September 22, 2022

Intas Pharmaceuticals Limited: Ratings reaffirmed

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 Limits	1500.00	1500.00	[ICRA]AA+ (Stable) / [ICRA]A1+ reaffirmed
Total	**1500.00**	**1500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings of Intas Pharmaceuticals Limited (IPL) factors in the company's strong business profile, its geographically diversified revenue mix, position as one of the leading pharmaceutical companies in the Indian pharmaceutical market (IPM), well-established presence in the European market and growing presence in the US market. The ratings also factor in IPL's healthy financial profile and strong liquidity position.

IPL was ranked seventh[1] in the IPM for FY2022, improving from ninth in FY2021 due to an improved market share in therapeutic segments like as central nervous system (CNS) and cardio-vascular systems (CVS). The company has a well-established presence in the European market through its subsidiary Accord Healthcare Ltd (which acquired Actavis UK and Actavis Ireland in FY2017). IPL is one of the first Indian companies to launch two biosimilar products in the European markets. The ratings also factor in the company's increasing focus on speciality products, including biosimilars, which are expected to support its medium-term growth momentum in the export markets. IPL has made significant investments in the biosimilars business in the recent years, which are expected to continue over the near to medium term. IPL's ability to generate commensurate returns on the same will be key in sustaining the company's return indicators over the medium term.

IPL's operating income (OI) grew by 11.7% YoY in FY2022 led by a robust growth in the domestic markets (24%) primarily on account of rise in elective treatments relating to segments like oncology and gynaecology post the pandemic, along with steady growth in the US markets (15%) supported by ramp-up in the sales of generic products. However, revenues from Europe were flattish in FY2022 (2% growth) due to muted demand from the UK and Germany on account of considerable precautionary buying in the previous year, which reduced significantly post the waning of the pandemic. Further, there was some inventory build-up observed in the UK during the pandemic, however the situation has normalised largely as of now. With respect to the rest of world (ROW) markets, the company reported a 13% YoY growth in revenues in FY2022. IPL's revenues are expected to remain healthy driven by new product launches across geographies, continued growth in lifestyle related therapies (especially in the domestic markets), its product mix driven by focus on the speciality segments (oncology and biosimilars) and increased traction from its base business.

ICRA notes the ~19-20% coverage of its domestic formulations portfolio under the National List of Essential Medicines (NLEM) 2015 price control but draws comfort from the fact that the same has not impacted its profit margins.

In FY2022, due to pricing pressures in the US markets and subdued performance in the European markets, IPL's operating profit margin (OPM) dipped slightly to 21.7% against 22.7% in FY2021 yet remained healthy. However, its capital structure and debt protection metrics strengthened further in FY2022, aided by healthy internal accrual generation and sizeable prepayment of long-terms loans by IPL from its existing liquidity.

[1] *as per IQVIA Data March 2022 (source: company)*

IPL's operations remain exposed to regulatory risks and foreign currency fluctuations (due to exports, imports and foreign currency borrowings). ICRA notes the ongoing litigations, and any adverse impact of the same on the operations and financials of the company would be a key rating sensitivity. Any large inorganic investment by the company would remain an event risk, and the impact of such investments on its business and credit profiles would be monitored on a case-by-case basis.

The Stable outlook on the long-term rating reflects ICRA opinion that IPL will continue to benefit from its established business position in the domestic market, diversified presence in the international markets and healthy product pipeline. This. coupled with healthy internal accrual generation and strong liquidity position, will continue to support the company's credit profile.

Key rating drivers and their description

Credit strengths

Leading player in Indian branded formulations segment – IPL maintained its strong market share of 3.19% (3.15% in FY2021) and is ranked seventh as per IQVIA March 2022 data in the domestic formulations market. It continues to have a strong market position in some of the key lifestyle-related therapeutic segments, such as central nervous system (CNS) and cardio-vascular systems (CVS). IPL is positioned as the second largest player in the CNS segment in India. The 24% YoY growth in revenues from the domestic markets in FY2022 was led by an increase in demand from certain therapeutic areas, especially some anti-infectives used for oncology treatment were used to treat severe Covid in some cases. Further, demand for various elective treatments (eg: gynaecology related) also went up, which supported the growth during FY2022. Going forward, focus on speciality segments in domestic formulations is expected to drive growth.

Geographically-diversified revenue mix – IPL has a diversified presence across Europe (39% of FY2022 revenues), the US (16%) and RoW (12%), with a leading presence in Europe and a growing presence in the US market. Europe has traditionally been IPL's largest revenue driver, accounting for 39% of its consolidated revenues in FY2022. In addition to organic growth, the company had concluded its largest acquisition with the GBP 603 million takeover of Actavis UK and Actavis Ireland in FY2017. The acquisition has helped IPL in building scale in its core UK market, thereby providing an established supply chain, better bargaining power with customers and access to an additional customer base. The company continues to be a major player within the generic hospital segment, estimated to be one of the top suppliers of such products across Europe by turnover and the largest provider of generic chemotherapy by volume in the European Union.

After India and Europe, the US is the third most important market for IPL in terms of revenue contribution (~16% of its consolidated revenues in FY2022). Despite being a late entrant in the US market, IPL has significantly scaled up its operations by focussing on niche therapy segments such as oncology, immuno-suppressants and other critical therapy areas.

Healthy financial profile with consistent profitability, healthy capitalization and coverage indicators – IPL's operating income (OI) grew by 11.7% YoY in FY2022 led by robust growth in the domestic markets (24%) primarily on account of rise in elective treatments relating to segments like oncology and gynaecology post the pandemic, along with steady growth in the US markets supported by ramp-up in sales of generic products. However, due to pricing pressures H2 FY2022 onwards in the US and subdued performance in the European markets, OPM dipped slightly to 21.7%, yet remained healthy. Given the healthy internal accrual generation, the company repaid (including prepayment of Rs.1275 crore) long-terms loans amounting to Rs. 2,830.2 crore in FY2022 from its existing liquidity, which resulted in a further improvement in its capital structure with total outside liabilities/ tangible net worth or TOL/TNW of 0.5 times (0.9 times in FY2021), Net Debt/OPBDITA[2] of 0.0 times (0.5 times in FY2021), interest cover of 35.0 times (14.0 times in FY2021) and net cash accruals/ total debt or NCA/TD of 132% (54% in FY2021). Going forward, in the absence of any major debt-funded capex or inorganic expansion, the capital structure and credit metrics are expected to improve in line with the growth in revenues and profitability.

[2] *Operating profit before depreciation, interest and tax*

Credit challenges

Exposure to regulatory risks and litigations – The company's operations remain exposed to regulatory risks, arising out of the greater scrutiny by regulatory agencies as well as pricing controls in the domestic market. ICRA notes the 19-20% coverage of its domestic formulations under NLEM, which though has benefitted from the 10.7% increase in prices allowed for FY2023, remains exposed to future price control measures or addition of more products in the list of NLEM drugs. IPL's biosimilars facility at Moraiya was earlier issued a Form 483s, which is expected to be addressed shortly and the company is expecting approvals by end of FY2023. Apart from this facility, there are no other active regulatory issues for any of the other manufacturing facilities, as indicated by the company's management. ICRA also notes the ongoing litigations (including Docetaxel product liability suits, Para – IV filings and potential liability related to its UK subsidiary). Based on an infringement order against IPL's UK-based subsidiary – Accord UK[3], CMA has imposed a penalty of £221 million on the group. As per IPL's management, majority of this liability is pertaining to Teva, the erstwhile owner of Accord UK, and IPL's share is only to the extent of ~£44 million, which pertains to the period post acquisition of Actavis UK. IPL has provided for 25% of this liability and legally contested CMA's order, with the matter presently being sub-judice. Any materially adverse impact of the ongoing litigations on the operations and financials of the company would be a key rating sensitivity.

Vulnerability of profitability to forex fluctuations – With about 68% of its revenues being received from overseas markets, the company's revenues and margins remain susceptible to unfavourable forex movements. However, the hedging mechanism adopted by IPL mitigates the risk to a large extent.

High investments made in the biosimilars business in recent years and are expected to continue over the near to medium term; commensurate returns on the same will be key in sustaining the return indicators going forward – With the industry poised for healthy growth over the next few years, several players are expanding their presence in the biosimilars space. This is likely to increase competition and pricing pressures for IPL. However, the company's healthy biosimilars product portfolio (including pipeline) and global footprint are likely to mitigate competitive threats to a large extent. IPL derived sizeable revenue for this segment from the domestic markets in FY2022, where it sells 14 commercialized molecules. IPL was one of the first Indian companies to launch two biosimilars products in the European markets, in which it enjoys a healthy market share amongst domestic players. IPL has made high investments in the biosimilars business in recent years and are expected to continue over the near to medium term. IPL's ability to generate commensurate returns on the same will be key in sustaining the company's return indicators over the medium term.

Liquidity position: Strong

The liquidity position of IPL is **strong**, supported by unencumbered cash and bank balance and liquid investments of ~Rs. 2,790.9 crore (at consolidated level) as well as unutilised rated bank limits of Rs. 645.6 crore (at standalone level) as on June 30, 2022. With expected revenue growth and range-bound OPM, the retained cash flows of the company are expected to remain healthy to meet the capital expenditure (capex) requirements of IPL (~Rs. 1,400 crore in FY2023 and Rs.650 crore in FY2024) and repayments to the tune of ~Rs. 220 crore each in FY2023 and FY2024.

Rating sensitivities

Positive factors – The rating may be upgraded if IPL reports sustained improvement in its revenues while maintaining its profitability margins across its key geographies, leading to sustained improvement in return indicators and further strengthening of its financial risk profile.

Negative factors – The rating may be downgraded if there is weakening in the company's revenues and profitability and/or increase in debt levels, leading to an increase in net debt/ OPBDITA to above 1.0x on a sustained basis. Any regulatory non-compliance issued to IPL for its products and/or manufacturing facilities, which may impact its product launches and, thus,

[3] Earlier Actavis UK

revenues and profitability, would also be a negative trigger. Large debt-funded inorganic investments by the company or any adverse outcome of on-going litigations would remain an event risk, and the impact of the same on the company's business and credit profile would be monitored on a case-by-case basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IPL. As on March 31, 2022, the company had 13 subsidiaries, 30 step-down subsidiaries and one jointly controlled entity, which are all enlisted in Annexure2.

About the company

Incorporated in 1985, IPL is the flagship company of the Ahmedabad-based Chudgar Group. The company commenced operations by setting up a small manufacturing facility that focussed on chronic therapeutic segments, including neurology and psychiatry, before gradually gaining meaningful presence in the domestic formulations market by the 1990s. Over the years, the company diversified into wide therapeutic areas and ventured into international markets through exports of generic drugs and contract manufacturing.

IPL is ranked as the seventh largest domestic formulations company, as per IQVIA MAT March 2022, generating nearly 32% of its turnover (for FY2022) from domestic business. The company operates 18 manufacturing facilities, with 15 in India, and balance spread in UK and Mexico. IPL's manufacturing facilities are approved by various regulatory authorities including the USFDA, UK MHRA, MCC (South Africa), TGA (Australia) and ANVISA (Brazil). IPL's promoters - the Chudgar family - currently own 83.84% stake in the company, with 10.13% being held by Temasek Holdings and 6.02% being held by Chrys Capital through four different funds.

Key financial indicators (audited)

IPL – Consolidated	FY2021	FY2022
Operating income	16492.8	18416.1
PAT	2289.8	2679.3
OPBDIT/OI	22.7%	21.7%
PAT/OI	13.9%	14.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.5
Total debt/OPBDIT (times)	1.4	0.6
Interest coverage (times)	14.0	35.7

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

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 as on March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 22, 2022	Jul 19, 2021	Nov 04, 2020	Aug 13, 2019
1	**Fund based/ Non-fund Based Facilities**	Long-term / Short-term	1,500.0	NA	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/ Short-term Fund-based/ Non-fund Based Facilities	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund based/ Non-fund Based Facilities**	NA	NA	NA	1,500.0	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
Accord Healthcare Limited, UK	100.00%	Full Consolidation
Andre Laboratories Limited	-	Full Consolidation
Astron Research Limited, UK	100.00%	Full Consolidation
Accord Healthcare Inc., North Carolina, USA	100.00%	Full Consolidation
Accord Healthcare (Proprietry) Limited, South Africa	100.00%	Full Consolidation
Accord Farmaceutica Ltda., Brazil	100.00%	Full Consolidation
Accord Healthcare SAC, Peru	100.00%	Full Consolidation
Accord Farma S.A. De C.V., Mexico	100.00%	Full Consolidation
Accord Healthcare Inc., Canada	100.00%	Full Consolidation
Accord Healthcare Pty. Ltd., Australia (w.e.f. March 02, 2018)	100.00%	Full Consolidation
Intas Third Party Sales 2005 S.L. (w.e.f. April 11, 2017)	100.00%	Full Consolidation
Accord Healthcare (Kenya) Limited (w.e.f. June 28, 2018)	100.00%	Full Consolidation
SM Herbals Private Limited	100.00%	Full Consolidation
Step-down Subsidiaries		
Farmbaiot S.A DE CV, Mexico	100.00%	Full Consolidation
Essential Pharmaceuticals LLC	100.00%	Full Consolidation
Accord Biopharma Inc. USA	100.00%	Full Consolidation
Accord Healthcare SAS, France	100.00%	Full Consolidation
Accord Healthcare BV, Netherlands	100.00%	Full Consolidation
Accord Healthcare Sociedad Limitada, Spain	100.00%	Full Consolidation
Accord Healthcare Italia SRL, Italy	100.00%	Full Consolidation
Accord Healthcare Polska Spolka Z Organiczona Odpowiedzialnoscia, Poland	100.00%	Full Consolidation
Accord Healthcare AB, Sweden	100.00%	Full Consolidation
Accord Healthcare GmbH, Austria	100.00%	Full Consolidation
Accord Healthcare OY, Finland	100.00%	Full Consolidation
Accord Healthcare Ireland Limited, Ireland	100.00%	Full Consolidation
Accord Healthcare BVPA, Belgium	100.00%	Full Consolidation
Accord Healthcare Limited, Malta	100.00%	Full Consolidation
Accord Healthcare GmbH, Germany	100.00%	Full Consolidation
Accord Healthcare SDN BHD, Malaysia	100.00%	Full Consolidation
Accord Healthcare MENA DMCC, UAE	100.00%	Full Consolidation
Accord Healthcare S.R.O., Czech Republic	100.00%	Full Consolidation
Accord Healthcare Private limited, Singapore	100.00%	Full Consolidation
Accord Healthcare, Unipessoal, Lda, Portugal	100.00%	Full Consolidation

Company Name	Ownership	Consolidation Approach
Accord Healthcare HK Limited, Hongkong	100.00%	Full Consolidation
Accord Healthcare SRL, Romania	100.00%	Full Consolidation
Accord Healthcare AG, Switzerland	100.00%	Full Consolidation
Accord UK Limited, UK	100.00%	Full Consolidation
Accord Healthcare Thailand Limited (Thailand)	100.00%	Full Consolidation
Accord Healthcare Korea Limited, South Korea	100.00%	Full Consolidation
Accord Biosimilars LLC (w.e.f. May 29, 2020)	100.00%	Full Consolidation
Accord-Healthcare Kft.,Hungary (w.e.f. October 08, 2020)	100.00%	Full Consolidation
Accord Healthcare Single Member S.A. (Greece) (w.e.f October 14, 2021)	100.00%	Full Consolidation
Jointly controlled entity		
Alvi-Intas Medical Devices Private Limited	-	Equity Method

Source: IPL annual report of FY2022

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Deepak Jotwani
+91 124 4545870
deepak.jotwani@icraindia.com

Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Karan Punjabi
+91 22 6169 3358
karan.punjabi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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