November 01, 2024

# 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 reaffirmation of the ratings of Intas Pharmaceuticals Limited (IPL) factors in its strong financial profile, marked by healthy cash accruals, comfortable capital structure, strong debt protection metrics and liquidity position. Despite moderation in IPL's revenues and margins on account of the import alerts issued by USFDA[1] to two of its key manufacturing facilities located at Matoda and Pharmez SEZ, Gujarat, its overall cash generation has remained healthy. Supported by this, the company has continued to maintain a net cash surplus position and its dependence on external debt is limited to the working capital debt availed primarily by a few of its subsidiaries. The ratings also factor in IPL's geographically diversified revenue mix with a strong presence in the European and domestic pharmaceutical markets and a growing presence in the Rest of the World (RoW) markets. IPL is ranked sixth in the Indian pharmaceutical market (IPM) with a market share of 3.6%[2]. It is also among the leading Indian generic formulation manufacturers in Europe with a strong presence in the UK. IPL is one of the first Indian companies to launch biosimilar products in the European markets and has three products at present. Further, its healthy pipeline of in-licensed and own products (including biosimilars) and continued investments in specialty products (including oncology and biosimilars) are expected to drive IPL's growth in the export markets over the medium term. However, its ability to generate commensurate returns on the same will be the key in sustaining the company's return indicators.

IPL, however, continues to remain exposed to regulatory risks as it belongs to the pharmaceutical industry, which is highly regulated. Its significant presence in regulated markets like the US and Europe further increases its exposure to such risks. ICRA notes the import alerts issued to two of IPL's manufacturing facilities, which have impacted its revenue growth due to a substantial impact on its sales in the US. Besides the expenses incurred for the remediation activities and the failure to supply (FTS) penalties, this has also impacted its operating profit margin (OPM). IPL's OPM reduced to 12.5% in FY2024 from 18.6% in FY2023 and 21.7% in FY2022. IPL also remains exposed to risks of litigations including those related to patent infringement and anti-competitive practices, which are quite prominent in the pharmaceutical industry. In this regard, ICRA notes the ongoing proceeding against the sale of one of IPL's products, hydrocortisone, which is currently pending with the Court of Appeals. ICRA also notes that ~21% of IPL's domestic formulations portfolio falls under the National List of Essential Medicines (NLEM) and is exposed to the possibility of more price caps under the Drugs Prices Control Order (DPCO). IPL also remains exposed to forex fluctuations due to its substantial exports and imports. Moreover, 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-to-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.

[1]*United States Food and Drugs Administration*

[2]*As per IQVIA MAT March 2024*

## Key rating drivers and their description

### Credit strengths

**Leading player in the Indian branded formulations segment –** IPL has continued to maintain a strong position in IPM with a share of 3.6% in FY2024, up from 3.15% in FY2021 and is ranked sixth in IPM. The company continues to have a strong market position in the chronic segment with prominent presence in therapies like CNS and CVS[3]. The domestic segment's revenues grew by more than 13% on a YoY basis to Rs. 7,647.6 crore in FY2024, supported by broad-based growth across key therapeutic areas as the company continued to outperform IPM's covered market growth rate. Moreover, IPL is expected to continue to benefit from its established presence in the domestic market with a strong sales force network and a strong presence in the chronic therapies, which would continue a healthy growth momentum, supported by India's growing geriatric population and higher instances of lifestyle related diseases.

**Geographically diversified revenue mix –** IPL has a well-diversified geographical presence across Europe (accounted for 41% of FY2024 revenues), the domestic market (39%), the US (7%) and the Rest of World (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. The company continues to strengthen its portfolio by entering into in-licensing agreements with its partners, which are expected to support IPL in sustaining its strong presence in Europe. Supported by its well diversified revenue with a strong presence in Europe and the domestic market, IPL has been able to maintain its strong financial profile, despite the impact of the import alerts on the US business.

**Strong R&D capabilities supporting development of strong generic product pipeline in key markets –** With high focus on R&D, IPL has been able to develop a strong product portfolio including complex generics (like injectables, oncology drugs and biosimilars) and has also invested in in-licensing of few biosimilars. It was one of the first Indian companies to launch two biosimilars in Europe and currently has a strong pipeline of biosimilars including Serplulimab (in-licensed for sales in Europe and India), Trastuzumab (in-licensed for sales in US, Canada & Europe) and Ustekinumab (in-licensed product, granted US FDA approval in October 2024. It is also investing in developing its own biosimilars. Driven by the increased focus on in-licensing arrangements and new product acquisitions/ development, the R&D expenditure of the company has increased significantly over the past few years to ~10% of its operating income in FY2024. Moreover, the company is expected to continue to focus on building a strong pipeline of specialty products and biosimilars and accordingly, the R&D expenses are expected to continue to remain at similar levels.

**Healthy financial profile as marked by healthy capitalisation and coverage indicators and strong liquidity position –** Despite some moderation in revenues and OPM in FY2024 on account of reduction in the US business, the company has been able to maintain its strong financial profile, supported by strong cash accruals and limited reliance on external debt. Its total debt (including lease liabilities) stood at Rs. 1,951.5 crore against unencumbered cash and cash equivalents of Rs. 3,976.1 crore as on March 31, 2024. Accordingly, the capitalisation and coverage indicators of IPL continued to remain strong with total debt/OPBDITA, net debt/OPBDITA, and TOL/TNW of 0.8 times, -0.8 times and 0.5 times, respectively as on March 31, 2024 and an interest coverage of 14.8 times for FY2024. Moreover, IPL's liquidity profile continues to remain strong, aided by robust cash flow generation, a healthy cash surplus position and surplus liquidity available in the form of unutilised working capital limits. Further, given the expectations of continued strong accrual generation, IPL is expected maintain its healthy financial profile over the near-to-medium term.

[3]*Central nervous system and cardiovascular system*

## Credit challenges

**Exposure to regulatory risks and litigations; pending resolution of import alert by USFDA for key manufacturing facilities –** Like its peers in the pharmaceutical industry, IPL's operations remain exposed to regulatory risks, arising out of scrutiny by regulatory agencies as well as pricing controls in the domestic market. The USFDA issued import alerts to IPL's manufacturing facilities located in Pharmez SEZ and Matoda, Ahmedabad (Gujarat) in June 2023 and December 2023, respectively. The impact on sales to the US and the costs associated with the remediation activities and FTS penalties have impacted IPL's revenues and margins. Moreover, the import alerts will also adversely impact IPL's new product approvals and launches in the US. Thus, the company's revenues from the US and the overall OPM is like to remain supressed over the near term with gradual improvement in the medium term. Moreover, ~21% of IPL's domestic formulations business is covered under NLEM, with a possibility of future price control measures or 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, Accord UK. The matter is currently pending with the Court of Appeals and the outcome remains unascertainable. However, out of the total penalty of 221.1 million euro levied by CMA on the Intas Group, erstwhile Actavis UK Limited (now Accord UK) and Teva Pharmaceuticals (erstwhile owner of Actavis UK Limited), 44.4 million euro pertains to IPL. Against this, the company has already made provisions of 22.2 million euro. Any materially adverse impact (higher than the earlier order amount) of the ongoing litigations on the operations and financials of the company would be a key rating sensitivity.

**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 competition to a large extent. IPL has continued to invest in this segment, which is also visible from its high R&D expenditure of ~10% of its operating income in FY2024. Biosimilars generate a sizeable part of IPL' revenues in Europe (having commercialised three products) and the domestic market (14 products). Going forward, IPL's presence in the biosimilars space is expected to increase globally, including in developed markets (like the US and Europe) through owned as well as in-licensed products. IPL has made high investments in the biosimilars business in the recent years and the same are 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 unencumbered cash and bank balance and liquid investments of Rs. 3,976.1 crore (at a consolidated level) on March 31, 2024. Liquidity is also supported by unutilised bank limits of more than Rs. 2,300 crore (at a standalone level). Further IPL has no long-term debt repayment obligations and its retained cash flows are expected to remain sufficient to meet its capex requirements of Rs. 1,200-1,300 crore per annum.

## 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]<br>[Pharmaceuticals] |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of IPL. As on March 31, 2024, the company had 12 subsidiaries and 28 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 the sixth largest domestic formulations company, as per IQVIA MAT March, 2024, generating nearly 39% of its turnover (for FY2024) from the domestic business. The company operates 17 manufacturing facilities, with 13 in India, and the remaining is spread over the UK (two), 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 owns an 83.84% stake in the company.

### Key financial indicators

| IPL - Consolidated | FY2023 | FY2024 |
|---|---|---|
| **Operating income** | 20,086.2 | 19,667.8 |
| **PAT** | 2,422.8 | 1,162.1 |
| **OPBDIT/OI** | 18.6% | 12.5% |
| **PAT/OI** | 12.1% | 5.9% |
| **Total outside liabilities/Tangible net worth (times)** | 0.5 | 0.5 |
| **Total debt/OPBDIT (times)** | 0.4 | 0.8 |
| **Interest coverage (times)** | 29.6 | 14.8 |

*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 (FY2025) | | | Chronology of rating history for the past 3 years | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Date & rating in FY2025 | Date & rating in FY2024 | | | Date & rating in FY2023 | Date & rating in FY2022 |
| | | | | Nov 1, 2024 | Dec 18, 2023 | Nov 30, 2023 | Jun 14, 2023 | Sep 22, 2022 | Jul 19, 2021 |
| 1 | **Fund based/ Non-fund based facilities** | Long term, 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+ | [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 FY2024

| 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 |
| 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 Biosimilars LLC (upto October 28, 2022) | 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 BVBA, 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 February 28, 2023) | 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 Distribution SRL, Romania | 100.00% | Full Consolidation |

*Source: IPL annual report of FY2024*

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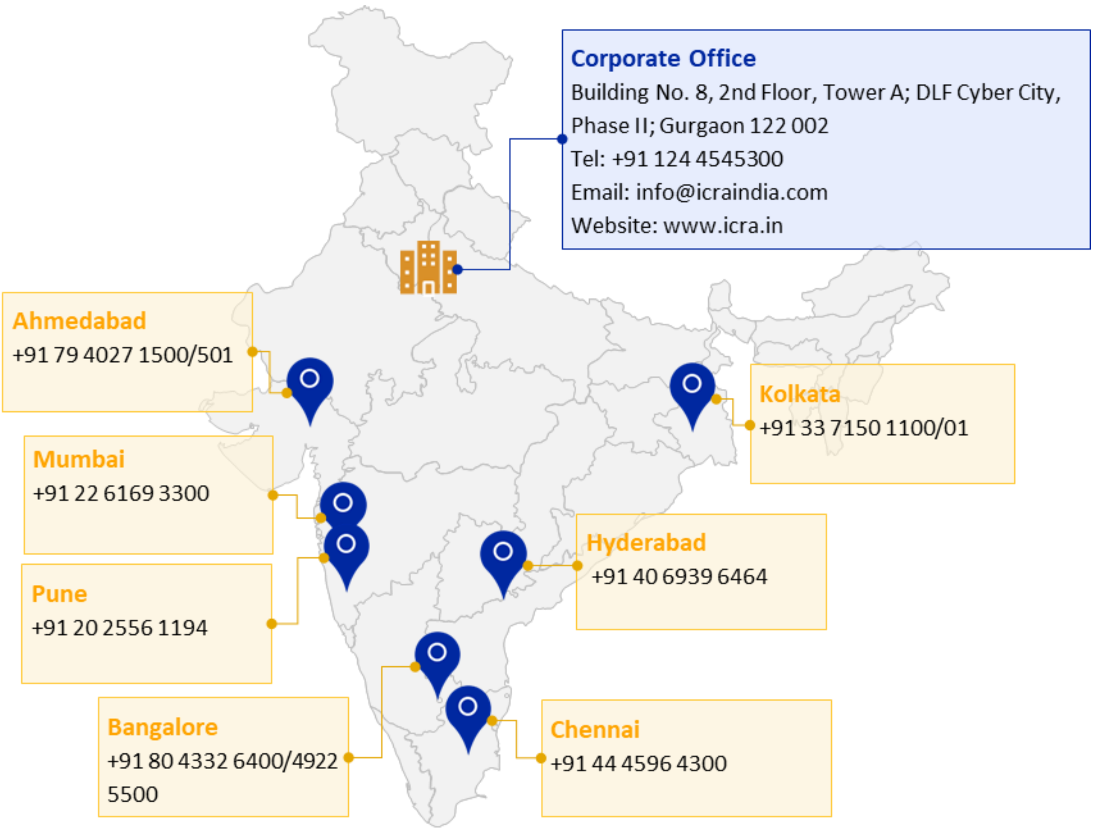




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