ICRA

January 12, 2017

Anthem Biosciences Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	138.25	Upgraded from [ICRA]BBB (Stable) to [ICRA]A- (Stable)
Fund Based Limits	22.00	Upgraded from [ICRA]BBB (Stable) to [ICRA]A- (Stable)
Non-fund based limits	2.89	Upgraded from [ICRA]A3+ to ICRA]A2+
Total	**163.14**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long term rating from [ICRA]BBB (pronounced as ICRA triple B)[1] to [ICRA]A- (pronounced as ICRA A minus) for the Rs. 138.25 crore term loans and Rs.22.00 crore fund based limits of Anthem Biosciences Private Limited (ABPL / the company). ICRA has also upgraded the short term rating from [ICRA]A3+ (pronounced as ICRA A three plus) to [ICRA]A2+ (pronounced as ICRA A two plus) for the Rs.2.89 crore[2] non fund based bank facilities of ABPL. The outlook on the long term rating is 'Stable'.

Rationale

The upward revision in ratings factors in the improvement in ABPL's financial profile as reflected by the expansion in margins, improved profitability and strengthening of coverage indicators supported by healthy revenue growth momentum and scale of economies. Competitive pressures for the company remains limited due to its presence in a niche segment, its strong past track record, promoter background and technical competence supported by a robust R&D infrastructure. The ratings also draw support from the strong order book position, established relationships with large pharmaceutical companies in addition to high quality perception enjoyed by the company which continues to strengthen the pricing flexibility of the company. ICRA notes that the long-term revenue visibility of the company remains supported by the ongoing capacity expansion to set up a new plant in Harohalli in Bangalore.

The ratings are, however, constrained by ABPL's moderate scale of operations and the vulnerability of its margins to foreign exchange rate fluctuations with majority of the company's revenues being derived from the export markets. ICRA expects ABPL's revenues to grow by 30% in FY2017 supported by commercialization of the company's new Harohalli plant which would have significantly higher capacities as compared to the company's current Bommasandra plant. However, the same is expected to impact profitability during FY2018 and to a certain extent in FY2019. The total debt position of the company is expected to go up as on March 31, 2017 on account of entire draw down of the Rs.120 crore term loans to fund its ongoing capital expenditure. However, additional accruals from the high margin products which are expected to be launched following commercialization of the new plant are expected to support the accretions to reserves and in turn capitalization indicators going forward. While the additional capacities will improve profitability in the near term, its ability to maintain healthy profitability, especially during initial quarters of operations at the new plant, will be crucial. Over the medium term, the ratings will be dependent on the company's ability to maintain healthy revenues and a stable financial risk profile.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] 100 lakh = 1 crore = 10 million

Key rating drivers

Credit Strengths

- Strong promoter back ground with over 25 years experience in the pharmaceutical industry
- Integrated presence of the company across contract research and manufacturing services enhancing business prospects
- Reputed client base; associations with international pharmaceutical companies has supported revenue growth
- Strong R&D infrastructure and highly skilled manpower
- Launch of certain higher margin-accretive products expected to support the margins and revenues of the company over the next 1-2 years
- Improvement in financial profile as reflected by strong revenue growth, expansion in margins, improved profitability and healthy debt coverage metrics

Credit Weakness

- Mid-sized player in a highly competitive contract research industry with presence of large and established players
- Margins remain vulnerable to volatility in raw material prices and foreign exchange fluctuation risk in addition to wage inflation
- Ongoing debt-funded capital expenditure is likely to impact the margins and capitalization indicators over the near-to-medium term

Description of key rating drivers highlighted above:

With a turnover of Rs.208.4 crore during FY2016, ABPL is a relatively mid-sized player in the contract research and manufacturing services (CRAMS) industry. While the company started operations as a contract research services provider, over the years, its revenue mix has changed with majority of its revenues being generated from contract manufacturing services. Growth in the contract manufacturing vertical has been supported by healthy ramp up in business with its existing customers and also with new product and customer additions on a regular basis. This, in addition to the company's strong R&D infrastructure has continued to support the company's revenue growth momentum over the years.

The company's operating income of the company stood at Rs.208.4 crore in FY2016 as against Rs.161.8 crore in FY2015. While the long term outlook for contract research and manufacturing industry continues to remain positive driven by cost pressures faced by innovators, the company's growth is likely to be limited to an extent owing to high competitive intensity from other larger and established players. While the company's financial profile is strong currently, the ongoing debt-funded capital expenditure expansion of capacities is likely to adversely impact the capitalization indicators and cash flow position of the company over the near-to-medium term. However, commencement of production of certain high margin products following commercialization of the new plant are expected to support the company's margins and thereby operating accruals of the company going forward. This in addition to lack of further major debt-funded capital expenditure over the near term is expected to support the company's financial profile going forward.

Analytical approach: For arriving at the ratings, ICRA has taken a consolidated view of ABPL along with its group company – Anthem Cellutions India Private Limited (rated [ICRA]BBB+ (Stable) / A2) – since both operate in the same line of business, have operational linkages and share a common management.

Links to applicable Criteria
http://www.icra.in/Files/Articles/Pharma-Methodology-Finalised.pdf

About the Company:
Anthem Biosciences Private Limited (ABPL), incorporated in 2006, was jointly promoted by Mr. Ajay Bharadwaj, Mr. K.C Ravindra and Mr. Ganesh S. ABPL is a contract research player offering early-stage drug discovery services with services encompassing medicinal chemistry, process chemistry, custom synthesis, discovery research and analytical research & development. Over the years the Company has forward integrated into contract manufacturing with a view to benefit from synergies arising out of ABPL's involvement in development of the product. The Company commenced its operations in July 2007 as an Export Oriented

Unit (EOU) and currently has research facilities including chemistry labs, kilo lab, pilot plant, analytical and discovery research and a manufacturing facility in Bangalore. Currently, the company is in the process of setting up another plant in Harohalli in Bangalore. During FY2014, the company had acquired a 99.7% stake in Anthem Cellutions (India) Private Limited (ACIL).

Status of non-cooperation with previous CRA: CRISIL has suspended its CRISIL BB/Stable and CRISIL A4+ ratings on the bank facilities of ABPL on April 03, 2012.

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2016	Month-year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	December 2015	December 2014	December 2013
1	Fund based facilities	Long Term	22.00	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long Term	138.25	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non fund based facilities	Short Term	2.89	[ICRA]A2+	[ICRA]A3+	[ICRA]A3	[ICRA]A3

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based facilities	2015	-	-	22.00	[ICRA]A- (Stable)
Term Loans from Syndicate Bank	2015	-	-	22.29	[ICRA]A- (Stable)
Term Loan from Syndicate Bank	2015	-	-	75.00	[ICRA]A- (Stable)
Term Loan from EXIM Bank	2015	-	-	45.00	[ICRA]A- (Stable)
Non fund based facilities	2015	-	-	2.89	[ICRA]A2+

Source: Anthem Biosciences Private Limited

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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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