# Jagsonpal Pharmaceuticals Limited

**February 07, 2019**

## Summary of rated instruments

| Instrument* | Previously Rated Amount (Rs. Crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term – Fund-based/Cash Credit | 13.00 | 13.00 | [ICRA]BB+ (Stable); Reaffirmed |
| Long Term – Non-fund Based Limits | 0.30 | 0.30 | [ICRA]BB+ (Stable); Reaffirmed |
| Short Term – Non-fund Based Limits | 6.70 | 6.70 | [ICRA]A4+; Reaffirmed |
| **Total** | **20.00** | **20.00** | |

*Instrument details are provided in Annexure-1

## Rationale

The reaffirmed ratings continue to draw comfort from Jagsonpal Pharmaceuticals Limited's (JPL) brand presence in select therapeutic categories. The company deals in 44 therapeutic segments and its major brands, Maintaine and Metadec exhibited increasing revenue contributions in 9M FY2019. Further, the ratings derive comfort from JPL's four-decade long track record of operations. This apart, the company has healthy leverage and debt coverage indicators, except FY2018 when it incurred an operating loss. The ratings are further strengthened by JPL's healthy cash reserves which stood at Rs. 28.73 crore as on September 30, 2018. Hence, the company did not need to utilise its working capital limits. JPL has nil working capital limit utilisation since December 2016, thus outlining its healthy liquidity position.

However, the ratings remain constrained by the company's declining scale, which led an operating loss in FY2018. This was primarily on account of JPL offering heavy discounts and high incentives to distributors to push sales of old stocks and absorb the GST hike. However, ICRA notes that the company has displayed a strong improvement in H1 FY2019. This apart, the ratings consider JPL's long working capital cycle which has been exacerbated by the pre-GST build-up of stock. Further, its products are based on old molecules and it did not come up with any new product in the recent past. This apart, some of the company's key brands like Lycored have been under price control coverage, thus exhibiting lower margins.

## Outlook: Stable

The outlook may be revised to Positive if the firm is able to ramp up its sales while reviving its profitability. The outlook may be revised to Negative if the company's revenues decline further. This apart, deterioration in its profitability metrics can lead to downward pressure on the ratings.

## Key rating drivers

## Credit strengths

**Moderate brand presence in select therapeutic categories, long track record of operations –** The company has a four-decade-long track record of operations. JPL derives most of its revenues from domestic formulation sales (93% sales contribution in FY2018), with the remaining coming from the bulk and intermediaries. The company deals in 44 therapeutic segments. The major brands – Maintaine and Metadec – have displayed good revenue contribution in 9M FY2019, contributing 16% and 11% respectively against 10% and 5% respectively in FY2018.

**Healthy leverage and debt coverage indicators –** JPL has exhibited healthy leverage and debt coverage indicators in the recent fiscal years, except FY2018 when it incurred an operating loss. However, in H1 FY2019, the company had a gearing ratio and TD/OPBITDA of 0.1x and 0.8x respectively. JPL's interest coverage ratio and DSCR stood at 10.1x and 9.1x respectively in H1 FY2019.

**No utilisation of working capital limits due to healthy cash reserves –** JPL has not utilised its working capital limits since December 2016, when it sold its Rudrapur manufacturing unit. The company used the proceeds from the sale to reduce its working capital limits and utilised its cash balances for its working capital requirements. As on September 30, 2018, JPL had cash and liquid investments of Rs. 28.73 crore compared with Rs. 14.51 crore in FY2018.

## Credit challenges

**Decline in scale and operating losses in FY2018 –** JPL incurred an operating loss of Rs. 11.1 crore in FY2018 against an operating profit of Rs. 5.77 crore in FY2017. This was primarily because the company offered heavy discounts and high incentives to distributors to push sales of old stocks and absorbed the GST hike. Further, it incurred a net loss of Rs. 11.5 crore in FY2018 against a net profit of Rs. 11.86 crore in FY2017. However, ICRA notes that the company has posted an operating profit of Rs. 2.5 crore in H1 FY2019 on revenues of Rs. 86.5 crore.

**Long working capital cycle exacerbated by pre-GST build-up of stock –** The company's working capital intensity has been gradually growing over the years on the back of increasing inventory requirement, averaging 150-170 days. The same was exacerbated with GST implementation as its inventory days rose to 181 in FY2018. However, having pushed out its built-up stock in H1 FY2019, its working capital intensity has marked a significant improvement standing at 33% against 56% in FY2018.

**Products based on old molecules and key brands are under price control coverage –** JPL's products are based on old molecules and it did not come up with any new product in the recent past. 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 the company is conducting R&D for new molecules to be used in its formulations.

## Liquidity Position

JPL's has nil working capital utilisation since December 2016. Further, its external debt is in the form of unsecured loans from promoters. With no significant repayments and healthy cash balances, JPL's liquidity position remains comfortable.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology |
| Parent/Group Support | Parent/Group Company: 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 own a 69.17% 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. In FY2018, the company reported a net loss of Rs. 11.5 crore on an operating income (OI) of Rs. 126.5 crore compared with a net profit of Rs. 11.9 crore on an OI of Rs. 143.9 crore in the previous year.

## Key financial indicators (Audited)

| | FY2017 | FY2018 |
|---|---|---|
| Operating Income (Rs. crore) | 143.9 | 126.5 |
| PAT (Rs. crore) | 11.9 | -11.5 |
| OPBDIT/ OI (%) | 4.0% | -8.8% |
| RoCE (%) | 13.9% | -10.3% |
| | | |
| Total Debt/TNW (times) | 0.08 | 0.1 |
| Total Debt/OPBDITA (times) | 1.37 | -0.7 |
| Interest Coverage (times) | 2.18 | -16.9 |
| NWC/OI (%) | 55% | 56% |

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

## Any other information: None

## Rating history for last three years

| | | Current Rating (FY2019) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating February 2019 | Date & Rating in FY2018 February 2018 | Date & Rating in FY2018 August 2017 | Date & Rating in FY2017 July 2016 |
| 1 | Cash Credit | Long Term | 13.00 | 13.00 | **[ICRA]BB+ (Stable)** | **[ICRA]BB+ (Stable)** | **[ICRA]BB+ (Stable)** | **[ICRA]BB+ (Stable)** |
| 2 | Bank Guarantee | Long Term | 0.30 | 0.30 | **[ICRA]BB+ (Stable)** | **[ICRA]BB+ (Stable)** | **[ICRA]BB+ (Stable)** | **[ICRA]BB+ (Stable)** |
| 3 | Letter of Credit | Short Term | 6.70 | 6.70 | **[ICRA]A4+** | **[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 | Cash Credit | - | - | - | 13.00 | [ICRA]BB+ (Stable) |
| NA | Bank Guarantee | - | - | - | 0.30 | [ICRA]BB+ (Stable) |
| NA | Letter of Credit | - | - | - | 6.70 | [ICRA]A4+ |

Source: JPL

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## About ICRA Limited:

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