March 04 2021

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 Fund-based – Cash Credit	13.00	0.00	-
Long-term Non-fund Based	0.30	0.30	[ICRA]BBB- reaffirmed; Outlook revised from Stable to Positive
Short-term Fund-based	6.70	1.50	[ICRA]A3; reaffirmed
Total	**20.00**	**1.80**	

**Instrument details are provided in Annexure-1*

Rationale

The change in outlook has primarily taken into consideration the improvement in profitability of Jagsonpal Pharmaceuticals Limited (JPL) in 9M FY2021. Its operating profit margin increased to 9.6% in 9M FY2021 from 5.4% in FY2020. The company's scale in FY2021 is also likely to exceed that of FY2020. Further, the ratings reflect the continued comfortable liquidity position of the company. It has healthy cash and cash equivalents as on date. Further, its entire debt consists of interest-bearing unsecured loans from promoters with no fixed repayment date. This has resulted in healthy leverage and coverage indicators for the company. The ratings consider the sustained improvement in JPL's working capital intensity since FY2018 as a result of sustained reduction in debtor days and inventory days. The ratings draw strength from the company's brand presence in select therapeutic categories. It deals in multiple therapeutic segments and its major brands, Maintaine and Metadec, reported healthy revenue contribution in the recent fiscals. The ratings also derive comfort from JPL's five-decade-long track record of operations.

However, the ratings remain constrained by its key products, which are based on old molecules. This apart, some of the company's key brands like Lycored have been under price control coverage, thus exhibiting lower margins. However, ICRA notes that JPL has introduced products in Q4 FY2020. However, the contribution from these products to its revenues has not yet scaled up. The ratings are also limited by the intense competition that JPL faces in the pharmaceutical industry, especially from larger entities. This has resulted in limiting its profitability margins. However, ICRA notes that the company's margins have witnessed sustained improvement in the recent fiscals.

The Positive outlook on the [ICRA]BBB- rating reflects ICRA's opinion that JPL will continue to benefit from its long track record of operations, established brands, healthy financial risk profile and comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Comfortable liquidity and healthy leverage and coverage indicators – JPL's liquidity position is comfortable. It has cash and cash equivalents of Rs. 57.9 crore as on September 30, 2020.The company sold its Rudrapur manufacturing unit in December 2016 and used the proceeds from the sale to reduce its working capital limits and utilised the cash balances for its working capital requirements. This resulted in healthy leverage and coverage indicators. JPL's entire outstanding debt of Rs. 6.6 crore as on September 30, 2020, is in the form of interest-bearing unsecured loans from promoters. The interest coverage and DSCR stood at 30.2 times and 29.6 times, respectively, as on September 30, 2020.

Moderate brand presence in select therapeutic categories, established track record of operations – The company has a five decade-long track record of operations. JPL derives most of its revenues from domestic formulation sales (94% sales contribution in FY2020), with the remaining coming from the bulk and intermediaries. The major brands—Maintaine and Metadec—contributed to 14% and 10%, respectively of its FY2020 revenues against 16% and 10%, respectively in FY2019.

Sustained improvement in working capital intensity – JPL's working capital intensity witnessed sustained improvement since FY2018. The company's NWC/OI decreased to 28% in FY2019 and further to 27% in FY2020 from 56% in FY2018. This was owing to a reduction in debtor days and inventory days, which stood at 49 days and 100 days, respectively, as on March 31, 2020 compared to 73 days and 140 days, respectively as on March 31, 2018.

Credit challenges

Key products based on old molecules and key brands are under price control coverage – JPL's key products are based on old molecules. This apart, some of the company's key brands such as Lycored are under price control coverage, thus garnering lower margins. Nonetheless, ICRA notes that the company has introduced products in Q4 FY2020. However, the contribution from the same is yet to scale up.

Intense competition in industry – JPL faces intense competition in the pharmaceutical industry, especially from the large players in the industry. The company's margins have remained relatively low. However, ICRA notes that the margins have seen a sustained improvement in the recent fiscals.

Liquidity position: Strong

JPL's liquidity is strong, as characterised by cash and cash equivalents of Rs. 57.9 crore as on September 30, 2020. Having sold its manufacturing facility in Rudrapur in December 2016, the company reduced its working capital limits and utilised its cash balances for its working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade JPL's ratings if the company's scale of operations and profitability metrics grow on a sustained basis as a result of product launches on a regular basis, which would provide better diversification in its product portfolio. Additionally, growth in core ROCE to over 14% may trigger a rating upgrade.

Negative factors – ICRA could downgrade JPL's ratings if the company's working capital intensity deteriorates significantly. Further, significant decline in scale or profitability could result in a rating downgrade. Any potential debt-funded capital expenditure, which could result in weakening in its liquidity position, will also remain a key rating monitorable.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

JPL is primarily a formulations company and has one manufacturing facility in Faridabad, which has been operational since 1964. The Chairman and Managing Director, Mr. J. S. Kochar, and his family have a 70.34% stake in the company. It has several brands including Lycored, Indocap, JP and Metadec. The company's key brands include Lycored, Metadec, Indocap and Maintene, which continued to display stable growth despite being based on old molecules. In 2017, the company sold off its Rudrapur plant citing cessation of taxation benefits in GST regime and has outsourced the associated manufacturing.

Key financial indicators (audited)

APPL Standalone	FY2019	FY2020
Operating Income (Rs. crore)	166.8	158.6
PAT (Rs. crore)	7.2	7.9
OPBDIT/OI (%)	5.6%	5.4%
PAT/OI (%)	4.3%	5.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.4
Total Debt/OPBDIT (times)	0.4	0.8
Interest Coverage (times)	12.5	16.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)					Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					March 4, 2020	August 19, 2020	-	February 7, 2019	February 19, 2018	August 24, 2017
1	Cash Credit	Long-term	0.00	0.00	-	[ICRA]BBB- (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Non-fund Based	Long-term	0.30	0.30	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Fund-based	Short-term	1.50	1.50	[ICRA]A3	[ICRA]A3	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Non-fund Based	NA	NA	NA	0.30	[ICRA]BBB- (Positive)
NA	Non-fund Based	NA	NA	NA	1.50	[ICRA]A3

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

K. Ravichandran
+91-44-45364301
ravichandran@icraindia.com

Manish Ballabh
+91-124-4545812
manish.ballabh@icraindia.com

Vipin Jindal
+91-124-4545355
vipin.jindal@icraindia.com

Jayesh Ghosh
+91-124-4545392
jayesh.ghosh@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches