Cipla

22nd January, 2020

(1) BSE Ltd
Listing Department
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

Scrip Code: 500087

(2) National Stock Exchange of India Ltd
Listing Department
Exchange Plaza, 5th floor,
Plot no. C/1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051

Scrip Code: CIPLA EQ

(3) SOCIETE DE LA BOURSE DE LUXEMBOURG
Societe Anonyme
35A Boulevard Joseph II,
L-1840 Luxembourg

Dear Sir/Madam,

Sub: Report by India Ratings and Research Private Limited

This is to inform you that India Ratings and Research Private Limited has reaffirmed Cipla Limited's Long-Term Issuer Rating at 'IND AAA' with Outlook as Stable. The instrument wise rating action are as follows:

Sr. No	Instrument Type	Rating / Outlook	Rating Action
1	Proposed non-convertible debentures	Provisional IND AAA / Stable	Affirmed
2	Commercial Paper	IND A1+	

The report issued by India Ratings and Research Private Limited is enclosed.

Thanking you,

Yours faithfully,
For Cipla Limited

Rajendra Chopra
Company Secretary

Cipla Limited
Mumbai

Encl: As above

Prepared by: Juzer Masta

India Ratings & Research
A Fitch Group Company

India Ratings Affirms Cipla and its NCDs at 'IND AAA'/Stable

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JAN 2020

By Shruti Saboo

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 actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Proposed non-convertible debentures*	-	-	-	INR10	Provisional IND AAA/Stable	Affirmed
Commercial paper	-	-	Up to 365 days	INR10	IND A1+	Affirmed

* The final rating will be assigned following the closure of the issue upon the receipt of the final documentation, conforming to the information already received by Ind-Ra.

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

KEY RATING DRIVERS

Robust Credit Metrics: Cipla's credit metrics were in line with the agency's expectations in FY19. The company's net leverage improved to 1.07x in FY19 (1HFY20: 0.88x; FY18: 1.33x; FY17: 1.75x) owing to a 9.6% yoy increase in EBITDA to INR31.0 billion and a decline in adjusted net debt to INR33.1 billion (FY18: INR37.7 billion). The interest coverage remained strong but declined to around 18.4x in FY19 (1HFY20: 18.5x, FY18: 24.7x, FY17: 15.9x) due to an increase in interest expenses. In the absence of any major debt-led capex, Ind-Ra expects net adjusted leverage to remain below 1.25x over FY20-FY22.

Stable Operating Performance: In FY19, Cipla's revenue grew by 8% yoy to INR163.6 billion, driven by a strong recovery in the US business (up 21.7% yoy to USD488 million), led by new launches and contribution from gSensipar, and healthy growth (in rupee terms) of 12.7% yoy and 12% yoy in the Europe business and active pharmaceutical ingredient (API) segment, respectively. However, the company's India, South Africa and emerging market (EM) businesses reported mid-single digit growth (in rupee terms) in FY19. The company's EBITDA margins remained fairly stable at 18.9% in FY19 (FY18: 18.6%), as the impact of an improvement in the business mix was partially offset by an increase in research and development (R&D) and other operating expenses.

Cipla's revenue grew by 5.5% yoy in 1HFY20 due to subdued performance in India, South Africa and EM. However, its gross profit and EBITDA grew by 12% yoy and 27% yoy, respectively, in 1HFY20, with gross profit margin and EBITDA margin of 60.6% and 21.6%, respectively, on the back of a superior product and geography mix, positive operating leverage and gSensipar's contribution to the US business. Cipla's India business grew by 29% qoq in 2QFY20, led by 61% qoq growth in the trade generics business 13% yoy growth in the branded business and favourable seasonal factors. Ind-Ra expects Cipla's growth to continue to be in line with, or slightly higher than, that of the Indian pharmaceutical market on account of the company's higher focus on chronic segment and new product launches.

Stable Business Risk Profile: Cipla is the third-largest pharma company in India, with a market share of 4.7% (source: AIOCD MAT October 2019 data). 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 40% of its total revenue from India; high-margin chronic and sub-chronic segments contribute 58% to the company's sales in the country. The respiratory segment remains a top therapy for Cipla, contributing about 37% to its India sales. Cipla's top five therapies contribute 76% to its India sales.

Cipla expanded its portfolio and presence significantly in the US market over FY14-FY19. The US business, which contributes 21% to the company's sales, grew at 32% CAGR over FY14-FY19, with the quarterly base sales run rate increasing to USD125 million in 2QFY20 from USD100 million in 1QFY19. At end-2QFY20, 85 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 in respiratory, central nervous system and critical care. Cipla expects R&D spends, which would be directed for strengthening ANDA pipeline and for generic Advair clinical trials, to remain at about 8% of the overall revenue (FY19: 7.4%; FY18: 7.1%; FY17:7.3%).

Liquidity Indicator – Superior: Cipla has high cash balances and liquid investments (FY19: INR27.4 billion; FY18: INR20.6 billion; FY17: INR14.6 billion) and high cash flow from operations margins (9.4%; 9.1%; 15.5%). The cash flow margins had moderated in FY18 on account of an increase in working capital requirements, which was corrected in FY19. The company has also been reporting positive free cash flow over FY10-FY19. Cipla has already repaid INR7.7 billion towards outstanding debts and is likely to repay INR15.1 billion each in FY21 and FY22 for the debt raised for previous acquisitions. Cipla incurred a capex of INR5.3 billion in FY19 (FY18: INR8.2 billion; FY17: INR11.4 billion). The company will continue to incur similar amounts of capex over FY20-FY21, 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 historical levels.

Company Likely to Look for Mergers and Acquisitions over Near-to-Medium Term: A slowdown in organic top-line growth, partly due to the pricing pressure in some key markets, could increase the probability of Cipla looking at inorganic growth options in the medium term to build scale in speciality segments and address growth gaps/concerns in key business segments. Ind-Ra has factored in debt-funded, EBITDA-neutral, acquisition-related cash outflows of USD500 million over FY20-FY21 while arriving at the ratings. Post the large debt-funded acquisitions of US-based Invagen Pharmaceuticals Inc. and Exelan Pharmaceuticals Inc. in FY16 for USD550 million, Cipla's total acquisition outflow remained below USD70 million over FY17-FY19. 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.

Regulatory Risk: Cipla's ratings continue to reflect the regulatory risk emanating from the possibility of price control, and the USFDA's regulatory scrutiny of the company's manufacturing facilities. Cipla's Goa plant received a Form 483 (12 observations, none of which were related to data integrity) from the USFDA at end–September 2019. The company has already submitted corrective and preventive actions plan to the USFDA, and there have not been any subsequent queries from the latter.

According to Cipla, it runs an active de-risking program for all critical products (as a routine business practice). Hence, 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 metrics profile even if there is some delay in resolution. Furthermore, Cipla's track record of resolving USFDA issues has been fairly strong compared to its peers. The agency continues to adjust to total debt an amount of up to INR17.4 billion 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 a rise in net leverage above 1.5x, on a sustained basis, due to a decline in the financial performance, a high capex spending and/or significant debt-led acquisitions.

COMPANY PROFILE

Established in 1935, Cipla is a global pharma company with a geographically diversified presence. The company 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 patients in over 80 markets globally. India branded formulations account for about 40% of the company's total revenue. Cipla is also a well-known global player in inhalers and anti-retroviral therapies.

FINANCIAL SUMMARY

Particulars	**FY19**	**FY18**
Revenue (INR billion)	1,63.6	1,51.6
EBITDA (INR billion)	31.0	28.3
EBITDA margin (%)	18.9	18.6

Gross interest coverage (x)	18.39	24.74
Net financial leverage (x)	1.07	1.33
Total adjusted debt (INR billion)	60.5	58.3
Free cash and liquid Investments (INR billion)	27.4	20.7
Source: Cipla, Ind-Ra		

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Outlook**		
	Rating Type	**Rated Limits (billion)**	**Rating**	**22 October 2018**	**14 July 2017**	**4 November 2016**
Issuer rating	Long-term	-	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/RWN
Proposed non-convertible debentures	Long-term	INR10	Provisional IND AAA/Stable	Provisional IND AAA/Stable	Provisional IND AAA/Stable	Provisional IND AAA/RWN
Commercial paper	Short-term	INR10	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

DISCLAIMER

Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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