Investment Trust.

Key financial indicators

IPL - Consolidated	FY2022	FY2023	3M FY2024*
Operating income	18418.3	20079.2	4949.0
PAT	2679.2	2422.8	605.3
OPBDIT/OI	21.7%	18.6%	18.2%
PAT/OI	14.5%	12.1%	12.2%
Total outside liabilities/Tangible net worth (times)	0.5	0.5	0.5
Total debt/OPBDIT (times)	0.6	0.4	0.5
Interest coverage (times)	35.9	29.7	31.0

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *provisional; All ratios as per ICRA calculations*

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	Jun 14, 2023	Sep 22, 2022	Jul 19, 2021	Nov 04, 2020
1	**Fund based/ Non-fund based facilities**	Long term and short term	1,500	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term fund-based/ Non-fund based facilities	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	Fund based/ Non-fund based facilities	NA	NA	NA	1,500	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis for FY2022-23

Company Name	IPL's Ownership	Consolidation Approach
Subsidiaries		
Accord Healthcare Limited, UK	100.00%	Full Consolidation
Astron Research Limited, UK	100.00%	Full Consolidation
Accord Healthcare Inc., North Carolina, USA	100.00%	Full Consolidation
Accord Healthcare (Pty) Limited, South Africa	100.00%	Full Consolidation
Accord Farmaceutica Ltda., Brazil	100.00%	Full Consolidation
Accord Healthcare SAC, Peru	100.00%	Full Consolidation
Accord Farma S.A. De C.V., Mexico	100.00%	Full Consolidation
Accord Healthcare Inc., Canada	100.00%	Full Consolidation
Accord Healthcare Pty. Ltd., Australia	100.00%	Full Consolidation
Intas Third Party Sales 2005 S.L.	100.00%	Full Consolidation
Accord Healthcare (Kenya) Limited	100.00%	Full Consolidation
Andre Laboratories Limited (upto December 31, 2021)	-	Full Consolidation
SM Herbals Private Limited	100.00%	Full Consolidation
Step-down Subsidiaries		
Farmbaiot S.A DE CV, Mexico	100.00%	Full Consolidation
Essential Pharmaceuticals LLC	100.00%	Full Consolidation
Accord Biopharma Inc. USA	100.00%	Full Consolidation
Accord Healthcare SAS, France	100.00%	Full Consolidation
Accord Healthcare BV, Netherlands	100.00%	Full Consolidation
Accord Healthcare Sociedad Limitada, Spain	100.00%	Full Consolidation
Accord Healthcare Italia SRL, Italy	100.00%	Full Consolidation
Accord Healthcare Polska Spolka Z Organiczona Odpowiedzialnoscia, Poland	100.00%	Full Consolidation
Accord Healthcare AB, Sweden	100.00%	Full Consolidation
Accord Healthcare GmbH, Austria	100.00%	Full Consolidation
Accord Healthcare OY, Finland	100.00%	Full Consolidation
Accord Healthcare Ireland Limited, Ireland	100.00%	Full Consolidation
Accord Healthcare BVPA, Belgium	100.00%	Full Consolidation
Accord Healthcare Limited, Malta	100.00%	Full Consolidation
Accord Healthcare GmbH, Germany	100.00%	Full Consolidation
Accord Healthcare SDN BHD, Malaysia	100.00%	Full Consolidation

Company Name	IPL's Ownership	Consolidation Approach
Accord Healthcare MENA DMCC, UAE	100.00%	Full Consolidation
Accord-Healthcare Kft., Hungary	100.00%	Full Consolidation
Accord Healthcare S.R.O., Czech Republic	100.00%	Full Consolidation
Accord Healthcare Single Member S.A., Greece	100.00%	Full Consolidation
Accord Healthcare Private limited, Singapore	100.00%	Full Consolidation
Accord Healthcare, Unipessoal, Lda, Portugal	100.00%	Full Consolidation
Accord Healthcare HK Limited, Hongkong (upto October 28, 2022)	100.00%	Full Consolidation
Accord Healthcare SRL, Romania	100.00%	Full Consolidation
Accord Healthcare AG, Switzerland	100.00%	Full Consolidation
Accord UK Limited, UK	100.00%	Full Consolidation
Accord Healthcare Thailand Limited (Thailand)	100.00%	Full Consolidation
Accord Healthcare Korea Limited, South Korea (upto April 2, 2021)	-	Full Consolidation
Accord Biosimilars LLC (upto February 28, 2023)	-	Full Consolidation
Jointly controlled Entity		
Alvi-Intas Medical Devices Private Limited (upto December 31, 2021)	-	Equity Method

Source: IPL annual report of FY2023

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 61143400
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545328
deepak.jotwani@icraindia.com

Gaurav Kushwaha
+91 40 45474829
gaurav.kushwaha@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches