Rating Rationale

December 29, 2023 | Mumbai

J B Chemicals and Pharmaceuticals Limited

Ratings Reaffirmed

Â

Rating Action

Total Bank Loan Facilities Rated	**Rs.950 Crore**
Long Term Rating	**CRISIL AA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its â€˜CRISIL AA/Stable/CRISIL A1+â€™ ratings on the bank facilities of J B Chemicals and Pharmaceuticals Limited (JBCPL; part of the JBCPL group).

Â

On December 19, 2023, JBCPLâ€™s board approved execution of a trademark license agreement (TLA) with Novartis Innovative Therapies AG, Switzerland (Novartis Switzerland), for a portfolio of select ophthalmology brands. Effective January 2027, the TLA will be perpetual in nature and will permit exclusive rights to these brands in the Indian market. The board has also approved execution of a promotion and distribution agreement (PDA) with Novartis Healthcare Pvt Ltd, India (Novartis India), for the brands for three years beginning December 2023. As part of this transaction, JBCPL will pay Rs 125 crore to Novartis India for the PDA while a cash consideration of USD 116 million will be paid to Novartis Switzerland for the TLA on or before December 31, 2026. The payouts are expected to be funded through available cash surplus and internal accrual.

Â

Through this transaction, CRISIL Ratings notes the expected improvement in the companyâ€™s business risk profile, through improved diversification in the pharmaceuticals business in India, fostering healthy growth in revenue and sustained improvement in operating performance. Furthermore, CRISIL Ratings does not envisage any material impact on the credit profile of JBCPL as this transaction is expected to be funded through internal accrual.Â CRISIL Ratings also takes comfort from the healthy track record of the company in prudently managing its capital structure and successfully leveraging its past acquisitions.

Â

The revenue grewÂ by 12% on-year inÂ the first half ofÂ fiscal 2024 to Rs 1,778 crore, aided byÂ growth inÂ its base businessÂ andÂ healthyÂ contribution fromÂ variousÂ brands acquired overÂ theÂ past 12 months.Â Domestic formulation sales grew 14% on year to Rs 970 crore, while theÂ internationalÂ businessÂ reported a healthy 9%Â growth.Â Revenue growth is expected to remain healthy atÂ 11-12% in fiscal 2024 and 15-18% per annum over the medium term, supported by ramp-up in sales of existing products and new product launches. The companyâ€™s acquisition of brands from Sanzyme Pvt Ltd (Sanzyme;Â February 2022), Azmarda brand from Novartis AG (April 2022),Â DrÂ Reddyâ€™s Laboratories (June 2022)Â and Razel brand from Glenmark Pharmaceuticals (December 2022)Â has supported revenue growth. Operating margin was healthy at 26.7% inÂ the first half ofÂ fiscalÂ 2024, as against 22.4% in the first half of fiscal 2023, supportedÂ byÂ healthyÂ product mix with increasing share of focused products and cost optimisation measures. The operating margin is expected to remain healthy at 24-25% over the medium term with better product mix and healthy revenue growth through margin-accretive acquisitions.

Â

The financial risk profile was healthy, as reflected in adjusted gearing of 0.24 time as on March 31, 2023. While the company will continue to invest in organic annual capital expenditure (capex) of Rs 75-100 crore, the capex is likely to be prudently funded through internal accrual over the medium term.Â The JBCPL group concluded a series of acquisitions in 2022 and may grow through further acquisitions over the medium term. It will prudently fund its expansion plans through internal accrual, maintaining a healthy capital structure and financial risk profile.Â Any large, debt-funded capex or acquisition could impact the capital structure and debt protection metrics, and hence, remain a key monitorable.

Â

The ratingsÂ continue to reflect the established position of the group in the pharmaceutical sector andÂ itsÂ healthy financial risk profile. These strengths are partially offset by susceptibility to intense competition,Â fluctuations in foreign exchange (forex) rates and regulatory changes in domestic and international markets.Â

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of JBCPL and its subsidiaries. This is because these entities, collectively referred to as the JBCPL group, have common management and business interests. CRISIL Ratings has amortised goodwill on consolidation/acquisitions and intangibles over five years and on acquisition of portfolio of brands from Sanzyme and Novartis over 10 years and three years, respectively; profit after tax and networth are adjusted to that extent.

Â

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Established position in the pharmaceuticals industry

The business risk profile is supported byÂ the groupâ€™s established market position and diversified revenue profile in the pharmaceutical industry. The domestic market contributed 53% of revenue in fiscal 2023, with the balance coming from international markets. The brands - Rantac, Cilacar, Metrogyl, Cilacar-T,Â NicardiaÂ and

Azmarda (acquired from Novartis)Â - featuredÂ among the top 300 brands in India, as per IQVIA MATÂ DecemberÂ 2023 data, andÂ accountedÂ for overÂ 75% of the domestic formulation revenue. Furthermore, the group has a well-balanced portfolio, with acute and chronic segments each accounting for 50% of the domestic formulations revenue in fiscal 2023. To increase the contribution of the chronic segment, it undertook a few acquisitions over the past 12 months in the cardiovascular segment and now has an established presence in major sub-segments.Â In the international segment, the group operates in regulated and semi-regulated markets with presence in the US, South Africa, and Russia,Â among others.
Â

Healthy financial risk profileÂ

Adjusted gearing is expected at 0.2 time as on March 31, 2024,Â and will remain healthy over the medium term.Â Outstanding debt reduced to Rs 445 crore as on September 30, 2023, from Rs 548 crore as on March 31, 2023. Planned organic capex of RsÂ 75-100Â crore towardsÂ annual maintenance will be funded internally.Â In addition, the near-term inorganic capex plans will be funded through internal accrual.Â Healthy profitability and low reliance on debt have kept the debt protection metrics healthy, as reflected in total debt to operating profit before interest, tax, depreciation and amortisation and interest coverage ratios over 0.2Â timeÂ and 22 times, respectively, in theÂ first half of fiscal 2024.Â Any large, debt-funded capex or acquisition could impact the capital structure and debt protection metrics, and hence, will be a key monitorable.
Â

Weaknesses:

Susceptibility to intense competition and fluctuation in forex rates

The group mainly caters to therapeutic segments suchÂ asÂ gastro, cardiovascular, antibiotic and pain management. High revenue concentration inÂ the relatively slow-growing acute therapeutic segments exposes the group to pricing and competitive pressuresÂ in a mature market, especiallyÂ sinceÂ products under price control account for 35% of sales. The group is also susceptible to fluctuations in forex rates in semi-regulated markets.
Â

Exposure to regulatory risks

The group remains vulnerable to regulatory changes in domestic and international markets. Addition to lists under the Drug Price ControlÂ Order impacts product pricing and, thereby, profitability of players, though the extent of impact may vary. Increasing scrutiny and inspections by authorities such as the US Food and Drugs Administration (US FDA) and Therapeutic Goods Administration, Australia, further intensifies the regulatory risk. For instance, in January 2016, JBCPL received a notification, along with several other companies, from the National Green Tribunal to shut down its active pharmaceutical ingredient (API) plant in Panoli,Â Gujarat. Thereafter,Â theÂ Supreme Court through its judgementÂ ofÂ April 2020 set aside the order of closure ofÂ theÂ API unit on the basis of precautionary principle and the company was directed to pay one-time compensation of Rs 10 crore, which has been paid.
Â

SalesÂ of Rantac (largest brand of the group) were affected in IndiaÂ during September-October 2019 after the US FDA raised concerns over the cancer-causing properties in ranitidine. Post clarification issued byÂ theÂ US FDA in November 2019 thatÂ ranitidine contains normal levels of n-niteosodimethylamine (NDMA), sales of Rantac resumed. While JBCPL does not sell Rantac in the US,Â any escalation of this issue or regulatory action byÂ theÂ US FDA remains aÂ key monitorable.

Liquidity:Â Strong

Expected cash accrual over Rs 500Â crore in fiscal 2024 and Rs 550-700 crore over the next two fiscals will sufficiently cover debt obligation ofÂ ~RsÂ 160Â crore and capex of RsÂ 75-100Â crore in the near term. Inorganic growth plans are likely to be funded prudently through a mix of debt and internal accrual. Cash and equivalent was moderate at RsÂ 393 crore as onÂ SeptemberÂ 30, 2023, and is expected to remain in the range of RsÂ 75-100 crore.

Outlook: Stable

CRISIL Ratings believes the JBCPL group will continue to benefit from its established market position in India, improving revenue from regulated markets and healthy operating efficiency. Also, the group is expected to sustain its healthy financial risk profile, supported by steady cash generation.

Rating Sensitivity Factors

Upward factors:

- Considerable ramp-up in revenue, along with diversification of the revenue profile, and stable operating margin over 22%
- Sustenance of healthy financial risk profile and debt protection metrics while pursuing inorganic growth

Downward factors:

- Sluggish revenue growth and decline in operating margin below 15% leading to lower cash accrual
- Large, debt-funded capex or acquisitions weakening the debt protection metrics

About the Company

JBCPL was set up in 1976 as JB Mody Chemicals and Pharmaceuticals Ltd by Mr JB Mody and his family members to manufacture APIs and formulations. The company was renamed in 1985. Its manufacturing units are at Ankleshwar and Panoli in Gujarat, and at Daman in Union Territory of Daman and Diu. The company manufactures a wide range of pharmaceutical formulation specialties, radio-diagnostics, APIs, and intermediates. It is listed on the Bombay Stock Exchange and the National Stock Exchange.

Key Financial Indicators

Particulars	Unit	2023	2022
Revenue	Rs crore	3,149	2,423
Adjusted profit after tax (APAT)	Rs crore	347	376
APAT margin	%	11.0	15.5
Adjusted debt/adjusted networth*	Times	0.24	0.01
Interest coverage	Times	19.49	113.29

**Adjusted for goodwill and intangibles amortisation, in line with the CRISIL Ratings analytical approach*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned withÂ outlook
NA	Fund-based facilities	NA	NA	NA	120	NA	CRISIL AA/Stable
NA	Fund-based facilities*	NA	NA	NA	20	NA	CRISIL AA/Stable
NA	Non-fund-based limit	NA	NA	NA	11	NA	CRISIL A1+
NA	Non-fund-based limit@	NA	NA	NA	9	NA	CRISIL A1+
NA	Non-fund-based limit^	NA	NA	NA	55	NA	CRISIL A1+
NA	TermÂ loan	NA	NA	Apr-2025	300	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Jul-2027	60	NA	CRISIL AA/Stable
NA	Term loan	NA	NA	Dec-2028	375	NA	CRISIL AA/Stable

**Interchangeable with non-fund-based limit*
@Interchangeable with cash credit, export packing credit, foreign bill purchase and working capital demand loan facilities
^Includes credit exposure limit of Rs 13 crore

Annexure â€“ List of Entities Consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
UniqueÂ Pharmaceuticals Laboratories FZE	100%	Subsidiary
OOO Unique Pharmaceutical Laboratories	100%	Subsidiary
Biotech Laboratories (Pty) Ltd	100%	Step-down subsidiary

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	875.0	CRISIL AA/Stable	05-04-23	CRISIL AA/Stable	28-07-22	CRISIL AA/Stable	28-06-21	CRISIL AA/Stable	08-07-20	CRISIL AA/Stable	CRISIL AA/Stable
Â	Â	Â	--	Â	--	06-07-22	CRISIL AA/Stable	Â	--	18-03-20	CRISIL AA/Stable	--
Â	Â	Â	--	Â	--	02-02-22	CRISIL AA/Stable	Â	--	Â	--	--
Non-Fund Based Facilities	ST	75.0	CRISIL A1+	05-04-23	CRISIL A1+	28-07-22	CRISIL A1+ / CRISIL AA/Stable	28-06-21	CRISIL A1+ / CRISIL AA/Stable	08-07-20	CRISIL A1+ / CRISIL AA/Stable	CRISIL AA/Stable
Â	Â	Â	--	Â	--	06-07-22	CRISIL A1+ / CRISIL AA/Stable	Â	--	18-03-20	CRISIL A1+ / CRISIL AA/Stable	--
Â	Â	Â	--	Â	--	02-02-22	CRISIL A1+ / CRISIL AA/Stable	Â	--	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Fund-Based Facilities	**42**	**Bank of India**	**CRISIL AA/Stable**
Fund-Based Facilities	**48**	**BNP Paribas Bank**	**CRISIL AA/Stable**
Fund-Based Facilities	**30**	**Standard Chartered Bank Limited**	**CRISIL AA/Stable**
Fund-Based Facilities*	**20**	**State Bank of India**	**CRISIL AA/Stable**
Non-Fund Based Limit	**11**	**Bank of India**	**CRISIL A1+**
Non-Fund Based Limit@	**3**	**BNP Paribas Bank**	**CRISIL A1+**
Non-Fund Based Limit@	**6**	**Standard Chartered Bank Limited**	**CRISIL A1+**
Non-Fund Based Limit^	**55**	**State Bank of India**	**CRISIL A1+**
Term Loan	**60**	**Axis Bank Limited**	**CRISIL AA/Stable**
Term Loan	**300**	**Axis Bank Limited**	**CRISIL AA/Stable**
Term Loan	**310**	**Axis Bank Limited**	**CRISIL AA/Stable**
Term Loan	**65**	**Axis Bank Limited**	**CRISIL AA/Stable**

**Interchangeable with non-fund-based limit*
@Interchangeable with cash credit, export packing credit, foreign bill purchase and working capital demand loan facilities
^Includes credit exposure limit of Rs 13 crore

Criteria Details

Links to related criteria

CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for the Pharmaceutical Industry
CRISILs Criteria for Consolidation

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja GaikwadÂ** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Aditya Jhaver Director **CRISIL Ratings Limited** B:+91 22 3342 3000 aditya.jhaver@crisil.com Parth Shah Manager **CRISIL Ratings Limited** B:+91 22 3342 3000 Parth.Shah@crisil.com	Timings: 10.00 amÂ to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com Â For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites andÂ portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such asÂ bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).
Â
CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").
Â
For more information, visitÂ www.crisilratings.comÂ
Â

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.Â

It is Indiaâ€™s foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visitÂ www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

CRISIL PRIVACY NOTICE
Â
CRISIL respects your privacy. We may use your contact information, such as your name, addressÂ and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report'Â includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, completeness or adequacy of the report, and no CRISIL Ratings Party shall have any liability for any errors, omissions or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the report. EACH CRISIL RATINGS PARTY DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING BUT NOT LIMITED TO ANY WARRANTIES OF MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall any CRISIL Ratings Party be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the report even if advised of the possibility of such damages.

CRISIL Ratings may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of the instruments, facilities, securities or from obligors. Public ratings and analysis by CRISIL Ratings, as are required to be disclosed under the regulations of the Securities and Exchange Board of India (and other applicable regulations, if any), are made available on its website, www.crisilratings.com (free of charge). Reports with more detail and additional information may be available for subscription at a fee - more details about ratings by CRISIL Ratings are available here: www.crisilratings.com.

CRISIL Ratings and its affiliates do not act as a fiduciary. While CRISIL Ratings has obtained information from sources it believes to be reliable, CRISIL Ratings does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives and/or relies on in its reports. CRISIL Ratings has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process. CRISIL Ratings has in place a ratings code of conduct and policies for managing conflict of interest. For details please refer to: https://www.crisil.com/en/home/our-businesses/ratings/regulatory-disclosures/highlighted-policies.html.

Rating criteria by CRISIL Ratings are generally available without charge to the public on the CRISIL Ratings public website, www.crisilratings.com. For latest rating information on any instrument of any company rated by CRISIL Ratings, you may contact the CRISIL Ratings desk at crisilratingdesk@crisil.com, or at (0091) 1800 267 1301.

Â

Â

CRISIL Ratings uses the prefix 'PP-MLD'Â for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link:Â https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html