Intas Pharmaceuticals Limited

Instrument	Amount	Rating Action
Long-term/ short-term, fund-based/ non-fund based facilities	Rs. 550.0 crore	Long-term rating revised to [ICRA]AA (stable) from [ICRA]AA+ (stable); Short-term rating of [ICRA]A1+ reaffirmed

ICRA has revised the long-term rating assigned to the Rs. 550.0 crore[1], long-term/ short-term, fund-based/ non-fund based bank facilities of Intas Pharmaceuticals Limited (IPL)[2] to [ICRA]AA (pronounced ICRA double A) from [ICRA]AA+ (pronounced ICRA double A plus) and reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus). The outlook on the long-term rating is stable.

The rating revision takes into account the recent announcement of IPL to acquire the divested business of Teva, UK (comprising the UK and Ireland generics business and the Barnstaple manufacturing facility) through its wholly-owned subsidiary in the UK-Accord Healthcare Limited-for a consideration of GBP 603 million (~Rs. 5,110 crore). The proposed portfolio acquisition of 300+ molecules (1,063 SKUs) comprises mostly mature products, with a limited pipeline of new launches. The UK being Accord's core market, the acquisition is aimed at building scale in the UK, thereby enabling IPL benefit from economies of scale in API procurement, better bargaining power with the customers and access to additional customer base. This acquisition is expected to further increase the contribution of Europe to IPL's consolidated revenues going forward - Europe already accounts for 39% of IPL's international business revenues and 22% of the total revenues in FY2016. Further, ICRA notes the high concentration of the top 15 molecules in the total acquired portfolio (~42% of the total estimated CY2016 revenues), with some of the major molecules expected to witness significant competition from CY2017 onwards, thereby driving down the selling price. Overall, while growth prospects remain strong in the near term, the impact of increasing pricing pressure in the European markets stemming from the various healthcare reforms, remains one of the key monitorables. ICRA also notes that some of these products being acquired have been levied fines under competitive investigations. However, ICRA takes comfort from IPL management's indication that the Share Purchase Agreement would involve an indemnity by Teva towards all such investigations, such that IPL would not be liable for any devolvement of penalties.

The acquisition cost, valued at 2.4 times CY2015 sales of GBP 256 million and 4.9 times CY2016 EBITDA (management estimates), is to be entirely debt funded. The debt of ~Rs. 5,110 crore is significant when compared to the company's current balance sheet size. Thus, while the debt-funded acquisition is expected to weaken the credit profile of the company in the near term, ICRA takes comfort from the healthy cash accruals from the existing established business and additional cash flows from the acquired business which will help maintain the credit profile of the company.

The ratings continue to factor in IPL's strengthening market position in the domestic formulations business supported by its established presence in the relatively fast-growing chronic therapeutic segments, ability to consistently outperform the underlying domestic industry growth led by regular product introductions, and expanding therapeutic and market coverage; and the significant scale-up in the regulated markets business, through new product launches. With a healthy product pipeline in the near-term, ICRA expects IPL to maintain strong growth momentum in international markets over the medium-term, further supporting its strong cash flows. The company's business model is characterised by improving diversity and increasing share of complex or limited competition products. The rating continues to be constrained by the potentially sizeable investments by the company in the biosimilars space and the challenges associated in generating adequate returns on these investments in view of the uncertainty related to the development and approval process for generic equivalents.

Company Profile

Incorporated in 1985, Intas Pharmaceuticals Limited (IPL) is the flagship company of the Ahmedabad-based Chudgar Group. The company commenced operations with the setting up of a small manufacturing facility that focused on the chronic therapeutic segments, including neurology and psychiatry, and gradually gained

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[1] 100 lakh = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA's website, www.icra.in, or other ICRA Rating Publications

meaningful presence in the domestic formulations market by the 1990s. Over the years, the company has diversified into different therapeutic areas and has ventured into international markets through exports of generic drugs and contract manufacturing.

At present, IPL is ranked the 10th largest domestic formulations company (as per Mar '16 MAT), generating nearly 42% of its FY2016 turnover from the domestic business and the remaining from international markets. The company operates ten plants, with eight located in India and one each in the UK and Mexico. IPL's manufacturing facilities have been approved by various regulatory authorities, including the USFDA, UKMHRA, MCC (South Africa), TGA (Australia) and ANVISA (Brazil). IPL commenced operations to the US after the USFDA approval for its Matoda facility in December 2006. The company is also backward integrated for cytotoxic products through its active pharmaceutical ingredient (API) facility at Matoda. After the equity infusion by Chrys Capital LLC in FY2013, IPL's promoters, the Chudgar family, currently own 83.86% stake in the company. Chrys Capital sold 10.13% stake to Temasek Holdings in November 2014; and hence, Temasek Holdings holds ~10.13% stake, while the remaining 6.01% stake is held by Chrys Capital.

Recent Results

For the twelve months ended March 31, 2016 (provisional), IPL reported a profit after tax (PAT) of Rs. 883.2 crore on an operating income of Rs. 6,621.5 crore as against a PAT of Rs. 557.0 crore on an operating income of Rs. 5,149.2 crore for the twelve months ended March 31, 2015.

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