August 19, 2020

Jagsonpal Pharmaceuticals Limited: Ratings upgraded to [ICRA]BBB- (Stable)/[ICRA]A3

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	13.00	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ (Stable)
Long Term – Non-fund Based Limits	0.30	0.30	[ICRA]BBB- (Stable); Upgraded from [ICRA]BB+ (Stable)
Short Term – Non-fund Based Limits	6.70	6.70	[ICRA]A3; Upgraded from [ICRA]A4+
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade reflects the continued comfortable liquidity position of Jagsonpal Pharmaceuticals Limited (JPL). It has healthy cash and cash equivalents as on date, with nil working capital utilisation since it sold its manufacturing unit in Rudrapur in December 2016. 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 its brand presence in select therapeutic categories. The company 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 the company has introduced new products in Q4 FY2020. However, the contribution from these products to its revenues remains to be seen. The ratings are also weakened by the intense competition faced by JPL 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 Stable 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. 38.1 crore as on March 31, 2020, with nil utilisation of 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. This has resulted in healthy leverage and coverage indicators. JPL's entire outstanding debt of Rs. 4.66 crore as on March 31, 2020, is in the form of interest-bearing unsecured loans from promoters. The interest coverage and DSCR stood at 16.6 times and 18.5 times, respectively, as on March 31, 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% 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 55% in FY2018. This has been 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 have been under price control coverage, thus exhibiting lower margins. Nonetheless, ICRA notes that the company has introduced new products in Q4 FY2020. However, the contribution from the same is yet to be seen.

Intense competition faced 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: Adequate

JPL's liquidity is **adequate** as characterised by its cash and cash equivalents of Rs. 38.1 crore as on March 31, 2020. It has nil utilisation of its working capital facilities since it sold its manufacturing unit in Rudrapur in December 2016. The company's liquidity is aided by nil long-term repayments going forward.

Rating sensitivities

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

Negative triggers – 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	The rating is based on standalone financial statements of the rated entity.

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 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.

In FY2020, the company reported a net profit of Rs. 7.9 crore on an operating income (OI) of Rs. 158.6 crore compared to a net profit of Rs. 7.2 crore on an OI of Rs. 166.8 crore in the previous year.

Key financial indicators (audited)

	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	0.3
Total Debt/OPBDIT (times)	0.4	0.5
Interest Coverage (times)	12.5	16.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	
					19-Aug-2020	-	07-Feb-2019	19-Feb-2018	24-Aug-2017
1	Fund-based/Cash Credit	Long Term	13.00	13.00	[ICRA]BBB- (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Non-fund Based Limits	Long Term	0.30	0.30	[ICRA]BBB- (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3	Non-fund Based Limits	Short Term	6.70	6.70	[ICRA]A3	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Amount in Rs. crore

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 – Fund-based/Cash Credit	NA	NA	NA	13.00	[ICRA]BBB- (Stable)
NA	Long Term – Non-fund Based Limits	NA	NA	NA	0.30	[ICRA]BBB- (Stable)
NA	Short Term – Non-fund Based Limits	NA	NA	NA	6.70	[ICRA]A3

Source: JPL

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

ICRA

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About ICRA Limited:

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