November 29, 2019

RPG Life Sciences Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	35.00	35.00	[ICRA]A- (Stable); reaffirmed
Long-term, Fund-based Facilities	40.00	40.00	[ICRA]A- (Stable); reaffirmed
Short-term, Non-fund Based Facilities	25.92	25.92	[ICRA]A2+; reaffirmed
Short-term, Non-fund Based Facilities	(2.00)^	(2.00)^	[ICRA]A2+; reaffirmed
Total	**100.92**	**100.92**	

^Sub-limit of long-term, fund-based facilities
**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the strong capital structure and debt servicing indicators of RPG Life Sciences Limited (RPGLS/ the company), aided by healthy revenue growth and improvement in profitability. The rating continues to factor in RPGLS's strong brands in the Indian pharmaceutical industry, its diversified and integrated operations with presence in regulated markets, and financial flexibility arising from being part of the RPG Group. While the domestic formulations business witnessed a revenue degrowth of ~13% in FY2019, on account of challenges faced in its acute business due to market slowdown in the represented segments and high inventory levels in the secondary market, the company reported ~23% revenue growth in H1 FY2020. This was supported by a good monsoon, low base effect and initiatives undertaken by the company, such as renewed focus on legacy brands and product portfolio augmentation. Consequently, there was an overall YoY revenue growth of ~13% in H1 FY2020. ICRA also notes the improvement in the company's operating profit margin (OPM) in H1 FY2020 to ~17% over ~9% in H1 FY2019. This was primarily driven by the domestic formulations business on the back of various measures undertaken by RPGLS, including improvement in sales hygiene and cost control.

The rating is, however, constrained by the small scale of operations of the company in the domestic formulations market as well as the exports formulations and active pharmaceutical ingredients (APIs) businesses, which have also resulted in lower profitability. ICRA notes the impact on the international formulations business due to the loss of a key customer and steep price corrections in the UK market, which led to a subdued performance in its business from the regulated markets in FY2019 and H1 FY2020. ICRA also notes that the company is ramping up its international formulations business through new product launches and foray into new geographical markets, including USA. Successful execution of these plans and their impact on the company's revenue growth and profitability remain to be seen.

ICRA notes the instances of regulatory non-compliances by the company in the past, which had an impact on its business. ICRA will continue to closely monitor the developments regarding approval of manufacturing facilities by various health regulators and its likely impact on RPGLS.

Key rating drivers

Credit strengths

Strong brands in the Indian pharmaceutical industry - The company's domestic formulations business benefits from its strong R&D and brands, which continue to enjoy strong market share in their respective therapeutic segments. The company has a presence in various therapeutic areas, which include among others, immunosuppressants, anti-diarrheal, pain management and cardio vascular treatments. The domestic formulations business continues to be the major revenue driver.

Strong capital structure and debt servicing indicators; enjoys financial flexibility as part of the RPG Group - The gearing (TD/TNW) of the company as on March 31, 2019 at 0.2 time (0.4 time as on March 31, 2018) witnessed YoY improvement, primarily owing to a reduction in debt levels. The gearing improved further to 0.1 time as on September 30, 2019. Furthermore, the debt servicing metrics (TD/OPBITDA) improved to 0.2 time as on September 30, 2019 vis-à-vis 1.1 times as on March 31, 2019 (1.4 times as on March 31, 2018), on the back of improvement in operating performance. The company enjoys financial flexibility as part of the RPG Group.

Expansion of product portfolio and efforts towards US entry plans augur well for growth prospects - RPGLS launched eight new products in its domestic formulations business and one in its international formulations business in FY2019. The company is also in the process of launching four new products in the international formulations business over the next three years, aimed at revenue growth and entry into new regulated markets, including USA.

Credit challenges

Small scale of operations with dependence on few products - The company has a small scale of operations at present as compared to its peers in the Indian pharmaceutical industry, which limits its competitiveness in the market. ICRA also notes that the company derives most of its revenues for its domestic formulations business from a top few brands, resulting in product concentration risks.

Moderate return indicators – Although there has been an improvement in the firm's return on capital employed (RoCE) in H1 FY2020, driven by revenue growth and improved operating performance, it has remained moderate over the past few years, on account of limited scale up, moderate profitability and high depreciation and amortisation charges.

Regulatory non-compliance in the past - The company had received a warning letter from the United States Food and Drug Administration (USFDA) in FY2013 for its API facility in Thane (Maharashtra) as well as its formulations facility in Ankleshwar (Gujarat). ICRA will continue to closely monitor the developments regarding approval of manufacturing facilities by various health regulators and its likely impact on RPGLS.

Liquidity position: Adequate

RPGLS had external term loans of Rs. 7.5 crore on its books as on March 31, 2019; of which Rs. 0.8 crore is scheduled to be repaid in FY2020. RPGLS's liquidity position is adequate with healthy cash flow from operations vis-à-vis its repayment obligations and capex plans of ~Rs. 25 crore per annum over the next three years, which are expected to be entirely funded through internal accruals. RPGLS also has a cushion available in the form of undrawn working capital limits. Moreover, the average utilisation of fund-based limits of Rs. 82.5 crore stood at ~18% for the 12-month period ended September 30, 2019. Furthermore, the company enjoys financial flexibility as part of the RPG Group.

Rating sensitivities

Positive triggers – Considerable increase in the company's scale of operations and RoCE exceeding 17.5%, on a sustained basis, would be a positive trigger for a rating upgrade.

Negative triggers – Negative pressure on RPGLS's rating could arise if the company fails to improve its scale and profitability, thus constraining improvement in its RoCE from the current levels. Any adverse observations by any regulatory authorities impacting its revenues and profitability would also be a negative trigger. Furthermore, any major debt-funded capex / any large inorganic expansion, leading to weakening credit metrics on a sustained basis, would also pose a downward pressure on RPGLS's rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry
Parent / Group Support	Not applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

RPG Life Sciences Limited, a part of RPG Enterprises, is an integrated pharmaceutical company operating in the domestic and international markets in the branded formulations, global generics and APIs space. With manufacturing facilities at Ankleshwar (Gujarat) and Navi Mumbai (Maharashtra), RPGLS has a presence in various therapeutic areas like nephrology, cardiovascular, gastro-intestinal, pain management, etc, with strong domestic brands such as Lomotil, Azoran, Aldactone and Tricaine. The company's business operations are divided into three different business segments—domestic formulations, international formulations and APIs. Its domestic formulations business comprises the branded generics market of India. Its international formulations division comprises formulations for the developed markets as well as RoW markets. Earlier, RPGLS was also involved in biotech APIs. However, it exited the same through sale of its biotech unit on a slump sale basis to Intas Pharmaceuticals Limited on May 26, 2016.

In H1 FY2020, RPGLS reported a profit after tax (PAT) of Rs. 18.1 crore on an operating income (OI) of Rs. 192.5 crore, as against a PAT of Rs. 4.0 crore on an OI of Rs. 170.4 crore in H1 FY2019.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	344.1	330.2
PAT (Rs. crore)	13.4	10.8
OPBDIT/OI (%)	11.4%	10.4%
RoCE (%)	12.9%	10.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	1.4	1.1
Interest Coverage (times)	8.3	7.1
DSCR	3.8	3.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating	FY2019	FY2018	FY2017
					29-Nov-19	20-Aug-18	28-Jul-17	27-Jun-16
1	Term Loans	Long-term	35.00	4.25	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based Bank Facilities	Long-term	40.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund Based Bank Facilities	Short-term	25.92	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Non-fund based facilities^	Long-term / Short-term	(2.00)	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

*^Sub-limit of long-term, fund-based facilities; Amount in Rs. crore; *As on March 31, 2019*

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term loans	October 2016	8.65%	October 2020	20.00	[ICRA]A- (Stable)
NA	Long-term loans	Not yet sanctioned			15.00	[ICRA]A- (Stable)
NA	Long-term, fund-based facilities	NA	NA	NA	40.00	[ICRA]A- (Stable)
NA	Short-term, non-fund based facilities	NA	NA	NA	25.92	[ICRA]A2+
NA	Short-term, non-fund based facilities^	NA	NA	NA	(2.00)	[ICRA]A2+

^Sub-limit of long-term, fund-based facilities

Source: RPG Life Sciences Limited

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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.

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