Anthem Biosciences Pvt. Ltd.

May 21, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)[1]	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	22.00	67.50	[ICRA]A- (Stable); reaffirmed
Term Loans	138.25	179.45	[ICRA]A- (Stable); reaffirmed
Unallocated Limits	0.00	4.08	[ICRA]A- (Stable); reaffirmed
Non-fund based limits	2.89	12.11	[ICRA]A2+; reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced as ICRA A minus) outstanding on the Rs. 67.50 crore (enhanced from Rs. 22.00 crore) long term fund based limits and Rs. 179.45 crore (enhanced from Rs. 138.25 crore) term loans of Anthem Biosciences Pvt. Ltd. (ABPL / the company)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A2+ (pronounced as ICRA A two plus) outstanding on the Rs. 12.11 crore (enhanced from Rs. 2.89 crore) non-fund based facilities of ABPL. ICRA has also reaffirmed the long-term rating of [ICRA]A- (pronounced as ICRA A minus) to the Rs. 4.08 crore long term unallocated limits of ABPL. The outlook on the long-term rating is Stable.

Rationale

The ratings continue to factor in the company's strong promoter background with over 25 years of experience in the pharmaceutical and biotechnology industries supported by a robust R&D infrastructure in the company. Further, ABPL's established relationships with large pharmaceutical companies in addition to its strong competitive position continues to support its pricing flexibility and in turn its healthy operating margins and profitability. The commencement of the commercial operations (during Q3FY2018) in the recently set up plant at Harohalli, Bangalore is expected to aid the company in servicing a greater order book in addition to manufacturing its own products inhouse on the back of its incremental capacities. ICRA has also taken cognizance of the merger of Anthem Cellutions (India) Pvt. Ltd. (ACIL) (formerly a wholly owned subsidiary of ABPL) with ABPL during FY2018.

The ratings, however, continue to be constrained by the vulnerability of ABPL's margins to foreign exchange rate fluctuations with majority of the company's revenues being derived from the export markets. The rating also notes the higher than expected capital expenditure towards the Harohalli and Bommasandra plant which has resulted in debt levels increasing to Rs. 227.3 crore as on March 31, 2018 as against Rs. 119.4 crore as on March 31, 2016. Further, relatively higher interest and depreciation expenses also resulted in contraction in ABPL's net profit margins by 200 bps to 14.2% during FY2018 (as per provisional financials) from 16.2% during FY2016. However, healthy accruals during FY2018 supported the capitalization indicators wherein gearing and TD/OPBITDA stood at 0.8x and 1.5x respectively as on March 31, 2018 (as per provisional financials). Going forward, ICRA expects incremental accruals from the new plant to support the capitalization indicators of the company. ICRA will continue to monitor the impact of fixed expenses

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[1] 100 lakh = 1 crore = 10 million

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

during FY2019 the first full year of operations post on-boarding of large capacities in Harohalli. Going forward, the company's ability to maintain its strong revenue growth momentum, healthy margins and improve its debt indicators will be key rating sensitivities.

Outlook: Stable

ICRA believes ABPL will continue to benefit from its strong promoter profile, robust research and development, and strong manufacturing capabilities and its healthy financial profile. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if any weakness / adverse regulatory changes, volatility in raw material prices or additional debt funded capex results in weakened liquidity and cash accruals being lower than ICRA's expectations.

Key rating drivers

Credit strengths

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

- **Reputed client base continues to support the revenue growth of the company:** The company has established relationships with renowned international pharma majors across the globe which has supported the strong revenue growth momentum of the company during FY2017 (15.4%) and FY2018 (28.3%).

- **Strong research & development capabilities supplemented by incremental capacities at the newly constructed plant to support the scale of operations going forward:** The company has a strong R&D team consisting of ~650 scientists working on differentiated formulations. Further, the incremental capacity of ~100 KL at the newly constructed plant is expected to support the company in manufacturing its own products in house in addition to servicing a greater orderbook. This is expected to support the scale of operations going forward.

- **Healthy financial profile:** ABPL's financial profile is characterized by strong revenue growth, healthy operating margin of 34.1% during FY2018, comfortable capitalization and coverage indicators with the gearing and TD/OPBDITA standing at 0.8x and 1.5x respectively as on March 31, 2018 and interest coverage at 9.2x during FY2018 (according to unaudited financials).

Credit weaknesses

- **Increase in total debt due to huge capex being undertaken by the company:** ABPL has incurred a huge capex towards the construction of the Harohalli plant and upscaling of the fermentation facility at the Bommasandra plant amounting to ~Rs. 300 crore (between FY2016-FY2018) resulting in increased debt levels as on March 31, 2018. However, healthy operating accruals have supported the capitalization indicators.

- **Decline in net profit margins during FY2018:** The company witnessed contraction in net profit margins by 200 bps to 14.2% during FY2018 from 16.2% during FY2016 on account of increase in debt-funded capital expenditure which resulted in relatively high interest expenses of Rs. 16.9 crore (Rs. 5.4 crore during FY2016) in addition to the relatively high depreciation expense of Rs. 42.8 crore (including the depreciation expense for the new plant) during the same period.
- **Margins remain vulnerable to foreign exchange fluctuation risks**: The company's margins are susceptible to adverse forex movements as it is primarily an exporter deriving majority of its revenues from North America and Europe.

- **High customer concentration:** The company suffers from high customer concentration risk with the top five customers contributing to ~55.0% of the revenues during FY2018. However, long-standing relationships with numerous customers from a variety of geographies continue to support the company's business prospects.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.
Links to applicable criteria:

[Corporate Credit Rating methodology]
[ICRA's Rating methodology for Pharmaceutical industry]

About the company:

Anthem Biosciences Private Limited (ABPL), incorporated in 2006, is 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 has research facilities including chemistry labs, kilo lab, pilot plant, analytical and discovery research facilities in its manufacturing plant at Bommasandra in Bangalore. In addition to this, during FY2018, the company augmented its manufacturing capacities from 26 KL to 126KL by setting up a new plant in Harohalli in Bangalore.

During FY2018, Anthem Cellutions (India) Pvt. Ltd. (ACIL), which was a wholly-owned subsidiary of ABPL, got merged with ABPL. ACIL was engaged in the manufacturing and processing of nutraceutical products, enzymes and actives for various applications in Healthcare, Food & Beverages, Textiles, Detergents, Animal health industries etc. It derived majority of its revenues from the Nutraceutical and animal feeds segment. Post-merger, ABPL derives about ~76.0% of its revenues from contract manufacturing and contract research segments, while the balance ~24.0% is derived from the products business.

Key Financial Indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	356.8	457.7
PAT (Rs. crore)	66.2	65.1
OPBDIT/ OI (%)	30.6%	34.1%
RoCE (%)	34.4%	28.5%
Total Debt/ TNW (times)	0.9	0.8
Total Debt/ OPBDIT (times)	1.8	1.5
Interest coverage (times)	20.1	9.2

Source: company; Note: FY2018 are provisional financials

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

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore) as on 31st March, 2018	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					May-2018	Jan-2017	Dec-2015	Jan-2015
1	Fund based facilities	Long Term	67.50	30.60	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
2	Term Loans	Long Term	179.45	154.48	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)
3	Non-fund based facilities	Short Term	12.11	0.00	[ICRA]A2+	[ICRA]A2+	[ICRA]A3+	[ICRA]A3
4	Unallocated Limits	Long Term	4.08	NA	[ICRA]A- (Stable)	-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based facilities	FY2015	-		67.50	[ICRA]A- (Stable)
NA	Term Loan 1	FY2015	-	FY2024	69.19	[ICRA]A- (Stable)
NA	Term Loan 2	FY2015	-	FY2019	1.52	[ICRA]A- (Stable)
NA	Term Loan 3	FY2015	-	FY2023	17.00	[ICRA]A- (Stable)
NA	Term Loan 4	FY2016	-	FY2024	43.04	[ICRA]A- (Stable)
NA	Term Loan 5	FY2018	-	FY2023	48.70	[ICRA]A- (Stable)
NA	Non-fund based facilities	FY2015	-		12.11	[ICRA]A2+
NA	Unallocated limits		-		4.08	[ICRA]A- (Stable)

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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.

For more information, visit www.icra.in

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