Cipla

22nd October, 2018

(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**

This is to inform you that India Ratings and Research has continued to affirm Cipla Limited's Long-Term Issuer Rating at 'IND AAA' with Outlook as Stable. The report issued by India Ratings and Research is enclosed.

Thanking you,

Yours faithfully,
For Cipla Limited

Rajendra Chopra
Company Secretary

Encl: As above

Prepared by: Karan Tanna

India Ratings & Research
A Fitch Group Company

# India Ratings Affirms Cipla at 'IND AAA'; Outlook Stable

22
OCT 2018

By Ankit Bhembre

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 (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Proposed non-convertible debentures (NCDs)* | - | - | - | INR10,000 | Provisional IND AAA/Stable | Affirmed |
| Commercial paper (CP) | - | - | Up to 365 days | INR10,000 | 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.

## KEY RATING DRIVERS

**Improved Credit Profile:** Cipla's net leverage (net adjusted debt/EBITDA) was in line with Ind-Ra's expectations for FY18. Its net leverage improved to 1.33x in FY18 from 1.75x in FY17 on account of a rise in operating profitability and a stable adjusted debt. Cipla's revenue rose to INR151.6 billion in FY18 from INR143.9 billion in FY17, with EBITDA increasing to INR28.2 billion from INR25.3 billion and EBITDA margin enhancing to 18.6% from 17.6%.

In FY18, Cipla domestic market accounting 38.5% of its revenue (FY17: 37.7%) grew by 6.3% yoy impacted by transitional channel disturbances following the implementation of the Goods and Services Tax. Cipla's South Africa and Global Access businesses (22.0% and 21.6%, respectively) together grew 5.7% yoy impacted by pricing pressure in the tender business and sales of animal health business. However, excluding the divestment, the adjusted revenue growth was 14% yoy in local currency. Like its peers, price erosion and increased competition also impacted Cipla's US business (17.0% and 18.0%, respectively) with nearly flat revenue growth reported in FY18.

Despite nearly flat revenue growth, Cipla's operating profitability improved on account of the benefits of cost optimisation initiatives and a favourable product and geography mix. The agency expects Cipla's credit profile to remain comfortable in the near to medium term in view of stable profitability.

**Stable Business Risk Profile:** Cipla maintained a leadership position in the domestic market, given it has a market share of 5.2% and a leading position in the respiratory segment. Cipla continues to expand presence in other chronic therapies such as cardiology and urology, backed by consistent product launches and improving sales force productivity. An established domestic market presence contributes high stability to Cipla's overall operating profitability.

Cipla continues to be ranked amongst the top 10 most dispensed companies in the US. Cipla's efforts to rationalise a low-margin product portfolio in the US, along with the launch of complex generics in therapies such as respiratory and oncology, will enable revenue growth and meaningful contribution to overall profitability. Cipla has 78 abbreviated new drug applications (ANDAs) that are pending approval from the US Food and Drug Administration. The ANDAs are well diversified in terms of chronic therapies.

Cipla's R&D spends are likely to remain at about 8% of overall revenue (FY18: 7.1%; FY16: 7.6%) on account of development of ANDA pipeline and generic advair trials, which are likely to commence in the US from FY19. The revenue and profitability contribution of the US, along with the impact of the firming up of the prices of active pharmaceutical ingredients and the resultant limited pass-through in regulated markets, will remain a key monitorable business risk for the near to medium term.

**Strong Liquidity:** Cipla has high cash balances and liquid investments (FY18: INR20.6 billion) and high cash flow margin (FY18: 9.1%; FY17:15.5%; FY16:11.7%). The moderation in the FY18 cash flow margin was due to a high year-end working capital requirement, which is likely to be corrected in subsequent quarters. Ind-Ra expects adequate liquidity for debt repayments commencing in FY20 for debt raised for previous acquisitions.

**M&A Risk; Adequate Headroom:** Slower organic top line growth potential, 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 USD500 million debt-funded EBITDA neutral acquisition-related cash outflows over FY19-FY20 while arriving at the ratings. Cipla's total acquisition outflow remained below USD50 million over FY17-FY18 after the large debt-funded acquisitions of US-based Invagen Pharmaceuticals

Inc. and Exelan Pharmaceuticals Inc. in FY16 for USD550 million. While the company has adequate headroom, the agency will assess the impact of M&A on a case-to-case basis and review the ratings accordingly.

**Regulatory Risk:** Cipla's ratings continue to reflect the regulatory risk arising from future price controls that may impact domestic revenue and the risk of regulatory intervention by the US Food and Drug Administration, given the majority of its 44 manufacturing facilities (across seven locations) are approved by the authority. All of Cipla's manufacturing facilities are compliant as on date. Ind-Ra continues to adjust the total debt for demand notices from National Pharmaceutical Pricing Authority to the extent of INR17.3 billion.

## RATING SENSITIVITIES

**Negative:** A negative rating action could result from 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 has an operational track record of over 80 years. 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 countries globally.

**FINANCIAL SUMMARY**

| Particulars | FY18 | FY17 |
|---|---|---|
| Revenue (INR million) | 151,557 | 143,943 |
| EBITDA (INR million) | 28,264 | 25,273 |
| EBITDA margin (%) | 18.6 | 17.6 |
| Gross interest coverage (x) | 24.74 | 15.86 |
| Net financial leverage (x) | 1.33 | 1.75 |
| Total adjusted debt (INR million) | 58.341 | 58,812 |
| Free cash and liquid Investments (INR million) | 20,678 | 14,616 |
| Source: Cipla, Ind-Ra | | |

## RATING HISTORY

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | | |
|---|---|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Rating | 14 July 2017 | 4 November 2016 | 8 October 2014 |
| Issuer rating | Long-term | - | IND AAA/Stable | IND AAA/Stable | IND AAA/RWN | IND AAA/Stable |
| Proposed NCDs | Long-term | INR10,000 | Provisional IND AAA/Stable | Provisional IND AAA/Stable | Provisional IND AAA/RWN | Provisional IND AAA |
| CP | Short-term | INR10,000 | IND A1+ | IND A1+ | IND A1+ | IND A1+ |

## COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level 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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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

## Analyst Names

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