

Sun Pharma Laboratories Limited

| Instrument | Amount | Rating Action |
|--|-------------------|------------------------------|
| Non-Convertible Debenture programme (carved out of earlier rated Rs. 2,800.0 crore long-term/short-term borrowing programme) | Rs. 1,000.0 crore | [ICRA]AAA(stable) reaffirmed |
| Short-term, fund-based/ non-fund based bank facilities | Rs. 200.0 crore | [ICRA]A1+ reaffirmed |
| Fresh Commercial Paper Programme (carved out of earlier rated Rs. 2,800.0 crore long-term/short-term borrowing programme) | Rs. 300.0 crore | [ICRA]A1+ assigned |
| Commercial Paper programme (carved out of earlier rated Rs. 2,800.0 crore long-term/short-term borrowing programme) | Rs. 1,500.0 crore | [ICRA]A1+ reaffirmed |

ICRA has reaffirmed the long-term rating of [ICRA]AAA (pronounced ICRA triple A) assigned to the Rs. 1,000.0 crore¹ non-convertible debenture programme of Sun Pharma Laboratories Limited (SPLL)². The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) assigned to the Rs. 200.0 crore, short-term, fund based/ non-fund based bank facilities and the Rs. 1,500.0 crore commercial paper programme of SPLL. ICRA has also assigned a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 300.0 crore Commercial Paper Programme of SPLL, carved out of the earlier [ICRA]AAA (pronounced ICRA triple A)/ [ICRA]A1+ (pronounced ICRA A One plus) rated Rs. 2,800.0 crore long-term/ short-term borrowing programme of the company.

The reaffirmation of ratings continues to take into consideration SPLL's status as a wholly-owned subsidiary of Sun Pharmaceutical Industries Limited (SPIL; rated [ICRA]AAA (stable)/ [ICRA]A1+), and its strong operational and financial linkages with the parent company, given its business profile, that includes the domestic formulations business of SPIL (except Ranbaxy's domestic sales). Thus, the rating draws comfort from SPLL's well-established presence in the Indian pharmaceutical market, which is supported by a well-diversified product portfolio spanning across various therapeutic segments, a focus on the fast growing chronic and lifestyle therapeutic segment (which contributed to ~59% of the domestic sales of SPIL in FY2016) and a strong supply chain and distribution network. Further, SPLL's domestic formulations business is characterised by a low product concentration, with the top 10 brands accounting for ~17% of the total domestic revenues in FY2016. The y-o-y revenue growth of ~15% (ex-Ranbaxy) has outpaced the industry growth rate of 13% in FY2016, supported by the fast-growing chronic therapeutic segment and the company's focussed field force catering to specialist doctors and other initiatives such as in-licensing of branded products.

SPLL's credit profile has remained robust, as characterised by strong operating margins, which further improved to 45.2% in FY2016 on account of lower input costs. This, coupled with higher interest income has helped SPLL report a profit after tax (PAT) of Rs. 670.5 crore in FY2016 as against a net loss of Rs. 22.7 crore in FY2015. The net loss in FY2015 is attributable to an exceptional loss of Rs. 242 crore on account of diminution in the value of SPLL's investments in Silverstreet Developers LLP. Meanwhile, the total debt for SPLL has increased to Rs. 1,006.7 crore as on March 31, 2016 from Rs. 8.7 crore as on March 31, 2015. However, despite the increase in debt levels, the capital structure and coverage indicators of the company remain healthy. Further, the company's liquidity profile remains strong with sizeable investments in liquid instruments (Rs. 606.8 crore as on March 31, 2016).

The ratings also take into account the strong business profile of the parent company SPIL, with sizeable contribution from the key US and domestic pharmaceutical markets. SPIL commands leadership position in the branded pharmaceutical industry in India, with a market share of 8.7% (for the 12 months ending September 30, 2016) SPIL continues to have a well-established presence in the US generics market, wherein it ranks fifth in terms of generic sales, despite increasing pricing pressures in the market. Besides, a strong subsidiary base in this market in the form of Taro Pharmaceuticals further supports the US-based business by way of a strong product pipeline. As on September 30, 2016, SPIL has 144 abbreviated new drug applications (ANDAs)

¹ 100 Lakh = 1 Crore = 10 Million

²For complete rating definition please refer to ICRA Website www.icra.in or any of the ICRA Rating Publications

pending approvals from the US Food and Drug Administration (USFDA), including 13 tentative approvals. Further, the increasing investments in research & development (R&D), particularly in building the speciality and complex products portfolio, are expected to augur well for the company, in the form of diversification of US-based revenue base and improved profitability levels. The active pharmaceutical ingredients (API) division too, by virtue of strategic acquisitions, has enabled SPIL to strengthen its vertically integrated network and also boost external sales of APIs in FY2016. The ratings also take into consideration the strong financial profile of SPIL, as evinced by its industry-leading profitability levels, robust return indicators and strong liquidity position, supported by sizeable cash balances.

Company Profile

Sun Pharmaceutical Industries Limited (SPIL) is a leading Indian pharmaceutical company engaged in developing, manufacturing and marketing of formulations and active pharmaceutical ingredients (APIs). Its business is broadly categorised in four segments – India branded generics, United States (US) formulations, International generics or Rest of World (RoW) business, and APIs. Sun Pharma Laboratories Limited (SPLL) is a wholly-owned subsidiary of SPIL that encompasses SPIL's strong branded generics business in India (excluding the recently merged Ranbaxy portfolio), which accounted for 16% of SPIL's consolidated revenues in FY2016. SPLL was formed after the transfer of the domestic formulations business of SPIL to Sun Resins & Polymers Private Limited (name changed to SPLL post transfer) on March 31, 2012, and was followed by the amalgamation of two domestic subsidiaries Pharma Medication Private Limited and Sun Pharma Drugs Private Limited, with effect from September 1, 2012. .

SPIL is promoted by Mr. Dilip Shanghvi, who formed Sun Pharma as a partnership firm in 1982 to manufacture drugs. In 1993, the firm was constituted as a limited company, and listed on the stock exchanges. As on September 30, 2016, the promoters hold 54.97% stake in the company.

Recent Results

During the twelve-month period ended March 31, 2016, SPLL reported a PAT of Rs. 670.5 crore on an operating income of Rs. 4,665.7 crore as against a net loss of Rs. 22.7 crore on an operating income of Rs. 4,239.7 crore for the twelve-month period ended March 31, 2015.

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