June 21, 2024

Jagsonpal 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 – Unallocated	1.80	1.80	[ICRA]BBB(Positive) /[ICRA]A2; reaffirmed
Total	**1.80**	**1.80**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings with a continuation of a positive outlook for Jagsonpal Pharmaceuticals Limited (JPL) considers the expected growth in revenue in FY2025, supported by new product launches and an increase in top line from the acquisition of brands from Yash Pharma Private Limited (YPPL) in Q1 FY2025. ICRA notes that the entity witnessed a decline in revenue in FY2024 owing to intense competition in key products such as Divatrone, Maintane and J.P. Tone, as well as counterfeit issues with one key product Indocap.

The operating profit margin (OPM) also declined due to lower absorption of fixed costs resulting from decreased revenue, coupled with employee stock ownership plan (ESOP) expenses. However, ICRA expects the top line and OPM to rebound, supported by new product launches, new brand acquisitions and recovery in sales of Indocap, where the loss of sales due to counterfeit issues is expected to be temporary.

ICRA will continue to monitor the recovery process related to top line and margin expansion, which will remain a key rating factor in the near term. The ratings continue to factor in JPL's long track record of operations, strong brand presence and extensive pan India distribution network as well as its robust financial risk profile, aided by nil debt on books and strong liquidity position.

The ratings are, however, constrained by JPL's moderate scale of operations, as it remains a mid-sized player in the pharmaceutical formulation space. This position exposes it to stiff competition from many generic drug manufacturers in the domestic branded generic segment, as reflected in its average margin levels. The ratings also factor in the dependence on a few key products, which exposes JPL to product concentration risk. ICRA notes JPL's complete dependence on third-party manufacturers through a loan-licensing model, requiring the company to rely solely on third-party suppliers to ensure quality and an uninterrupted supply of manufactured products.

Key rating drivers and their description

Credit strengths

Long track record as a formulations player – JPL has an established track record in the branded pharmaceutical formulations industry, spanning more than 60 years. Over the years, the company has successfully launched and grown multiple brands in women's healthcare, orthopaedics and other over-the-counter (OTC) segments. In FY2024, the company derived ~32% of its revenues from gynaecology, ~21% from orthopaedic and the remaining from multiple therapeutic areas such as antibiotics, allergy management, immunity and cell protection, as well as OTC products. Besides, JPL has acquired certain brands in the dermatology and childcare segments from the Mumbai-based company YPPL, which is it is expected to further enhance its brand presence in India.

Healthy financial risk profile and strong liquidity – JPL's financial risk profile is healthy owing to a debt-free balance sheet and strong liquidity in the form of free cash balances and fixed deposits, supported by growing cash accruals and minimal capex

requirements. The company would maintain the healthy free cash and liquid investment even after acquiring certain brands from YPPL in an all-cash deal of ~Rs. 93 crore. Going forward, ICRA expects the company's funding requirements to remain manageable due to moderate working capital intensity. However, any debt-funded inorganic expansion and its impact on the credit profile will be a rating monitorable.

Large distribution network across the country – Over the years, JPL has developed a diversified distribution network across India and has established strong relationships with its suppliers, distributors and other stakeholders. The company has a robust sales force of ~750 personnel across India, which has increased to ~975 following the acquisition of YPPL's brands. The company derives ~98% of its sales from the domestic market and also exports some active pharmaceutical ingredients (API).

Credit challenges

Exposed to intense competition in the generic formulations industry; relatively moderate scale of operations – JPL remains a moderate-sized player in the intensely competitive generic formulations industry. The domestic generic formulations industry faces stiff competition from numerous contract manufacturers, MNCs as well as established domestic brands, some of which also have a pan-India presence. This competition restricts the company's revenue growth and pricing flexibility, as reflected in the decline in JPL's revenue in FY2024. Also, many of JPL's brands witnessed limited growth for the past 2-3 years due to high competition in their target segments. In FY2024, the company generated ~47% of its revenues from its top five brands and 67% from its top seven brands, thus facing relatively higher brand concentration risk.

Regulatory risks, as typically prevalent in the sector – The industry encounters regulatory risks, and ~6% of FY2024 revenues came from products that were under price control. Nonetheless, the company's shift in focus towards high margin new products and new product launches is expected to benefit its performance.

Dependence on few products and third-party manufacturers – JPL has completely outsourced its manufacturing processes through a loan licensing arrangement. Under this setup, the company acts as the marketer of the formulations and utilises the licensed manufacturing units of vendors for production. While this arrangement eliminates the need for heavy investment in plant and machinery, maintaining adherence to quality standards remains critical for the company. The company has primarily partnered with a pool of contract manufacturers and also supplies raw materials to these manufacturers to ensure strong control over product quality, which helps mitigate risks to some extent.

Liquidity position: Strong

JPL has a strong liquidity profile, supported by ~Rs. 153 crore in unencumbered cash balances and liquid investments as of March 2024. Even after accounting for the estimated cash outflow of ~Rs. 93 crore for certain brands acquisitions in Q1 FY2025, JPL expects to retain ~Rs. 50-60 crore in cash balance and liquid investments going forward. The liquidity profile is further supported by minimal capital expenditure plans and nil debt servicing obligations.

Environmental and Social risks

Environmental considerations: JPL does not face any major physical climate risk as it does not have its own manufacturing operations. The company's contract manufacturers could encounter stringent environmental regulations with regard to breach of waste and pollution norms, leading to an increase in operating costs for these manufacturers and thus, impacting JPL. Consequently, the manufacturing facilities of these contract manufacturers need to have waste management and environmental protection systems in place, which JPL needs to ensure so as to comply with environmental pollution regulations.

Social considerations: JPL has a healthy dependence on human capital. Therefore, retaining its human capital, maintaining healthy employee relations as well as supplier ecosystem remains essential for disruption-free operations.

Rating sensitivities

Positive factors – ICRA could upgrade JPL's ratings if the company achieves significant revenue growth led by an expanding and diversified product portfolio, accompanied by improved profitability margins while sustaining its strong liquidity profile.

Negative factors – ICRA could downgrade JPL's ratings if there is a significant decline in scale and profitability, large debt-funded capital expenditure or deterioration of working capital cycle intensity, which results in the weakening of its credit metrics and liquidity position on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

JPL is a branded formulation company with a key focus on women's healthcare products in the therapeutic areas of gynaecology and orthopaedics. JPL was founded in 1964 by Mr. Jagmohan S Kochhar in Delhi, the company was managed by his son, Mr. Rajpal Kochhar, and his family until FY2022. The company initially had two manufacturing facilities in Faridabad and Rudrapur. In FY2017, JPL sold its Rudrapur facility and closed the Faridabad unit in FY2022. In Q4 FY2022, the promoters sold a majority stake to a Mauritius-based private equity fund. The company has several brands, including Divatrone, Lycored, Metadec, Indocap and Maintene. JPL has acquired a few brands such as Eukroma and Itratop in the dermatology category and Ventiphylline – PD and Tinilox in the paediatric category from YPPL in May 2024. The company is listed on stock exchanges (BSE and NSE), with a market capitalisation of ~Rs. 910 crore as on June 14, 2024.

Key Financial Indicators (audited)

JPL Standalone	FY2023	FY2024*
Operating income	237.4	208.7
PAT	26.7	22.5
OPBDIT/OI	15.0%	11.1%
PAT/OI	11.3%	10.8%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.2	0.4
Interest coverage (times)	86.0	28.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Jun 21, 2024	Apr 14, 2023	Oct 10, 2022	Mar 10, 2022	Sept 30, 2021
1 **Unallocated**	Long-term / Short term	1.80	-	**[ICRA]BBB (Positive)/ [ICRA]A2**	[ICRA]BBB (Positive)/ [ICRA]A2	[ICRA]BBB (Positive)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term / Short-term – Fund Based/Non-Fund Based - Unallocated	Not applicable

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	**Unallocated**	NA	NA	NA	1.80	[ICRA]BBB (Positive)/ [ICRA]A2

Source: Company

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

ANALYST CONTACTS

Shamsher Dewan
91 124 4545 328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 4596 4318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Uday Kumar
+91 124 4545 867
uday.kumar@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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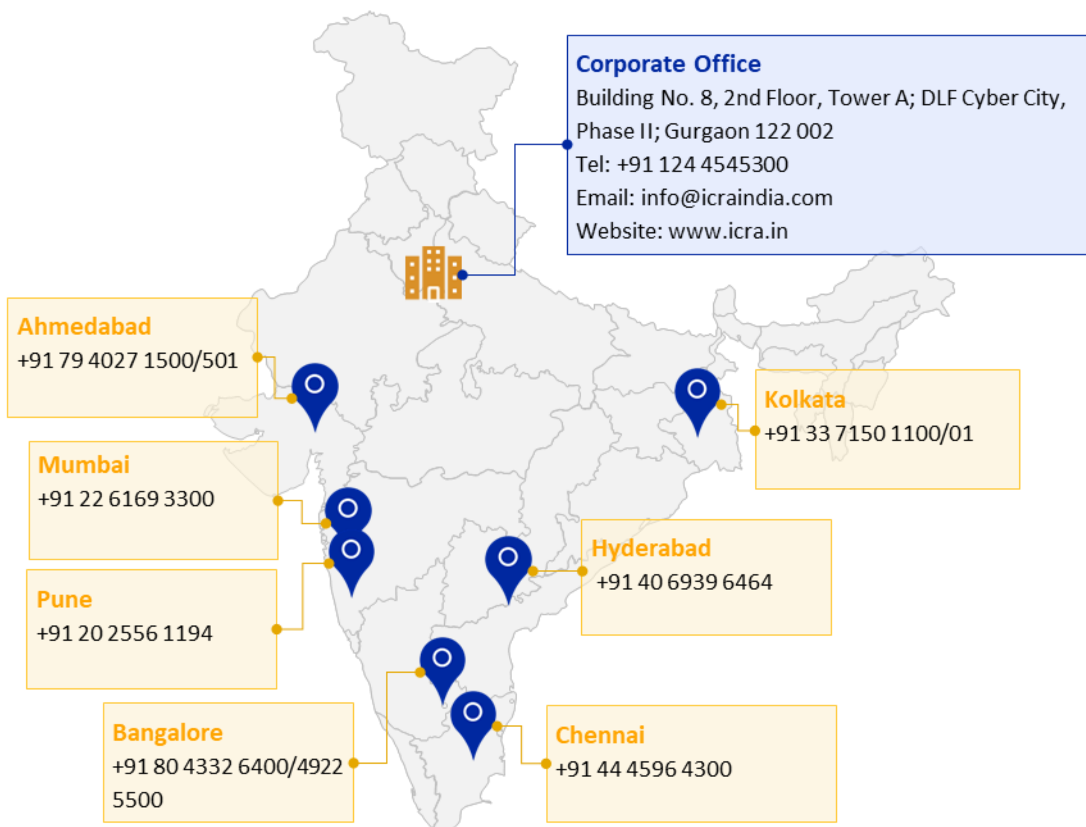
ICRA Limited

Registered Office

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

Branches



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