July 19, 2021

Intas Pharmaceuticals Limited: Long-term rating upgraded to [ICRA]AA+ (Stable); short-term rating 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 Limits	1,500.0	1,500.0	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable) / [ICRA]A1+ reaffirmed
Total	**1,500.0**	**1,500.0**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating upgrade for Intas Pharmaceuticals Limited (IPL) takes into consideration the expectation that the improvement in the financial risk profile of the company witnessed in FY2021 will continue over the medium term. The improvement in FY2021 was aided by healthy revenue growth across key geographies, accruals and an improvement in working capital intensity of operations. The continued improved financial performance of the company is expected to lead to a further improvement in the company's capitalisation and debt protection metrics. The liquidity position of the company is also expected to remain strong given the expected improvement in the operating and financial performance and modest capital expenditure (capex) plans of the company.

The ratings continue to derive comfort from the strong business profile of IPL with an established position in the domestic pharmaceutical and regulated markets, especially Europe, and a growing presence in the US market. It has a well-established presence in the European market led by its acquisition of Actavis UK and Actavis Ireland in FY2017. The rating factors in the company's increasing focus on speciality products, which are expected to support its medium-term growth momentum in the international markets.

IPL witnessed an estimated YoY growth of 12% in FY2021, led by growth across key geographies of India, US, Europe and Rest of the World (RoW) regions. The domestic business revenues are estimated to have grown by 6.0% YoY in FY2021, driven by new product launches and robust growth across lifestyle related therapies, partly offset by lower revenues from the speciality segment amid the pandemic. ICRA expects recovery in the domestic speciality segment and continued growth in existing business, outpacing overall growth of the Indian Pharmaceutical Market (IPM). ICRA notes the ~19-20% coverage of its domestic formulations portfolio (in line with overall IPM) under the National List of Essential Medicines (NLEM) 2015 price control, but draws comfort from the fact that the same has not impacted its profit margins.

The company reported an estimated robust YoY growth of 16% in Europe in FY2021, led by panic buying during the pandemic, increased traction for oncology treatments, including biosimilars and penetration into different geographies. The overall OPM of IPL's Europe business has improved post its acquisition of Actavis UK as it gained access to the UK retail segment, further supported by its backward integration into manufacturing facilities based out of India. IPL also reported an estimated YoY growth of 5% in revenues from the US market in FY2021, aided by increased sales of existing products, launch of new products, depreciation of the Rupee against the Dollar; however, this was partially offset by low single-digit pricing pressures. IPL's revenues are expected to remain healthy driven by new product launches across geographies, continued growth in lifestyle related therapies (especially domestic markets), its product mix in specialised product segments (oncology and biosimilars) and increased traction from its base business.

The OPM improved to 26.2% in 9M FY2021 (vis-a-vis 22.8% in FY2020) because of, benefits of operating leverage, operational cost savings amid the pandemic and easing in pricing pressures in the US market. The FY2021 OPM is, however, estimated at 22-23% on account of in-licensing expenses incurred in Q4 FY2021. Going forward, ICRA expects the OPM to remain range bound.

Aided by robust revenue growth, strong accruals, reduction in working capital intensity and modest capex of ~Rs. 900-1,000 crore in FY2021, IPL's net debt position improved to ~Rs. 2,200 crore as on March 31, 2021, against Rs. 4,960 crore as on March 31, 2020. The company has significant debt repayment obligations of ~Rs. 1,200-1,500 crore per annum over FY2022 and FY2023 though ICRA derives comfort from its strong liquidity position, with unrestricted consolidated cash and bank balance and liquid investments of ~Rs. 3,000 crore and unutilised bank lines of Rs. 491.1 crore (at standalone level) as on March 31, 2021.

IPL is yet to resolve the 483s issued by the US Food and Drug Administration (USFDA) to its biosimilars facility at Moraiya (Ahmedabad, Gujarat). This, in turn, has delayed the launch of biosimilars in the US, leading to subdued revenue growth prospects for the segment in the near future. Nonetheless, IPL proposes to ramp-up its abbreviated new drug application (ANDA) filings in the US in the near to medium term; however, investments towards this will constrain the OPM till the business ramps up. ICRA also notes that IPL's facilities are approved by the regulatory agencies in Europe and its one of the first Indian company to launch two bio-similar products in EU markets, in which enjoys healthy market share. Its operations remain exposed to regulatory risks as well as foreign currency fluctuations (due to exports, imports and foreign currency borrowings). ICRA notes the ongoing litigations and lawsuits, and any adverse impact of the same on the operations and financials of the company would be a key rating sensitivity. Any large inorganic investment by the company would remain an event risk, and the impact of such investments on its business and credit profile would be monitored on a case-by-case basis.

The Stable outlook reflects ICRA expectation that IPL will maintain its current healthy credit profile, aided by strong cash accruals and cash and bank balances coupled with healthy growth across major geographies.

Key rating drivers and their description

Credit strengths

Leading player in Indian branded formulations segment – IPL maintains its strong market position of 3.15% and is ranked ninth as per IQVIA[1] March 2021 data in the domestic formulations market. It continues to have a strong market position in some of the key lifestyle-related therapeutic segments, such as central nervous system (CNS) and cardio vascular systems (CVS). IPL is positioned as the second largest player in the CNS segment in India. The domestic revenue growth in FY2021 was led by new product introductions and robust performance in the CNS, CVS and anti-diabetic categories, partially offset by the decline and muted growth in speciality categories like gynaecology and oncology, respectively. The degrowth in the speciality segment is expected to recover in FY2022.

Geographically diversified revenue mix – IPL has a diversified presence across Europe (41.4% of 9M FY2021 revenues), the US (16.0%) and RoW (13.2%), with a leading presence in Europe and a growing presence in the US market. Europe has traditionally been IPL's largest revenue driver, accounting for 58.6% of its international operations in 9M FY2021. In addition to organic growth, the company had concluded its largest acquisition with the GBP 603 million takeover of Actavis UK in FY2017. The acquisition has helped IPL in building scale in its core UK market, thereby 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

[1] A company serving the combined industries of health information technology and clinical research

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.

After India and Europe, the US is the third most important market for IPL in terms of revenue contribution (~22.7% of its international operations in 9M FY2021). Despite being a late entrant in the US market, IPL has significantly scaled up its operations by focussing on niche therapy segments such as oncology, immuno-suppressants and other critical therapy areas. The company also witnessed easing in pricing pressures to mid-single digits in FY2021 that boosted its OPM.

Healthy revenue growth prospects across key geographies – IPL's operating income (OI) witnessed a robust compounded annual growth rate (CAGR) of 15.2% in FY2017-FY2021, led by growth across all key geographies, acquisition of Actavis UK and Actavis Ireland in 2017 and favourable foreign exchange movements. Going forward, ICRA expects revenue growth to remain healthy driven by new product launches across geographies, continued growth in lifestyle related therapies (especially domestic markets), IPL's product mix in specialised product segments (oncology and biosimilars) and increased traction from its base business.

Healthy financial profile with consistent profitability, healthy capitalisation and coverage indicators – The company's OPM improved to 26.2% in 9M FY2021, against 22.8% in FY2020 with, robust growth in European markets leading to benefits of operating leverage, cost savings on selling and promotional expenses amid the pandemic and partial easing of pricing pressures in the US. The OPM is expected to have moderated to ~22-23% in FY2021 owing to in-licensing expenses incurred in Q4 FY2021. Going forward, ICRA expects the OPM to remain range bound. The company's leverage indicators remained comfortable with gearing of 0.5 times and total outside liabilities vis-à-vis tangible net worth (TOL/TNW) of 0.9 times as on December 31, 2020. Its coverage indicators remained strong as evinced by interest cover of 11.0 times (9.1 times in FY2020) and net debt/ operating profit before depreciation, interest and tax (net debt/ OPBDITA) of 0.7 times as on December 31, 2020 (compared to 1.5 times in FY2020). Aided by robust revenue growth, strong accruals, reduction in working capital intensity and modest capex of ~Rs. 900-1,000 crore in FY2021, the net debt improved to ~Rs. 2,200 crore as on March 31, 2021 (vis-à-vis Rs. 4,960 crore as on March 31, 2020).

Credit challenges

Significant debt repayment obligations during the next two years – IPL has significant debt repayment obligations of ~Rs. 1,560 crore in FY2022 and ~Rs. 1,240 crore in FY2023. However, ICRA derives comfort from its strong liquidity position with unrestricted consolidated cash and bank balance as well as liquid investments of ~Rs. 3,000 crore and unutilised bank lines of Rs. 491.1 crore (at standalone level) as on March 31, 2021.

Exposure to regulatory and foreign currency fluctuation risks – 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. ICRA notes the ~19-20% coverage of its domestic formulations portfolio (in line with overall IPM) under the NLEM 2015 price control, but takes comfort from the fact that the same has not impacted its profit margins. IPL is yet to resolve the 483s issued by the USFDA to its biosimilars facility at Moraiya (Ahmedabad, Gujarat). This, in turn, has delayed the launch of biosimilars in US, leading to subdued revenue growth prospects for the segment in the near future. The company's ability to generate adequate returns on its ongoing investments in the biosimilars space could be challenging in view of the uncertainty related to the development and approval process for generic equivalents, especially in the US. The risk is mitigated to an extent as IPL's facilities are approved by the regulatory agencies in Europe and its one of the first Indian company to launch two bio-similar products in EU markets, in which enjoys healthy market share. ICRA notes the ongoing litigations and lawsuits (including Docetaxel product liability suits and other paragraph-IV challenges). Any adverse impact of the same on the operations and financials of the company would be a key rating sensitivity. Its operations also remain exposed to foreign currency fluctuations (due to exports, imports and foreign currency borrowings) despite partial hedging.

Liquidity position: Strong

The liquidity position of IPL is strong, supported by unencumbered cash and bank balance and liquid investments of ~Rs. 3,000 crore as well as unutilised bank limits of Rs. 491.1 crore (at standalone level) as on March 31, 2021. With expected revenue growth and range-bound OPM, the retained cash flows of the company are expected to remain adequate to meet the capex requirements of IPL (~Rs. 900-1,000 crore per annum). The free cash flows are, however, expected to be impacted by the significant debt repayments to the tune of ~Rs. 1,500 crore in FY2022. Nonetheless, comfort is drawn from the available liquidity with the company.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a sustained improvement in the revenues and profitability of the company across its key geographies, leading to sustained improvement in return indicators and further strengthening of its financial risk profile.

Negative factors – The rating may be downgraded if there is weakening in the company's revenues and profitability and/or increase in debt levels, leading to an increase in net debt/ OPBDITA to above 1.0x on a sustained basis. Delay in resolution of existing regulatory non-compliance or any other regulatory non-compliance issued to IPL for its products and/or manufacturing facilities, which may impact its product launches and, thus, revenues and profitability, would also be a negative trigger. Large debt-funded inorganic investments by the company or any adverse outcome of on-going 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, 2021, the company had 13 subsidiaries, 28 step-down subsidiaries and one jointly controlled entity, which are all enlisted in Annexure-2.

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 that focussed on chronic therapeutic segments, including neurology and psychiatry, before gradually gaining meaningful presence in the domestic formulations market by the 1990s. Over the years, the company diversified into wide therapeutic areas and ventured into international markets through exports of generic drugs and contract manufacturing.

IPL is the ninth largest domestic formulations company, as per IQVIA March 2021, generating nearly 29.4% of its turnover (for 9M FY2021) from domestic business and the rest from international operations. As on March 31, 2021, the company operated 16 manufacturing facilities, with 13 in India, two in the UK and one in Mexico. IPL's manufacturing facilities are approved by various regulatory authorities, including the USFDA, UK MHRA[2], MCC[3] (South Africa), TGA[4] (Australia) and ANVISA[5] (Brazil). It commenced operations in the US after receiving the USFDA approval for its Matoda facility in December 2006.

[2] *Medicines and Healthcare Products Regulatory Agency of the United Kingdom*

[3] *Medicines Control Council*

[4] *Therapeutic Goods Administration*

[5] *The National Health Surveillance Agency or ANVISA (Agência Nacional de VigilânciaSanitária)*

After the equity infusion by Chrys Capital in FY2013 for 16.14% stake and the subsequent sale of its 10.13% stake to Temasek Holdings Pte Limited in FY2015 and 3.01% stake to Capital International in FY2017, which was bought back in May 2020 by Chrys Capital. IPL's promoters, the Chudgar family, own 83.85% stake in the company at present, with 10.13% being held by Temasek Holdings, and 6.02% by Chrys Capital LLC.

Key financial indicators (audited)

IPL Consolidated	FY2019	FY2020	9M FY2021 (Provisional and Unaudited)
Operating Income (Rs. crore)	12928.9	14932.6	12201.1
PAT (Rs. crore)	1266.2	1640.6	1980.3
OPBDIT/OI (%)	17.3%	22.8%	26.2%
PAT/OI (%)	9.8%	11.0%	16.2%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	1.0	0.9
Total Debt/OPBDIT (times)	2.4	1.6	1.5
Interest Coverage (times)	21.8	9.1	11.0

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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 19, 2021	Nov 04, 2020	Aug 13, 2019	May 11, 2018
1	Fund based/ Non-fund Based Facilities	Long-term / Short-term	1,500.0	NA	**[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 analyzing 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, is available on ICRA's website: Click Here

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	Fund based/ Non-fund Based Facilities	NA	NA	NA	1,500.0	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Subsidiaries		
Accord Healthcare Limited, UK	100.00%	Full Consolidation
Andre Laboratories Limited	100.00%	Full Consolidation
Astron Research Limited, UK	100.00%	Full Consolidation
Accord Healthcare Inc., North Carolina, USA	100.00%	Full Consolidation
Accord Healthcare (Proprietry) 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 (w.e.f. March 02, 2018)	100.00%	Full Consolidation
Intas Third Party Sales 2005 S.L. (w.e.f. April 11, 2017)	100.00%	Full Consolidation
Accord Healthcare (Kenya) Limited (w.e.f. June 28, 2018)	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 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
Accord Healthcare MENA JLT, UAE	100.00%	Full Consolidation
Accord Healthcare S.R.O., Czech Republic	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	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	100.00%	Full Consolidation
Accord Biosimilars LLC (w.e.f. May 29, 2020)	100.00%	Full Consolidation
Accord-Healthcare Kft.,Hungary (w.e.f. October 08, 2020)	100.00%	Full Consolidation
Jointly controlled entity		

Company Name	LTHL Ownership	Consolidation Approach
Alvi-Intas Medical Devices Private Limited	50%	Equity Method

Source: *Company data as on March 31, 2021*

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