

October 06, 2023

## Excelra Knowledge Solutions Pvt. Ltd: Ratings reaffirmed; ratings removed from watch with developing implications; Stable outlook assigned

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	47.00	47.00	[ICRA]A-(Stable); reaffirmed; rating removed from watch with developing implications; Stable outlook assigned
Fund-based working capital facilities	15.00	15.00	[ICRA]A2+; reaffirmed; rating removed from watch with developing implications
Non-fund-based working capital facilities^	(6.00)	(6.00)	[ICRA]A2+; reaffirmed; rating removed from watch with developing implications
<b>Total</b>	<b>62.00</b>	<b>62.00</b>	

\*Instrument details are provided in Annexure-I; ^sub-limit to fund based working capital facilities

### Rationale

The ratings of Excelra Knowledge Solutions Private Limited (Excelra/the company) were placed on watch with developing implications in May 2023, following the announcement of the acquisition of BISC Global Holding B.V (BISC), a Belgian entity engaged in bioinformatics, statistics and artificial intelligence/ machine learning (AI/ML). As the acquisition of BISC has been completed, the ratings have been removed from watch with developing implications and have been reaffirmed. Excelra acquired the entire shareholding of BISC from its existing individual shareholders for a fixed purchase price of Rs. 123.33 crore. Excelra has made an initial payment of Rs. 82.22 crore for the acquisition in Q1 FY2024 from its existing cash reserves and the balance will be made over Q4 FY2024 and FY2025. There is also a target-based contingent payment linked to certain performance achievements by BISC, going forward.

The reaffirmation of ratings reflects ICRA's opinion that the financial profile of Excelra will remain healthy, characterised by modest leverage and healthy profitability, resulting in comfortable debt coverage metrics. While the company witnessed a decline in OPBIDTA in FY2023 led by change in its revenue mix (higher contribution of low margin technology services segment), its coverage metrics and liquidity position remained comfortable. The ratings draw comfort from the company's track record of more than a decade in providing data curation and analytical services to the life sciences industry and its established relationships with its customers who have been providing consistent repeat business.

The ratings are, however, constrained by the company's moderate scale of operations given its niche business segment. The ratings also consider the high customer and geographic concentration risks, with ~67% of revenues being derived from its top five clients and ~ 70% of the revenues being generated from the US. However, with the acquisition of BISC and its clientele in Europe, the company's geographic, product and customer diversity are expected to improve in the medium term apart from lending benefits of scale; although the pace of such improvement remains to be seen. The ratings consider that Excelra's revenues and profitability are exposed to fluctuations in foreign exchange (forex) rates as most of its revenues are in foreign currency. However, ICRA notes that the company hedges its forex exposure on a continuous basis. Furthermore, the company's ability to retain talent remains key to all its business segments.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from its established relationships with key customers and integration of BISC's business while maintaining its strong financial profile. ICRA notes that Excelra is liable to make target-based additional payouts to BISC's erstwhile promoters; the extent of the same and its subsequent impact on Excelra's consolidated debt metrics will be a key rating monitorable.

## Key rating drivers and their description

### Credit strengths

**Healthy business profile and promoters' vast experience in the pharmaceutical data analytics industry** – Excelra has an experience of over a decade in providing data curation and analytical services for supporting the pharmaceutical and drug discovery sector. The company has built curated databases for scaling up its presence in the industry. Coupled with a large pool of scientists and qualified professionals, it continues to support the business prospects of the company. The promoters' vast experience in the pharmaceutical and life sciences industries has supported business operations by associating with reputed clientele. The recent acquisition of BISC is expected to expand the addressable market for the company and strengthen its capabilities in the bioinformatics space.

**Financial profile characterised by strong profit margins and healthy debt coverage metrics** – The company has witnessed healthy revenue growth of 25% in FY2023 vis-à-vis FY2022 although with some moderation in its operating margins. The operating margins moderated from 38.3% in FY2022 to 31.4% in FY2023, with a higher contribution from the technology services division and also rise in employee costs. Nevertheless, the debt metrics remained healthy, characterised by Total debt/OPBDITA of 0.7x as on March 31, 2023, and interest coverage of 25.1x in FY2023. The company is expected to avail debt to part fund the acquisition related balance fixed payments (~Rs. 41.11 crore). Consequently, ICRA expects the debt coverage metrics to sustain in the near-term, supported by no stated further large debt addition plans and expectations of healthy profitability levels. Further, Excelra had free cash reserves of ~Rs. 60 crore as on August 31, 2023, which lend comfort. ICRA will continue to monitor the conditional payouts for the BISC acquisition and the subsequent effect on the credit metrics. As a substantial earnings improvement for BISC will trigger the target payouts, Excelra will also have access to these additional cash flows to address these payments.

**Established relationship with reputed customers and healthy order book position lending revenue visibility** – The company shares established relationships with global and reputed pharmaceutical companies and has secured repeat orders from its key clientele over the years. Its major customers include CAS (a division of the American Chemical Society), Eli Lilly, GlaxoSmithKline Pharmaceuticals (GSK), AbbVie and Galapagos NV Pharma. Further, the company has a confirmed order book of ~Rs. 80 crore for FY2024, which lends revenue visibility to a certain extent. However, the timely execution of orders and renewal of existing contracts would remain key for the company's revenue trajectory. The company also has a portfolio of products and services, which lends revenue diversity.

### Credit challenges

**Moderate scale of operations** – Despite the improvement in the scale of operations in FY2022 and FY2023, the company's scale of operations continues to be moderate. While the company has a healthy order book and a proven track record of repeat orders from its key customers, execution of the same will be critical for improving its scale. The revenue addition from the acquired entity will further support improvement in its scale, though the pace of the same remains to be seen.

**High customer and geographic concentration risks, though expected to reduce with the recent acquisition** – The company's revenues are concentrated to the extent of ~67% coming in from its top five customers (CAS, Eli Lilly, GSK, Pfizer, Galapagos). While the established relationships with its customers provide comfort to a certain extent, improvement in customer diversification shall remain a key monitorable. Further, with respect to geographic diversification of revenues, more than 70% of Excelra's revenues are generated from the US market. European business from BISC is expected to improve its geographic diversification.

**Earnings susceptible to forex fluctuations** – With most of its revenues being generated in foreign currency, the company's revenues and profitability margins remain vulnerable to fluctuations in forex rates. However, Excelra has hedging policies in place, wherein its forex exposures are covered by forward contracts on a timely basis. Nonetheless, any unfavourable movement in forex rates could impact the company's earnings to a certain extent.

**Ability to retain talent remains a key challenge** – The company is impacted by industry-specific factors such as wage inflation and challenges of retention and reskilling of its talent pool. However, ICRA notes that the wage costs have stabilised in the present fiscal and the attrition level has been modest, which is expected to continue in the medium-term.

### Liquidity position: Adequate

The company’s liquidity position is adequate, characterised by free cash and liquid investments of ~Rs. 60 crore as on August 31, 2023, albeit reduced from ~Rs. 151 crore as on March 31, 2023. The company has fund-based working capital limits of Rs. 15 crore, wherein the average utilisation has been ~95% during the last six months ending in August 2023. Excelra has existing debt repayment obligations of Rs. 16.72 crore per annum for FY2024 and FY2025 and has annual capex plans of ~Rs. 15 crore for the next two years for maintenance and revamping of its existing products. ICRA expects Excelra’s liquidity position to remain adequate over the medium-term on the back of its healthy accruals and existing cash and liquid investments.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating in case of improved customer diversification, significant revenue growth momentum while maintaining healthy profitability, liquidity position and debt coverage metrics on a sustained basis.

**Negative factors** – Pressure on the ratings could arise with reduction in revenues and/or margins, or if there is higher-than-anticipated dividend pay-out or weakening of coverage or return indicators owing to sizeable debt-funded organic/inorganic expansion or target-based pay outs. Specific trigger for a rating downgrade would be Total debt/OPBDITA of more than 2.3x on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Information Technology – Services</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

### About the company

Excelra Knowledge Solutions Pvt. Ltd. (previously known as GVK Informatics Private Limited) was incorporated in FY2014 and is owned by the Reddy (GVK Group) and Brar (Davinder Singh Brar, former MD of Ranbaxy Laboratories) families. The company was demerged from GVK Biosciences Pvt. Ltd. (incorporated in FY2000; now renamed as Aragen Life Sciences Pvt. Ltd.) in FY2014. Excelra provides data curation, analytical services and technology solutions to the biopharmaceutical industry. The company is a data and analytics partner to major pharmaceutical companies around the world. Excelra acquired 100% stake in BISC Global Holding B.V., Belgium, in Q1 FY2024. BISC is present in bioinformatics, statistics and AI/ML. As per the management, BISC has an annual turnover of ~\$5 million and is the process of developing a SAAS product in a similar space.

### Key financial indicators (audited)

Excelra Consolidated	FY2022	FY2023
Operating income	223.0	279.7
PAT	68.1	61.7
OPBDITA/OI	38.3%	31.4%
PAT/OI	30.5%	22.0%
Total outside liabilities/Tangible net worth (times)	0.5	0.6
Total debt/OPBDITA (times)	0.8	0.7
Interest coverage (times)	38.2	25.1

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Type	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 06, 2023	May 02, 2023			
1 Term loans	Long term	47.00	41.79	[ICRA]A-(Stable)	[ICRA]A-; rating watch with developing implications	[ICRA]A-(Stable)	-	-
2 Fund-based working capital facilities	Short-term	15.00	-	[ICRA]A2+	[ICRA]A2+; rating watch with developing implications	[ICRA]A2+	-	-
3 Non-fund-based working capital facilities	Short-term	(6.00)	-	[ICRA]A2+	[ICRA]A2+, rating watch with developing implications	[ICRA]A2+	-	-

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund-based working capital facilities	Simple
Non-fund based working capital facilities	Very simple

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: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2022	NA	FY2026	47.00	[ICRA]A-(Stable)
NA	Fund based working capital facilities	NA	NA	NA	15.00	[ICRA]A2+
NA	Non-fund based working capital facilities	NA	NA	NA	(6.00)	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Excelra Inc., USA	100.0%	Full Consolidation
Excelra B.V., Netherlands	100.0%	Full Consolidation
Anlitiks Inc., USA	55.0%	Full Consolidation
Excelra Employees Welfare Trust, India	100.0%	Full Consolidation
BISC Global Holding B.V.*	100.0%	Full Consolidation

\*Consolidation effective April 04, 2023

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Kinjal Shah**  
+91 22 6114 3400  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Sheetal Sharad**  
+91 124 4545 374  
[sheetal.sharad@icraindia.com](mailto:sheetal.sharad@icraindia.com)

**Susovan Mondal**  
+91 124 4545 392  
[susovan.mondal@icraindia.com](mailto:susovan.mondal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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