April 14, 2023

# Jagsonpal Pharmaceuticals Limited: Long-term rating reaffirmed and short-term rating upgraded to [ICRA]A2

## 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 – Unallocated** | 1.80 | 1.80 | [ICRA]BBB(Positive) /[ICRA]A2; long-term rating reaffirmed and short-term rating upgraded from [ICRA]A3+ |
| **Total** | **1.80** | **1.80** | |

**Instrument details are provided in Annexure-I*

## Rationale

The upgrade in short-term rating factors in the significant and continued improvement in Jagsonpal Pharmaceuticals Limited's (JPL) liquidity profile owing to margin improvements driven by initiatives taken by its new management. JPL also incurred exceptional expenses, but margins improved in 9M FY2023 on better cost efficiencies and steady sales. The positive outlook on the long-term rating reflects ICRA's view that the company will witness growth in product portfolio as well as accruals in the near to medium term with new measures being implemented by the new management. The company's key launch in the gynaecology segment in Q3FY2022 has been performing well. The ratings continue to factor in JPL's long track record of operations, good brand presence and strong pan India distribution network as well as its healthy financial risk profile.

The ratings are, however, constrained by JPL's moderate operating scale and its exposure to stiff competition from a large number of generic drug manufacturers in the domestic branded generic segment. ICRA also considers JPL's complete dependence on third-party manufacturers through a loan-licensing model, which would require the company to ensure quality standards for the manufactured products.

## Key rating drivers and their description

### Credit strengths

**Long track record as a formulations player –** The company has an established track record in the branded pharmaceutical formulations industry, spanning more than 50 years. Over the years, the company has successfully launched and grown multiple brands in women healthcare, orthopaedic and other over-the-counter (OTC) segments. The company derived around 36% of its revenues in 9M FY2023 from gynaecology, 22% from orthopaedic and the remaining from multiple therapeutic areas such as antibiotics, allergy management, immunity and cell protection as well as OTC products. ICRA notes that the company's dydrogesterone molecule, launched in FY2022, has performed well and is its largest brand in terms of revenue contribution (~15%) in 9M FY2023. With the change in ownership, the company is expected to witness growth in product portfolio as well as accruals in the near to medium term.

**Improvement in operating margins through efficiency improvement measures taken by new promoters –** JPL underwent a change in ownership in Q4 FY2022 under which it has been implementing multiple cost optimisation measures such as complete outsourcing of manufacturing operations, an overhaul of the distribution network and consequent workforce restructuring. This resulted in some exceptional expenses such as ex-gratia payments to depot employees in FY2022 and FY2023. Despite this and other exceptional one-time expenses, the company reported improvement in OPM to 11.5% and 14.1% in FY2022 and 9M FY2023, respectively. The margin improvement was also supported by demand recovery in gynaecology and orthopaedic segment in FY2023; though the antibiotic segment witnessed a decline after the subsiding of the pandemic.

**Healthy financial risk profile and continued improvement in liquidity –** The company's financial risk profile is healthy owing to a debt-free balance sheet and strong liquidity in the form of free cash balances and fixed deposits owing to growing cash accruals and minimal capex requirements. Going forward, ICRA expects the funding requirements for the company to remain moderate, owing to moderate working capital intensity. However, any debt-funded inorganic expansion and its impact on the credit profile will be a rating monitorable.

**Large distribution network across the country –** Over the years, JPL has developed a diversified distribution network across India and has made strong relationships with its suppliers, distributors, and other stakeholders. The company has a strong sales force of around 1,000 personnel distributed geographically across India; although North and West India remain stronger target markets for JPL. The company derives almost 90-95% of its sales from the domestic market; and it also has some Active Pharmaceutical Ingredients (API) exports.

## Credit challenges

**Moderate scale of operations amid intense competition in the generic formulations industry –** Though JPL's top line has shown moderate growth in 9M FY2023, it remains a moderate-sized player in the intensely competitive generic formulations industry. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, with some of these players also having a pan India presence. This restricts the company's revenue growth and pricing flexibility. Also, many of JPL's brands witnessed limited growth for the past 2-3 years due to high competition in their target segments. The company generated around 54% of its revenues from its top five brands and 61% from its top seven brands in 9M FY2023, thus facing moderately high brand concentration risk.

**Regulatory risks, as typically prevalent in the sector –** The industry is subject to regulatory risks. Around 6-7% of FY2022 revenues came from products that were under price control. Nonetheless, the shift in focus towards the high margin, new products and new product launches are expected to augur well for the company.

**Dependence on third-party manufacturers –** JPL has completely outsourced its manufacturing processes through a loan licensing arrangement, wherein the company acts as the marketer of the formulations and utilises the already approved licensed manufacturing units of vendors for its manufacturing process. Though this arrangement obviates the need for heavy investment in plant and machinery on the company's part, adherence to quality standards remains critical for the company. The company has tied up primarily with 2-3 contract manufacturers and also procures raw materials for these manufacturers to ensure strong control over product quality, which mitigates the risk to some extent.

## Liquidity position: Strong

JPL has a strong liquidity profile supported by Rs. 103 crore of unencumbered cash balances and liquid investments as on February 2023 and healthy cash flow from operations. The liquidity profile is further supported by minimal capital expenditure plans and nil debt servicing obligations.

## Rating sensitivities

**Positive factors –** ICRA could upgrade JPL's ratings if it is able to achieve scale up in revenues led by a growing product portfolio while maintaining its profitability margins.

**Negative factors –** ICRA could downgrade JPL's ratings if there is significant decline in scale or profitability or large debt-funded capital expenditure or deterioration of working capital intensity, which could result in weakening in its credit metrics and liquidity position on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology – Pharmaceuticals |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

JPL is a branded formulations company with key focus on women healthcare products in the therapeutic areas of gynaecology and orthopaedics. JPL was founded in 1964 by Mr. Jagmohan S Kochhar in Delhi and was run by his son, Mr. Rajpal Kochhar, and his family till FY2022. The company initially had two manufacturing facilities in Faridabad and Rudrapur. In FY2017, JPL sold its Rudrapur facility and closed down the Faridabad unit in FY2022. In Q4 FY2022, the promoters sold a majority stake to a Mauritius-based private equity fund. The company has several brands, including Divatrone, Lycored, Metadec, Indocap, and Maintene, which have continued to display stable growth. The company is listed on both stock exchanges (BSE and NSE) and had a market capitalization of Rs. 772 crore as on March 28, 2023.

### Key Financial Indicators (audited)

| JPL Standalone | FY2021 | FY2022* | 9M FY2023** |
|---|---|---|---|
| **Operating income** | 187.9 | 217.6 | 181.3 |
| **PAT** | 17.1 | 18.9 | 21.1 |
| **OPBDIT/OI** | 10.2% | 11.5% | 14.1% |
| **PAT/OI** | 9.1% | 8.7% | 11.7% |
| **Total outside liabilities/Tangible net worth (times)** | 0.4 | 0.2 | |
| **Total debt/OPBDIT (times)** | 0.4 | 0.0 | |
| **Interest coverage (times)** | 37.2 | 87.8 | 132.5 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * restated; **unaudited*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Instrument | | Current rating (FY2024) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | | Date & rating in FY2021 | |
| | | | | | Apr 14, 2023 | Oct 10, 2022 | Mar 10, 2022 | Sept 30, 2021 | Mar 04, 2021 | Aug 19, 2020 |
| 1 | **Non-fund based** | Long term | - | - | - | - | - | - | [ICRA]BBB- (Positive) | [ICRA]BBB- (Stable) |
| 2 | **Non-fund-based** | Short term | - | - | - | - | - | - | [ICRA]A3 | [ICRA]A3 |
| 3 | **Unallocated** | Long-term / Short term | 1.80 | - | [ICRA]BBB (Positive)/ [ICRA]A2 | [ICRA]BBB (Positive)/ [ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term / Short-term – Fund Based/Non-Fund Based - Unallocated | Not applicable |

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** | **Long-term / Short-term – Fund Based/Non-Fund Based - Unallocated** | NA | NA | - | 1.80 | [ICRA]BBB (Positive)/ [ICRA]A2 |

*Source: Company*

## Annexure II: List of entities considered for consolidated analysis – Not Applicable

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