

March 26, 2024

Anthem Biosciences Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Fund-based – Working Capital	0.00	124.50	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Long-term – Fund-based – Working Capital	79.50	0.00	-
Long-term – Fund-based – Term Loan	125.00	90.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-fund Based Limits	5.00	5.00	[ICRA]A1+; reaffirmed
Long-term – Unallocated Limits	10.50	0.00	-
Long-term/Short-term – Unallocated Limits	0.00	0.50	[ICRA]AA- (Stable)/[ICRA]A1+; reaffirmed
Total	220.00	220.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation in ratings continues to factor in Anthem Biosciences Pvt. Ltd.'s (Anthem/ the company) strong promoter background and robust research and development (R&D) capabilities, which continue to support its market position as an established contract manufacturer to large pharmaceutical companies in regulated markets. The company's healthy financial profile, characterised by strong margins and debt metrics in addition to its robust liquidity position, further underpins the ratings.

During FY2023, the company witnessed a revenue de-growth of 14.0% mainly on account of delay in USFDA inspection of its Unit 2 facility at Harohalli on account of Covid-19, causing some customers to defer their orders in addition to subdued demand from some of its other customers. The company's operating margins remained healthy despite declining by 470 bps to 41.9% during FY2023 from 46.6% during FY2022. During the current fiscal, the company has witnessed strong recovery with revenue of Rs. 1,190 crore in 11M FY2024 supported by USFDA approval for its Unit 2 in June 2023, in addition to strong ramp up from the expanded as well as existing capacity. The revenue growth was also supported by some molecules shifting from lab to commercial scale manufacturing. Although the company's operating margin declined further to ~35-36% in 11M FY2024 due to external sourcing of intermediates for one of the APIs where the supply chain is not fully backward integrated, and change in product mix to a certain extent due to increasing contribution from its relatively lower margin product business, they continue to remain healthy. Going forward, Anthem is expected to see healthy revenue growth supported by continued revenues from its customers, aided by a healthy order book and phased commencement of operations of Neoanthem Lifesciences Private Limited (Neoanthem), while maintaining its healthy margins.

The company's debt metrics continue to remain strong with gearing and TD/OPBDITA of 0.1 times and 0.5 times, respectively, as on September 30, 2023. The company is currently undertaking a partly debt-funded capital expenditure (capex) of Rs.550.0 crore for a greenfield facility under Neoanthem, which was expected to be completed by FY2024. However, the same has been slightly delayed and is now expected to be completed in a phased manner by Q3 FY2025. While ICRA does not expect the same to impact Anthem's strong debt protection metrics and liquidity position significantly, timely commencement and ramp-up of operations at the new facility and its impact on the credit metrics remain key monitorables.

The ratings also take into account Anthem's high product concentration, with expectations of its top three products driving about 40-45% of its revenues. ICRA also notes that the company is a mid-sized player in the highly competitive contract research and manufacturing services (CRAMS) industry. However, it has carved its niche in the development and manufacturing space for innovator New Chemical Entities (NCE) and New Biological Entities (NBE) molecules. Anthem's

margins continue to remain vulnerable to foreign exchange (forex) rate fluctuations with export markets accounting for about 75-80% of its revenues, and high customer concentration with its top 10 customers accounting for 75.3% of its revenues in FY2023. However, the healthy share of business and long-term association with customers provide comfort. Further, revenues remain susceptible to demand volatility of end products in addition to development risk during the clinical trials phase of the customer products. However, the company caters to multiple clients simultaneously, which mitigates the risk to an extent.

ICRA also notes that the company has carried out ~Rs.183 crore of share buyback (including payment of buyback tax) in January 2024. Going forward, any further shareholder payout impacting the company's liquidity position and credit metrics remains a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that, going forward, the company's revenue growth will be supported by the favourable demand outlook for the Indian CRAMS industry, healthy order book position, strong research and development (R&D) capabilities and phased commencement of operations of Neoanthem, while maintaining its healthy margins. Further, despite ongoing debt-funded capex, the debt metrics and liquidity position of the company are expected to remain strong.

Key rating drivers and their description

Credit strengths

Strong financial profile characterised by healthy margins, robust credit metrics and strong liquidity – While the company's margins continue to remain healthy, it witnessed contraction in operating margin to ~35-36% during 11M FY2024 primarily due to external sourcing of intermediates for one of the APIs where the supply chain is not fully backward integrated. However, the company is currently working on streamlining the approvals to be self-sufficient and shift manufacturing of the outsourced intermediates in-house, which is expected to result in gradual improvement of the operating margin. Going forward, the company is expected to have healthy revenue growth supported by continued revenues from existing customers supported by its healthy order book and phased commencement of operations of Neoanthem, while maintaining its healthy margins.

The company's capital structure continues to remain strong wherein TD/OPBDITA increased to 0.5 times as on September 30, 2023, against 0.3 times as on March 31, 2023, with gearing remaining unchanged at 0.1 times during the same period. The marginal increase in TD/OPBDITA was on account of total debt increasing to Rs.207.5 crore as on September 30, 2023 against Rs.126.2 crore as on March 31, 2023, mainly due to term loans availed for ongoing capex under Neoanthem. The increase in debt levels combined with reduced profitability led to decline in interest coverage ratio to 49.1 times in H1 FY2024 from 67.0 times in FY2023 and DSCR to 13.4 times in H1 FY2024 from 45.0 times in FY2023. Despite this decline, coverage indicators continued to remain healthy. The company's cash balances, and liquid investments stood at ~Rs.600 crore as on February 29, 2024, aided by healthy accruals and provide additional comfort.

Strong R&D capabilities supplemented by timely capacity expansion in contract manufacturing services (CMS) segment – Anthem has a strong R&D team of more than 1,200 scientists working on various niche products. The company has completed the capacity expansion at its Harohalli facility wherein its overall synthesis capacity has now increased to 275 kL. The company is expected to incur a capex of Rs.70.0 crore at this facility during FY2024 for capacity expansion of fermentation and nutraceuticals, with the capex to be funded through internal accruals. Anthem is also setting up a greenfield facility under its subsidiary, Neoanthem, and the same is expected to commence manufacturing in a phased manner by Q3 FY2025. The availability of additional capacity is likely to help the company increase its scale of operations, going forward.

Strong promoter background – The company's promoters have a strong background of over 25 years of experience individually in the pharmaceutical and biotechnology industries.

Credit challenges

Revenues remain susceptible to demand volatility of end products in addition to developmental risk during the clinical trials phase of the customer's products – The company offers drug discovery services as well as drug development and contract

manufacturing services throughout all three phases of the clinical trial process. Approval of a new drug and eventual commercial production results in the drug witnessing exponential growth in contract manufacturing orders. However, the company's revenue and margins are vulnerable to the outcomes of these clinical trials, as any failure in the drug's development at any stage can result in a loss of potential revenue that would have been generated if the drug had been successful. Furthermore, even after the drug is approved, the revenue generated from its contract manufacturing depends on the volatility of demand and its acceptance in the market. This risk is mitigated to an extent since the company caters to multiple clients.

Mid-sized player in highly competitive industry – Anthem is a mid-sized player in the highly competitive CRAMS industry. However, it has carved its niche in the development and manufacturing space for innovator NCE and NBE molecules. Anthem derived about 60.5% of its revenues from contract manufacturing in 11M FY2024 (50.5% in FY2016). Going forward, ICRA expects Anthem to post healthy revenues on the back of its strong order book position and established track record of servicing reputed customers. There is further headroom for the company's growth in the CMS segment with the completion of the capacity expansion at its Harohalli facility and greenfield facility under Neoanthem.

Revenues and margins remain susceptible to forex fluctuations – Anthem's margins remain vulnerable to the adverse forex movements as it is primarily an exporter, deriving about 75-80% of its revenues from exports. Although Anthem derived 75.3% of its revenues from its top 10 customers in FY2023, the healthy share of business and long-term association with its customers provide comfort. ICRA also understands that sales to some of Anthem's US customers (25-30 customers, including some reputed pharma players and smaller biotech firms) are invoiced through its top customer (eight of the top-10 customers are international firms in the field of pharma/ nutrition). 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 others are not delayed. Moreover, the increasing share of business from other customers is expected to reduce the concentration risk, going forward.

Significant ongoing debt-funded capex – The company has completed the capacity expansion at its Harohalli facility wherein its overall synthesis capacity has now increased to 275 kL. The company received USFDA approval for Unit 2 at Harohalli in June 2023 and both the units at Bommasandra and Harohalli are now USFDA approved. The company is expected to incur a capex of Rs.70.0 crore at its Harohalli facility during FY2024 for capacity expansion of fermentation and nutraceuticals, to be funded through internal accruals. The company is also setting up a greenfield facility for ~Rs. 550 crore, which was initially expected to be completed by FY2024, but was slightly delayed and is now expected to become operational in a phased manner by Q3 FY2025. This facility is being established under a new 100% subsidiary, Neoanthem. Begun in FY2022, ~Rs. 113.0 crore of the capex was incurred till September 30, 2023, and the company is expected to incur capex of ~Rs. 167 crore in H2 FY2024, with the balance ~Rs. 270 crore in FY2025. The project is being funded by Rs. 200 crore of debt while the balance will be funded by internal accruals. While ICRA does not expect the same to impact Anthem's strong debt protection metrics and liquidity position significantly, the timely commencement and ramp-up of operations at the new facility and its impact on the credit metrics remain key monitorables.

Liquidity position: Strong

Anthem's liquidity position is strong with free cash and liquid investments of ~Rs.600.0 crore on February 29, 2024. Its average working capital utilisation was ~27% of the average sanctioned limit between January 2023 and December 2023. Also, the company has a buffer in its drawing power to enhance its working capital facilities, if needed. The planned capex under Neoanthem has been slightly delayed and is expected to be completed by Q3 FY2025. The company is expected to incur a capex of ~Rs. 320.0 crore and ~Rs. 340.0 during FY2024 and FY2025, respectively, which will be funded through a mix of debt and internal accruals. The company has repayment obligations of ~Rs. 15.0 crore, Rs. 39.0 crore and Rs. 49.0 crore during FY2024, FY2025 and FY2026, respectively. Despite the significant debt-funded capex, ICRA expects Anthem's liquidity position to remain strong on the back of higher accruals. Any significant incremental debt-funded acquisition 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 Anthem’s ratings if there is a significant improvement in its scale of operations while maintaining strong profitability, debt metrics and liquidity position.

Negative factors – Pressure on the ratings could arise with any sharp decline in the company’s revenues and deterioration of profit margins on a sustained basis. A significant deterioration in the company’s credit metrics or liquidity position owing to any large debt-funded acquisition/investment could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Pharmaceuticals
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity.

About the company

Anthem, incorporated in Bangalore on June 13, 2006, is jointly promoted by Mr. Ajay Bhardwaj, Dr. Ganesh Sambasivam and Mr. K.C. Ravindra. It is a contract development & manufacturing organisation (CDMO) which offers early-stage drug discovery services including medicinal chemistry, process chemistry, custom synthesis, discovery research and analytical R&D. Anthem has integrated drug discovery, development and manufacturing services. Through its team of experienced chemists, biologists and engineers Anthem facilitates established biotechs and big pharma companies to develop, optimise and test proteins, monoclonal antibodies, peptides, large molecules, small molecules, toxins and much more. Over the years, Anthem has forward integrated into contract manufacturing to benefit from the synergies arising out of its involvement in the development of products

In addition to product research and development, Anthem helps test drugs for safety, efficacy (in-vitro and in-vivo), pre-clinical animal studies in a GLP facility, clone development, antibody drug conjugates, R&D and manufacture highly potent compounds, flow chemistry-based production and large-scale commercial products. It has leveraged its core competency in organic synthesis to develop new and challenging nutritional products with a strong scientific rationale. These are now being sold globally to nutraceutical and wellness product companies.

Anthem, at present, has two manufacturing units at Bommasandra and Harohalli, both in Bengaluru, India. The Bommasandra facility has been approved by the USFDA, PMDA (Japan), EU QPs, and has research facilities including chemistry labs, a kilo lab, a pilot plant, a containment suite for high potent molecules, analytical and discovery research facilities, microbial fermentation and cell culture facility. Anthem’s larger manufacturing facility is in Harohalli, which is a USFDA and TGA approved facility, housing a large-scale fermentation facility and a large-scale custom synthesis manufacturing capacity. In April 2021, True North, acquired an 8.32% stake in the company.

During 11MFY2024, Anthem derived 74.4% of its revenues from CMS and CRO segments, while the balance 25.6% came from its products business. Anthem currently has about ~1,900 employees.

Key financial indicators (audited)

Anthem Consolidated	FY2022	FY2023	H1 FY2024*
Operating income	1244.6	1069.8	594.1
PAT	405.5	385.2	157.7
OPBDIT/OI	46.6%	41.9%	38.0%
PAT/OI	32.6%	36.0%	26.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.1	0.2
Total debt/OPBDIT (times)	0.1	0.3	0.5
Interest coverage (times)	57.5	67.0	49.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; * Provisional Numbers

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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 26, 2024	Jul 31, 2023				
1 Fund Based – Working Capital	Long term/short term	124.50	-	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-	-
2 Fund Based – Working Capital	Long term	0.00	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3 Fund Based – Term Loan	Long term	90.00	90.00	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	[ICRA]AA-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4 Non-Fund Based Limits	Short term	5.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
5 Unallocated Limits	Long term	0.00	-	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
6 Unallocated Limits	Long term/short term	0.50	-	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Fund Based – Working Capital	Simple
Long Term – Fund Based – Term Loan	Simple
Short Term – Non-Fund Based Limits	Very Simple
Long Term/Short Term – Unallocated Limits	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based – Working Capital	FY2021	NA	NA	124.50	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Fund Based – Term Loan	FY2023	NA	FY2029	90.00	[ICRA]AA- (Stable)
NA	Non-Fund Based Limits	FY2021	NA	NA	5.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	0.50	[ICRA]AA- (Stable)/[ICRA]A1+

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	Anthem Ownership	Consolidation Approach
Neoanthem Lifesciences Private Limited	100.00%	Full Consolidation

Source: Company

Note: ICRA has taken a consolidated view of the parent (Anthem), its subsidiaries and associates while assigning the ratings.

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