India Ratings Assigns Jubilant Pharmova 'IND AA+'/Stable and its Proposed CP 'IND A1+'

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India Ratings and Research (Ind-Ra) has assigned Jubilant Pharmova Limited (JPM) a Long-Term Issuer Rating of 'IND AA+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR1,000	IND AA+/Stable/IND A1+	Assigned
Non-fund-based working capital limits	-	-	-	INR1,500	IND A1+	Assigned
Proposed commercial paper (CP)^	-	-	-	INR1,000	IND A1+	Assigned

^to be issued

Analytical Approach: Ind-Ra has taken a consolidated view of JPM and its subsidiaries on account of the strong operational and legal linkages among them.

Key Rating Drivers

Diversified Business Profile, with Focus on Specialty Segment: JPM's consolidated revenue rose slightly to INR61.3 billion in FY22 (FY21: INR60.9 billion), supported by contribution from key segments, namely specialty pharmaceuticals (43% of FY22 revenues), contract development and manufacturing organisation (CDMO) sterile injectables (22%), generics (19%) and contract research, development, and manufacturing organisation (CRDMO) (16%). Revenue from specialty pharmaceuticals, which includes the radiopharma business (RP) (81%) and allergy products business (19%), increased to INR26.21 billion in FY22 (FY21: INR23.03 billion). The consolidated EBITDA margins fell to 19% in FY22 (FY21: 23%) due to the impact of the pandemic. The margin stood at 14% during 1HFY23. The average ROCE of the specialty pharmaceuticals business was over 35% over FY19-FY22; during FY21-FY22, it was impacted by covid-led disruptions, with the pandemic leading to fewer hospital visits by patients, and consequently, lower demand for JPM's products

JPM's RP business has a strong presence in North America. JPM also has presence in the manufacturing and distribution segments. The RP manufacturing business has a unique and difficult-to-replicate supply chain, leading to a significantly higher EBITDA margin profile. In the past, the business had been impacted by covid,

higher competitive intensity and EBITDA losses at its distribution arm. However, during 1HFY23, the RP business's revenue grew by a strong 19% yoy to INR12.5 billion. The United States Food and Drug Administration (USFDA) audit of the Montreal RP plant was successfully completed with zero observations in the early part of October 2022. Ind-Ra expects the margin to recover further over the medium-to-long, led by declining losses in the RP distribution business, resulting from improved fixed cost absorption. JPM plans to file two products in FY24 and plans to launch an additional I131 MIBG product during FY25. The expenditure incurred for research and development (R&D) of products has been capitalised.

CDMO Steriles Injectables (CSI) and CRDMO to Drive Future Growth: JPM's business profile is strengthened by its presence in the CDMO sterile injectables and CRDMO businesses. The CDMO sterile injectables business's revenues dipped slightly to INR13.4 billion in FY22 (FY21: INR13.9 billion), as covid-led contracts had led to significant upsides during FY21. The company is undergoing significant capacity enhancement in the CDMO business, with planned capex of about USD285 million over FY23-FY26, led by improved visibility of orders in the injectable space. According to the management, JPM shall receive partial funding as grants from the US government (USD149 million) and interest-free loan from the government of Quebec, Canada (CAD25 million, including forgivable portion of CAD6.3 million). The CRDMO business, which includes Jubilant Biosys Ltd and the active pharmaceutical ingredient (API) business, is primarily engaged in providing research and manufacturing services and has a track record of over two decades in catering to global pharmaceutical and biotech companies in the small molecule drug discovery and development services space. The CRDMO business reported revenues of INR11.48 billion in FY22 (FY21: INR9.2 billion). The CDMO and CRDMO businesses reported EBITDA margins of 36% and 19%, respectively, during 1HFY23. These segments would continue to be growth drivers for JPM, with the company having planned significant capex outlays for these businesses. JPM plans to incur capex of about USD285 million and about USD47 million for the CDMO and CRDMO businesses, respectively, over FY23-FY25. The incremental revenues from the expansion of the CDMO business shall accrue from FY26 onwards; however, the CDMO sterile injectables business has been witnessing a healthy orderbook traction, led by multinational companies based in the US and Europe.

Profitability Improvement in Generics Segment a Key Monitorable: JPM's generic business reported an EBITDA loss of INR1.55 billion during 1HFY23, primarily because an import alert issued by the USFDA at its facility in Roorkee, India, led to the stoppage of supplies to the US, its key market. The company has been trying to diversify its sales to international markets, namely the European Union and rest of world, has been focusing on branded products, and has also started filing from third-party contract manufacturing organisations (CMOs) for the US market. Despite the management's ongoing efforts, profitability in this business is likely to remain under pressure in the near term. Ind-Ra shall monitor the ongoing remediation plans and regulatory outcomes.

Liquidity Indicator – Adequate: JPM's liquidity is supported by its wholly-owned subsidiary, Jubilant Pharma Ltd, Singapore, and its step-down subsidiaries, especially in the US and Canada, and access to the international bond markets and banking channels for raising funds. JPM also has strong access to the domestic banking sector and capital markets, given the manufacturing / research facilities at its key businesses, namely API, generics (Jubilant Generics Ltd) and CRDMO (Jubilant Biosys Ltd). As of September 2022, JPM had long-term debt of INR30.3 billion, and short-term debt of INR1.86 billion; the cash on books stood at INR8.46 billion. The debt levels are likely to increase in the near-to-medium term, led by the capex undertaken by JPM. JPM had bank debt of around USD350 million at end-September 2022 at its US-based step-down subsidiary, and the balance was at Jubilant Biosys and other entities. JPM plans to spend about USD58 million on R&D in its pharma business during FY23-FY25. It has minimal repayment obligations until FY26.

High Capex to Lead to Elevated Net leverage in Medium Term: The consolidated interest coverage (EBITDA/interest expense) was stable at 8x in FY22 (FY21: 8x), while the consolidated net leverage (net debt/EBITDA) increased slightly to 1.9x (FY21: 1.6x). In 1HFY23, the interest coverage remained comfortable but fell to 5x. Ind-Ra expects the net leverage to exceed 2x during FY23-FY25, led by higher capex.

JPM plans to incur total capex of about USD571 million over FY23-FY25, led by investments in its CSI space, R&D for its specialty pharmaceuticals business and generics and CRDMO business. The said capex shall be funded via government grants, internal accruals and balance through debt. The capex is likely to lead to higher revenues in the CDMO and other businesses from FY26. Ind-Ra believes JPM has adequate revenue visibility for the capex being undertaken.

Regulatory Concerns: JPM derives about 84% of its revenue in FY22 from the regulated markets of the US and Europe. In FY22, JPM's solid dosage facility in Roorkee received an import alert, while its API facility at Nanjangud in Karnataka has had an official-action-indicated classification from the USFDA since FY19. The USFDA concluded its inspection of the API manufacturing facility at Nanjangud on 13 December 2022, and subsequently issued eight observations. JPM plans to submit an action plan on the observations and will engage with the USFDA for the next steps. USFDA approvals for new products will be restricted or delayed until these facilities become compliant.

JPM expects the clearance of the sites by the USFDA over the near-to-medium term. The USFDA inspection at JPM's facilities at Montreal CMO in May 2018, Montreal Jubilant Draximage Inc. in October 2022, and Spokane in August 2021 were completed without adverse comments. Also, in February 2020, JPM received an establishment inspection report for its Salisbury facility, with voluntary action indicated.

Rating Sensitivities

Positive: Strengthening of the business profile with greater business share from high-margin and high ROCE segments, lower volatility in operating margins, internally funded capital expenditure, leading to the consolidated net adjusted leverage reducing below 0.75x, on a sustained basis, could result in a positive rating action.

Negative: Decline in operating profitability and inability to scale up the high-margin businesses and improve the business mix in favour of these businesses, debt-led acquisitions or capex, leading to the consolidated net adjusted leverage staying above 2x on a sustained basis post FY25, would lead to a negative rating action.

Company Profile

JPM is engaged in speciality pharmaceuticals, contract development and manufacturing, generics, drug discovery and proprietary novel drug businesses. It manufactures and supplies radiopharmaceuticals, with a network of 49 radio-pharmacies in the US, allergy therapy products, contract manufacturing of sterile injectables and non-sterile products, APIs and solid dosage formulations through six USFDA-approved manufacturing facilities in the US, Canada and India.

FINANCIAL SUMMARY (Consolidated)

Particulars	FY22	FY21
Revenue (INR million)	61,302.00	60,985.00
EBITDA (INR million)	11,564.00	13,965.00
EBITDA margin (%)	18.86	22.90
Gross interest coverage (x)	7.95	7.59
Net leverage (x)	1.91	1.58
Source: Company; Ind-Ra		

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APPLICABLE CRITERIA

Evaluating Corporate

Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

Parent and Subsidiary Rating Linkage

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital facility	Low
Non-fund-based working capital facility	Low
Commercial Paper	Low

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

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