October 07, 2021

Anthem Biosciences Pvt. Ltd.: Ratings upgraded to [ICRA]AA- (Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund Based – Working Capital	75.00	75.00	[ICRA]AA- (Stable); upgraded from [ICRA]A (Stable)
Long-term Fund Based – Term Loan	111.54	55.84	[ICRA]AA- (Stable); upgraded from [ICRA]A (Stable)
Short Term – Non-fund Based	7.00	7.00	[ICRA]A1+; upgraded from [ICRA]A1
Long Term – Unallocated	19.46	40.00	[ICRA]AA- (Stable); upgraded from [ICRA]A (Stable)
Total	**213.00**	**177.84**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings considers Anthem Biosciences Pvt. Ltd.'s (Anthem) robust revenue growth of 73.8% and the sizeable expansion in the profit margins in FY2021 on the back of the ramp-up in the production of a few margin-accretive molecules. The ratings upgrade also factors in ICRA's expectation that the healthy financial performance will sustain going forward. The upgrade in the ratings also favourably factors in the raising of ~Rs. 247-crore equity by the company from True North in April 2021 with the private equity (PE) firm picking up an 8.32% stake in the company. Anthem's cash balances and liquid investments stood at ~Rs. 560 crore as on August 31, 2021, aided by the equity infusion by the PE partner and the healthy accruals in FY2021 and 5M FY2022. The ratings continue to consider the extensive experience of Anthem's promoters in the pharmaceutical and biotechnology industries.

The strong accruals, coupled with the lower debt position, led to improved capitalisation and coverage indicators with the gearing and TD/OPBDITA at 0.2x and 0.2x, respectively, as on March 31, 2021 (0.4x and 0.9x, respectively, as on March 31, 2020). Further, the interest coverage improved to 42.4x in FY2021 from 9.0x in FY2020, aided by the lower debt and higher operating profit. Further, in 5M FY2022, the company posted ~Rs. 500-crore revenues (24.1% YoY growth) with an operating profit margin of ~40%.

The ratings, however, remain constrained by the vulnerability of Anthem's margins to foreign exchange rate fluctuations with export markets accounting for 77.6% of its revenues, the high geographical concentration with the US accounting for 56.7% of the revenues, and the high customer concentration with the top five customers accounting for 67.6% of the revenues in FY2021. However, the healthy share of business and long-term association with the customers provide comfort.

ICRA also understands that sales to some of the US customers (25-30 customers, involving some of the reputed pharma players and smaller biotech firms) are invoiced through its top customer. Anthem benefits from this arrangement by mitigating the receivables risk associated with working with smaller companies as the top customer ensures that the receivables from the other customers are not delayed.

ICRA also notes that the company is in the midst of a capacity expansion plan of ~Rs. 195 crore towards upgrading the synthesis capacity of the existing Harohalli facility to 270 kilolitre (KL) and partly debt-funded capital expenditure (capex) of ~Rs. 550 crore towards setting up a greenfield biological facility. While ICRA does not expect this to impact Anthem's strong debt protection metrics and liquidity position, the timely commencement and ramp-up of operations at the new facility and the impact of the same on the credit metrics remain key monitorables.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will continue to benefit from its established customer relationships, healthy order book position, strong research and development (R&D) capabilities, healthy financial profile with robust credit metrics, healthy margins, strong liquidity position and the favourable demand outlook for its products.

Key rating drivers and their description

Credit strengths

Strong financial profile characterised by healthy revenue growth and margins, robust credit metrics and strong liquidity – Anthem's financial profile is characterised by a healthy revenue growth of 73.8% and healthy operating and net profit margins, which expanded by 1,073 bps YoY and 1,050 bps YoY to 39.8% and 25.1%, respectively, in FY2021 (unaudited financials). The revenue growth was primarily driven by strong demand from customers. The company has been working on a few molecules over the years, which were commercialised recently, resulting in a strong growth in FY2021. These molecules are margin-accretive and have supported the company's margin expansion. Further, in 5M FY2022, Anthem posted ~Rs. 500-crore revenues (24.1% YoY growth) with an operating profit margin of ~40%.

The strong accruals, coupled with the lower debt position, led to improved capitalisation and coverage indicators with the gearing and TD/OPBDITA at 0.2x and 0.2x, respectively, as on March 31, 2021 (0.4x and 0.9x, respectively, as on March 31, 2020). Further, the interest coverage improved to 42.4x in FY2021 from 9.0x in FY2020, aided by lower debt and higher operating profit. The growth in FY2021 is also partly attributed to deferred revenues from Q4 FY2020 (Covid-19 pandemic-induced lockdown resulting in shutdown of facilities).

The company's cash balances and liquid investments were ~Rs. 560 crore as on August 31, 2021, aided by healthy accruals and the equity infusion by the PE partner. Additionally, ICRA understands that some of the molecules that Anthem is currently working on are in advanced stages and expects it to further benefit from the commercialisation of the same in the medium term. Overall, going forward, ICRA expects the company to post healthy revenues on the back of its healthy order book position while maintaining its robust margin profile.

Onboarding of PE partner via equity infusion leading to further strengthening of liquidity position – Anthem onboarded a PE firm, True North, in April 2021, which picked up an 8.32% stake in the company. The company has received equity of ~Rs. 247 crore via primary sale. The ratings favourably factor in the benefit that Anthem can derive from True North's experience in the pharmaceutical space by virtue of its past and present shareholding in various other entities in the industry. Also, Anthem's liquidity position has been strengthened further with cash balances and liquid investments of ~Rs. 560 crore as on August 30, 2021 against Rs. 245.9 crore as on March 31, 2021.

Strong R&D capabilities supplemented by timely capacity expansion in contract manufacturing services (CMS) segment, leading to rapid scale-up of operations over the last few years – Anthem has a strong R&D team consisting of ~800 scientists working on various niche products. It is currently undertaking the capacity expansion of its Harohalli facility wherein the synthesis capacity is slated to expand to 270 KL. Capex of ~Rs. 195 crore is planned and is expected to be funded by the equity infusion from the PE partner and is slated to be completed in the current fiscal. Anthem is also setting up a new biological facility for ~Rs. 550 crore over a period of 2-3 years. The availability of additional capacity is likely to help the company increase its scale of operations going forward.

Strong promoter background with over 25 years of experience in pharmaceutical industry – The company has a strong promoter background with the promoters having over 25 years of experience in the pharmaceutical and biotechnology industries.

Credit challenges

Mid-sized player in highly competitive industry – Anthem is a mid-sized player with an operating income of Rs. 1,103.2 crore (FY2021) in the highly competitive contract research and manufacturing industry with large and established players. However, its revenues witnessed 73.8% YoY growth in FY2021. Further, in 5M FY2022, the company posted ~Rs. 500-crore revenues (24.1% YoY growth). Going forward, ICRA expects Anthem to post healthy revenues on the back of its strong order book position. There is further headroom for growth with the incremental capacity expected to come online by FY2022.

High customer and geographical concentration; revenues and margins remain susceptible to forex fluctuations – Anthem derived 56.7% of its revenues from the US market in FY2021. However, over the years, the company's dependence on the US markets has reduced to a certain extent with increasing focus on acquiring customers from Asian and European markets to diversify its geographical foothold. Since Anthem is primarily an exporter, deriving 77.6% of its revenues from exports in FY2021, its margins remain vulnerable to adverse forex movements.

Although Anthem derived 67.6% of its revenues in FY2021 from the top five customers, the healthy share of business and long-term association with the customers provide comfort. ICRA also understands that sales to some of the US customers (25-30 customers, involving some of the reputed pharma players and smaller biotech firms) are invoiced through its top customer. Anthem benefits from this arrangement by mitigating the receivables risk associated with working with smaller companies as the top customer ensures that the receivables from the other customers are not delayed. Moreover, the increasing share of business from other customers is expected to reduce the concentration going forward.

Debt-funded capex to expand capacity under CMS segment and set up biological facility – Anthem is currently undertaking capacity expansion at the Harohalli plant and expects the same to be completed in FY2022. Post capex, its synthesis capacity is expected to increase to 270 KL. The capex is expected to be funded by the equity infusion from the PE partner.

The company is also setting up a new biological facility for ~Rs. 550 crore over a period of 2-3 years. This facility will be established under a new 100% subsidiary, Neo Anthem. The project is expected to be funded by ~Rs. 400 crore of debt while the balance will be funded by the company's internal accruals. While ICRA does not expect this to impact Anthem's strong debt protection metrics and liquidity position, the timely commencement and ramp-up of operations at the new facility and the impact of the same on the company's credit metrics remain key monitorables.

Liquidity position: Strong

Anthem's liquidity position is **strong** with healthy fund flow from operations in FY2021, moderate working capital utilisation, and healthy cash and liquid investments. Its average working capital utilisation was 35.2% of the sanctioned limits between April 2020 and April 2021. In September 2021, the company's working capital utilisation was 20% with undrawn limits of ~Rs. 60 crore (against sanctioned limits of Rs. 75.0 crore). Also, the company has a buffer in its drawing power to enhance its working capital facilities if needed.

In H1 FY2022, the company prepaid some of its loans and has debt repayment of Rs. 8.4 crore in FY2022, Rs. 8.4 crore in FY2023 and Rs. 6.4 crore in FY2024 on the existing outstanding term loans. Anthem's total cash and liquid investment balance was ~Rs. 560 crore as on August 31, 2021. Despite the high debt-funded capex, ICRA expects Anthem's liquidity position to remain strong on the back of higher accruals from the availability of incremental capacity and the recently received equity from the PE partner. Any significant debt-funded acquisition, thereby impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the company demonstrates a sustained improvement in its scale of operations, leading to healthy operating and net profit margins, while maintaining its strong liquidity position and debt metrics.

Negative factors – Pressure on Anthem's ratings could arise on a sharp decline in its revenues and a deterioration in the profit margins on a sustained basis. Pressure could also arise on a significant deterioration in the company's credit metrics or liquidity position owing to the large debt-funded capex.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of Anthem

About the company

Anthem, incorporated in 2006, is jointly promoted by Mr. Ajay Bhardwaj, Mr. K.C. Ravindra and Mr. Ganesh S. Anthem. It is a contract research player offering early-stage drug discovery services including medicinal chemistry, process chemistry, custom synthesis, discovery research and analytical R&D. Over the years, Anthem has forward integrated into contract manufacturing with a view to benefit from the synergies arising out of its involvement in the development of the product. It commenced its operations in July 2007 as an export oriented unit (EOU) and has research facilities including chemistry labs, a kilo lab, a pilot plant, and analytical and discovery research facilities in its manufacturing plant at Bommasandra in Bengaluru. In addition, the company also has a larger manufacturing facility located in Harohalli, Bengaluru.

In FY2021, Anthem derived 77.6% of its revenues from the contract manufacturing, 9.7% from contract research segments while the balance (12.7%) was derived from the products business. In April 2021, a private equity firm, True North, picked up an 8.32% stake in the company.

Key financial indicators

Anthem	FY2020 (audited)	FY2021 (unaudited)
Operating Income (Rs. crore)	634.6	1,103.2
PAT (Rs. crore)	92.7	277.0
OPBDIT/OI (%)	29.1%	39.8%
PAT/OI (%)	14.6%	25.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	0.5
Total Debt/OPBDIT (times)	0.9	0.2
Interest Coverage (times)	9.0	42.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 7, 2021	Sep 28, 2020	Jul 4, 2019	May 21, 2018
1	Fund-based working capital	Long term	75.00	--	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Term loan	Long term	55.84	80.2	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund based	Short term	7.00	--	[ICRA]A1+	[ICRA]A1	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long term	40.00	--	[ICRA]AA- (Stable)	[ICRA]A (Stable)	--	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Working Capital	Simple
Long-term Fund Based – Term Loan	Simple
Short Term – Non-fund Based	Very Simple
Long Term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN /Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015-FY2020	5.8-7.0%	FY2024	55.84	[ICRA]AA- (Stable)
NA	Fund Based Working capital	FY2021	NA	-	75.00	[ICRA]AA- (Stable)
NA	Non-fund Based	FY2021	NA	-	7.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	40.00	[ICRA]AA- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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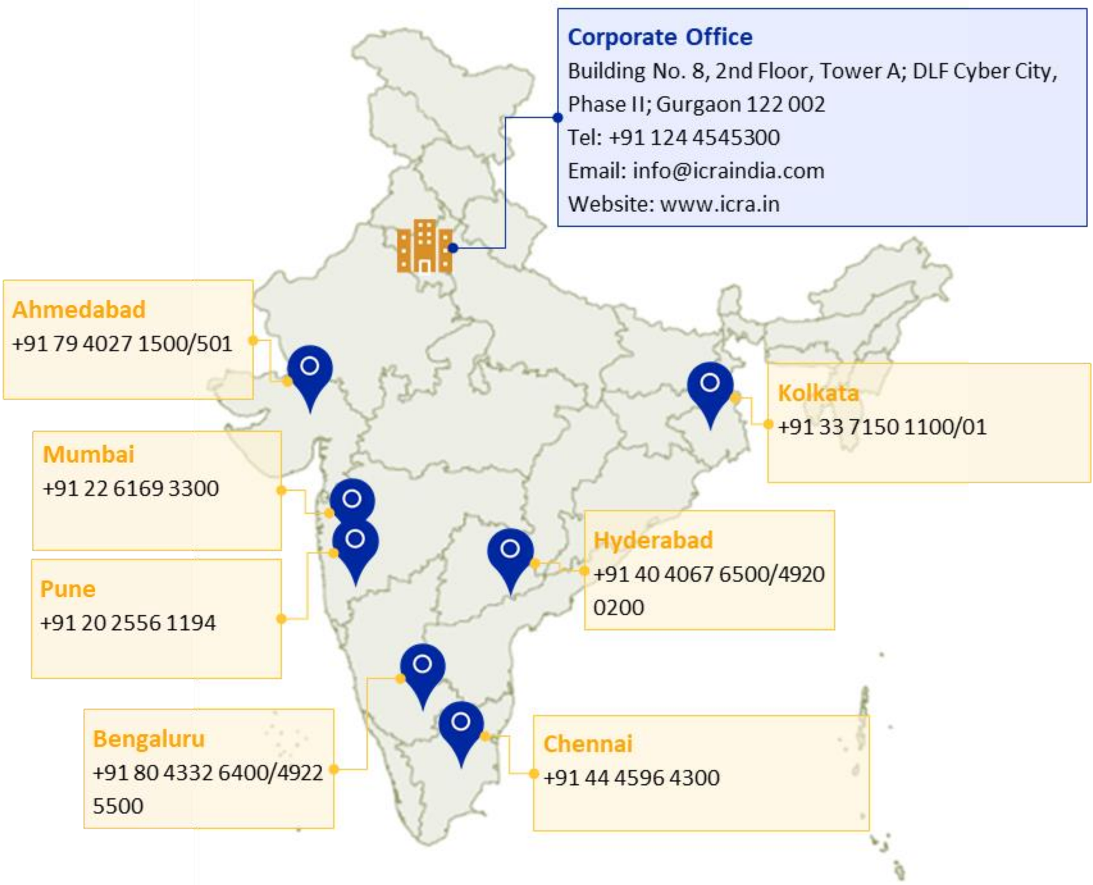

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