December 15, 2022

RPG Life Sciences Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Term Loan	35.00	35.00	[ICRA]A (Stable); Reaffirmed
Long-term - Fund-based-Cash Credit	40.00	40.00	[ICRA]A (Stable); Reaffirmed
Short-term - Non-fund Based Facilities	25.92	25.92	[ICRA]A1; Reaffirmed
Total	**100.92**	**100.92**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the rating continues to factor in RPG Life Sciences Limited's (RPGLS) strong brand portfolio in the Indian pharmaceutical industry, its diversified and integrated operations with presence in regulated markets, and its financial flexibility as part of the RPG Group.

RPGLS' operating performance remained healthy on the back of improvement in its sales hygiene and its cost rationalisation measures in recent years. Such improvement is reflected in its 13% YoY growth in operating revenues in FY2022 and ~20% annualised growth in H1 FY2023, along with an improvement in its operating profit margin (OPM) to 19.8% in FY2022 and ~21.8% in H1 FY2023 over 18.3% in FY2021. A decline in the company's debt levels, aided by healthy cash flows and no major debt-funded capital expenditure (capex), has resulted in a robust capital structure and strong coverage indicators. Its liquidity profile also remains strong marked by sufficient unutilised fund-based limits and healthy free cash balances.

The long-term rating, however, remains constrained by the moderate scale of operations, with the company deriving most of its revenues from a few top brands in its domestic formulations business, resulting in product concentration risks. ICRA also notes that the management has re-evaluated its USA entry plans and will focus only on non-US markets over the medium term. However, the company continues to focus on increasing its presence in existing geographies through new product launches, and on exploring new markets. For this, RPGLS is upgrading its Ankleshwar (Gujarat) formulations facility for approval under 'The Pharmaceutical Inspection Co-operation Scheme' (PIC/S). Successful execution of these plans and the ability of the company to grow its scale from the present levels remains key rating monitorables. The rating also remains exposed to regulatory scrutiny and timely renewal of approvals from respective regulatory bodies. ICRA will continue to closely monitor the developments regarding approval of manufacturing facilities by various health regulators and its likely impact on RPGLS. The rating also factors in the relatively high share of acute therapies in the portfolio, coupled with the Drugs Prices Control Order (DPCO) segment, which the company is looking to diversify to provide better stability to cash flows and insulation against input price fluctuations to an extent.

The Stable outlook reflects ICRA's opinion that RPGLS will continue to benefit from its established products in the domestic and international formulations businesses along with its strong financial risk profile and financial flexibility enjoyed as part of the RPG Group.

Key rating drivers and their description

Credit strengths

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

Robust capital structure and strong debt servicing indicators; enjoys financial flexibility as part of the RPG Group – A decline in the company's debt levels, aided by healthy cash flows, no major debt-funded capex and improved operating performance, have resulted in a robust capital structure and strong coverage indicators, as reflected in TD/OPBDITA of 0.01x in FY2022 (0.03 time as on March 31, 2021) and 0.004x as on September 30, 2022, along with interest coverage of 61.9x in FY2022 (39.7x in FY2021) and 303x in H1 FY2023.

Expansion of product portfolio and geographical presence augur well for growth prospects – RPGLS launched 11 new products in its domestic and international formulations businesses in FY2022 and two new products in H1 FY2023. ICRA notes the company's focus on increasing its presence in existing geographies through new product launches in niche categories, and on exploring new markets. Successful execution of these plans and their impact on the company's revenue growth and profitability are key rating monitorables.

Credit challenges

Moderate scale of operations with dependence on few products – At present, the company is a mid-sized player among its peer in the Indian pharmaceutical industry, which limits its competitiveness in the market. ICRA also notes that the company derives most of its revenues from a few top brands in its domestic formulations business, resulting in product concentration risks. Also, the share of acute therapies remains significant at present, which RPGLS is looking to diversify by entering into chronic categories to provide better stability to cash flows, going forward.

Entity remains exposed to regulatory risks related to approval and compliances – The company operates in the pharmaceutical space, which is highly regulated and subject to specific regulatory approvals as per operating territories. The company holds European Union Good Manufacturing Practice (EU GMP), World Health Organization Good Manufacturing Practices (WHO GMP), Therapeutic Goods Administration (TGA) Australia, Pharmaceuticals and Medical Devices Agency (PMDA) Japan, and Narcotic Drugs and Psychotropic Substances (NDPS) certifications, which are reviewed on a periodic basis by their respective regulatory agencies. Any suspension of these certifications can impact RPGLS' exports to these regulated and semi-regulated markets. ICRA will continue to closely monitor the developments regarding approvals for the company's manufacturing facilities by various health regulators and their likely impact on RPGLS.

Susceptibility of margins to raw material price fluctuations – The key raw materials and intermediates for some of the products in the company's portfolio are dependent on imports and, hence, its margins are susceptible to volatility in raw material prices. Also, about 37% of the company's portfolio is under the Drugs Prices Control Order (DPCO) and National Pharmaceutical Pricing Authority (NPPA) regulations, effectively capping the pass through of increase in input costs. However, comfort is taken from the adequate stocking of raw materials to assuage any volatility in raw material prices and the company`s efforts towards launching new products in the non-DPCO space to decrease the share of DPCO coverage in its product portfolio.

Environmental and Social Risks

Environmental considerations: The company assesses and identifies potential environmental risks, taking adequate measures and precautions by engineering control measures on a continuous basis. The company's plant at Navi Mumbai has a full-fledge Effluent Treatment Plant (ETP), which involves primary, secondary and tertiary systems to treat and process sewage water. The Real Time Online Effluent Monitoring System (RTOEMS) installed at the ETP monitors and continuously transmits data to

CPCB and MPCB. The company's plant at Ankleshwar, Gujarat, with a full-fledged ETP, treats industrial wastewater and sends the treated industrial waste to the final ETP of the vendor. The company adopts relevant techniques and methods, such as safety audits and periodic assessments for environmental, health and safety risks, and undertakes all required remedial measures, as and when needed.

Social considerations: The industry faces social risks related to product safety and associated litigation risk, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, Government intervention related to price caps/ control also remains a social risk faced by entities in the pharmaceutical industry. However, the company has been taking all required regulatory approvals/ certificates before introducing any new products in the market. The company holds EU GMP, WHO GMP, TGA Australia, PMDA Japan, and NDPS certifications for manufacturing various bulk drugs, which are periodically reviewed by the respective regulatory agencies.

Liquidity position: Strong

The company does not have any term loan repayment obligations. RPGLS' cash flow from operations (CFO) are expected to remain healthy in the near term, supported by healthy operating margins and largely stable working capital intensity. RPGLS has significant cushion available in the form of undrawn working capital limits. It has barely utilised (0.3%) of its fund-based limits of Rs. 40 crore for the 12-month period ended November 30, 2022. Moreover, the company had cash and liquid investments to the tune of Rs. 80 crores as on September 30, 2022. The comfortable working capital cycle too has aided in better liquidity management. Furthermore, the company enjoys financial flexibility as part of the RPG Group.

Rating sensitivities

Positive factors – Steady and notable growth in the company's scale of operations while maintaining healthy margin levels and coverage indicators/ liquidity would be a positive trigger for a rating upgrade.

Negative factors – Negative pressure on RPGLS' rating could arise if there is a sustained deterioration in the company's operating performance, leading to moderation in its RoCE below 16%, on a sustained basis. Any adverse observations by any regulatory authorities impacting its revenues and profitability, would also be a negative rating 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' 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 across domestic and international markets in the branded formulations, global generics and active pharmaceutical ingredient (APIs) space. With manufacturing facilities in Ankleshwar (Gujarat) and Navi Mumbai (Maharashtra), RPGLS has a presence in therapeutic areas such as nephrology, cardiovascular, gastro-intestinal, pain management, with strong domestic brands such as Lomotil, Azoran, Aldactone and Tricaine. The company's business operations are divided into three business segments—domestic formulations, International formulations and APIs. Its domestic formulations business comprises the branded generics market of India (earlier also included rest of world, or RoW, markets, which was clubbed with international formulations with effect from FY2014). Its international formulations division caters to developed markets as well as RoW markets (included only developed markets till FY2013). Earlier, RPGLS was also involved in biotech APIs. However, it exited the same by selling its biotech unit on a slump sale to Intas Pharmaceuticals Limited on May 26, 2016, for a consideration of Rs. 25.0 crore.

Key financial indicators (audited)

RPGLS Standalone	FY2021	FY2022	H1 FY2023^
Operating income	389.24	440.16	263.72
PAT	40.00	51.48	38.18
OPBDIT/OI	18.25%	19.82%	21.83%
PAT/OI	10.28%	11.70%	14.48%
Total outside liabilities/Tangible net worth (times)	0.40	0.35	0.35
Total debt/OPBDIT (times)	0.03	0.01	0.00
Interest coverage (times)	39.69	61.88	303.00

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; The above ratios are adjusted as per ICRA's calculation wherever necessary; ^includes lease liability; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ^Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 15, 2022	Feb 28, 2022	Dec 17, 2020	Nov 29, 2019
1	**Term loans***	Long-Term	35.00	NA	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**
2	**Cash Credit**	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]A1**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A2+**

**Term Loan is not sanctioned*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Term Loan	Simple
Long-term - Fund-based-Cash Credit	Simple
Short-term - Non-fund Based Facilities	Very 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 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	Term loans	Not yet sanctioned	NA	NA	35.00	[ICRA]A (Stable)
NA	Cash Credit	NA	NA	NA	40.00	[ICRA]A (Stable)
NA	Non-fund Based Bank Facilities	NA	NA	NA	25.92	[ICRA]A1

Source: Company

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

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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