India Ratings Affirms Cipla at ‘IND AAA’/Stable and its CP at ‘IND A1+’

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India Ratings and Research (Ind-Ra) has affirmed Cipla Limited’s Long-Term Issuer Rating at ‘IND AAA’. The Outlook is Stable. The instrument-wise rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating	Rating Action
Commercial paper (CP)			Up to 365 days	INR10	IND A1+	Affirmed

Analytical Approach: Ind-Ra continues to take a consolidated view of Cipla and its subsidiaries across geographies, together referred to as Cipla, as all the entities operate in a similar line of business.

Key Rating Drivers

Robust Credit Metrics: Cipla’s consolidated credit metrics improved in FY23, surpassing Ind-Ra’s expectations, led by about 13% yoy increase in cash and cash equivalent to INR46.4 billion, increase in the absolute EBITDA to INR50.3 billion (FY22: INR45.5 billion), decline in adjusted net debt (including off-balance sheet debt) to INR25.8 billion (INR28.3 billion),and the consequent fall in interest costs. The company continued to be net cash positive in FY23 (FY22: net cash positive) owing to. Moreover, the interest coverage increased significantly to 45.9x in FY23 (FY22: 42.8x). In the absence of any major debt-led capex, Ind-Ra expects the company to remain net cash positive over FY24-FY25.

Healthy Operating Performance despite High Base: Although weak growth was reported in India, South Africa, the emerging markets and API business, Cipla’s consolidated sales grew by 4.5% yoy to INR227.5 billion (FY22: INR217.6 billion), led by growth in the US and Europe businesses. The EBITDA margin increased to 22.1% in FY23 (FY22: 20.9%) due to the share of high-value products such as Albuterol/gRevlimid in the US market and positive operating leverage. The research and development (R&D) spend marginally increased to 5.9% of the sales in FY23 (FY22: 5.2%).

In 1HFY24, Cipla reported robust performance in terms of sales and operating profit. The sales grew by 16.1% yoy on account of strong performance in India (10.8% yoy; branded generics and trade generics recorded double-digit growth) and the US business (41.0% yoy; sales from generic Revlimid, higher volumes and better pricing in select products). The EBITDA margin further improved to 24.8% in 1HFY24 (1HFY23: 21.8%), led by a better product mix, lower freight/logistic cost, increased contribution from the high-margin chronic therapies in India, niche launches in the US (generic Revlimid) and lower price erosion in the US market. Ind-Ra expects the margin to be 23%-24% over the medium-to-long term, compared to its historical range of 18%-20%, on account of lower R&D spend, stability in the emerging markets, and overall cost savings.

Strong Business Risk Profile: Cipla is the third-largest pharma company in India, with a market share of 5.2%

(source: IQVIA MAT March 2023; ex COVID-19). The Indian pharma market continues to be one of the most important focus areas for the company in terms of both sales and profit growth. Cipla derives about 43% of its total revenue from India; high-margin chronic and sub-chronic segments contributed 60% to the company's sales in the country as of March 2023 on moving annual total (MAT) basis. The company has twenty brands in the top 300 brands in the Indian pharmaceutical market and 22 brands of its brands generate sales of more than INR1 billion in the country. The respiratory segment remains a top therapy for Cipla, contributing about 38.9% to its India sales. Cipla's top five therapies contributed 76.5% to its India sales as of March 2023 on MAT basis.

Cipla expanded its portfolio and presence significantly in the US market over FY15-FY23. The US business, which contributed 26% to the company's sales in FY23, grew at a 26.2% CAGR over FY15-FY23, with the quarterly base sales run rate increasing to USD229 million in 2QFY24 from USD100 million in 1QFY19. At end-2QFY24, 111 abbreviated new drug applications (ANDAs) were pending for approval from the United States Food and Drug Administration (USFDA). Cipla has been focusing on the specialty/complex generic segment, particularly respiratory, central nervous system and critical care. Cipla expects R&D spends, which would be directed for strengthening ANDA pipeline, to account for around 6.0% of the overall revenue in FY24 (1HFY24: 5.6%; FY23: 5.9%; FY22: 5.2%).

Liquidity Indicator – Superior: Cipla has high cash balances and liquid investments (FY23: INR46.4 billion; FY22: INR41.2 billion) and high cash flow from operations margins (14.4%; 15.2%). Also, it has reported positive free cash flow since FY10 (FY23: INR17 billion; FY22: INR21.9 billion). All long-term loans, including current maturities, were repaid in December 2023. Cipla incurred capex of INR11.8 billion in FY23 (FY22: INR7.0 billion). The company will continue to incur similar amounts of capex over FY24-FY25, which is likely to be funded by internal accruals. The agency believes Cipla will continue to record positive free cash flow in the near-to-medium term and will maintain high cash balances in line with the historical levels.

Debt-funded Acquisitions over Near-to-Medium Term to be EBITDA margin neutral: Given the highly competitive intensity in the US market, Ind-Ra expects the company to look for inorganic target options in the medium term to build scale in speciality segments and address growth gaps/concerns in key business segments. Ind-Ra has factored into the ratings Cipla's debt-funded, EBITDA margin-neutral, acquisition-related cash outflows of around USD500 million over FY24-FY27. Post the large debt-funded acquisitions of US-based Invagen Pharmaceuticals Inc. and Exelan Pharmaceuticals Inc. in FY16 for a total of USD550 million, Cipla's total acquisition outflow remained below USD70 million over FY17-FY23. While the company has adequate headroom for further mergers and acquisitions, the agency will assess the impact of the same on a case-to-case basis and review the ratings accordingly.

Standalone Profile: On a standalone basis, the company recorded revenue of INR157.9 billion and INR89.8 billion in FY23 and 1HFY24 (FY22: INR153.8 billion), with an EBITDA margin of 24.0% and 28.8% (24.1%) and interest coverage of 140.4x and 318.6x (137.8x), respectively.

Regulatory Risks: Regulatory risk continue to emanate from the possibility of price control and the USFDA's regulatory scrutiny of the company's manufacturing facilities. Two facilities of the company have been under the USFDA scanner: i) the Goa plant received official action indicated (OAI) in November 2022 (warning letter in February 2020), and ii) the Pithampur Goa unit received a warning letter in November 2023 (official action indicated; OAI in August 2023). A major product, Advair, has been filed from Pithampur plant, but the company is in process of shifting the product to a USFDA-compliant facility. Ind-Ra highlights that the impact from these USFDA issuer unlikely to impact Cipla's credit metrics and hence it is credit neutral. According to Cipla, it runs an active de-risking program for all critical products (as a routine business practice). The exposure to single sourced products from Goa is limited to less than 2.5% of the total sales. The Goa plant has limited future filings. Hence, the agency does not expect any major impact on Cipla's credit profile even if there is some delay in resolution. Furthermore, the agency continues to adjust to total debt an amount of up to INR17.4 billion (less than 10% of sales) for demand notices from the National Pharmaceutical Pricing Authority.

Rating Sensitivities

Negative: A negative rating action could result from a weakening in the business profile, reflected by a reduction in the competitive position in key therapies or key geographies, and/or the consolidated net leverage exceeding 1.5x, on a sustained basis, due to a decline in the financial performance, a high capex spending and/or significant debt-led acquisition.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on Cipla, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

Company Profile

Established in 1935, Cipla has an operational track record of about 85 years. It is a global pharma company with a geographically diversified presence, and offers over 1,500 products in 65 therapeutic categories, with over 50 dosage forms covering a wide spectrum of diseases. Cipla supplies branded and generic medicines to over 170 countries globally. The India branded formulations business account for about 40% of the company's total revenue. Cipla is also a well-known global player in the inhalers and anti-retroviral segments.

FINANCIAL SUMMARY - CONSOLIDATED

Particulars	FY23	FY22
Revenue (INR billion)	227.5	217.6
EBITDA (INR billion)	50.3	45.5
EBITDA margin (%)	22.1	20.9
Gross interest coverage (x)	45.9	42.8
Net financial leverage (x)	n.m	n.m
Total adjusted debt (INR billion)	25.8	28.3
Free cash and liquid Investments (INR billion)	46.4	41.1
Source: Cipla, Ind-Ra n.m: not meaningful		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	17 January 2023	19 January 2022	21 January 2021
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable
CP	Short-term	INR10	IND A1+	IND A1+	IND A1+	IND A1+

Complexity Level of Instruments

Instrument Type	Complexity Indicator
CP	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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