July 04, 2019

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 – Fund-based TL	179.45	131.00	[ICRA]A- (Stable); Reaffirmed
Long Term – Fund Based	67.50	75.00	[ICRA]A- (Stable); Reaffirmed
Short Term – Non-Fund Based	12.11	7.00	[ICRA]A2+; Reaffirmed
Long Term – Unallocated	4.08	-	-[1]
Total	**263.14**	**213.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to factor in Anthem Bioscience Pvt. Ltd.'s (ABPL) strong promoter background with over 25 years of experience in the pharmaceutical and biotechnology industries and established relationships with large pharmaceutical companies. ABPL's healthy financial profile characterized by consistent revenue growth, expanding margins, comfortable capitalization and coverage indicators and strong liquidity position, further underpin the ratings.

ABPL's revenues grew ~35.3% YoY to Rs. 624.8 crore in FY2019 on the back of healthy capacity utilization at the company's newly setup Harohalli plant and revival witnessed in its contract research segment. Further, relatively lower depreciation and interest expenses also resulted in expansion of ABPL's net margins by 440 bps to ~12.0. Healthy accruals during FY2019 improved company's coverage metrics with TD/OPBDITA and interest coverage standing at 1.1x and 10.3x, respectively as on March 31, 2019 as against 2.0x and 6.8x during FY2018 (As per FY2019 provisional financials)

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 and its customer concentration with ~53.2% of the revenues contributed by top five customers during FY2019. Further, the ratings also take into account increase in debt levels over the years on account of higher than expected capex at the Harohalli plant during FY2017 to FY2018. ICRA also notes the possibility of further capex to enhance its capacities with proportionate incremental debt which may impact the coverage and debt indicators. Further, ICRA draws comfort from anticipated healthy accruals from the business which is likely to support the additional capex and repayment of incremental debt over the medium term.

Going forward, ICRA expects incremental accruals from the Harohalli plant to further support the debt metrics of the company. Further, the company's ability to maintain strong revenue growth momentum, healthy margins, improving customer concentration and further improve its debt indicators will be key rating sensitivities.

[1] *ICRA had rating outstanding of [ICRA]A- (Stable) on Rs.4.08 crore Unallocated limits of ABPL earlier. This has currently been revised to nil*

Outlook: Stable

ICRA believes ABPL will continue to benefit from its strong promoter profile, established customer relationships, enhanced contract manufacturing capacities and its healthy financial profile. The outlook may be revised to 'Positive' if significant improvement in profitability and cash flows improves the overall financial profile. The outlook may be revised to 'Negative' in case of lower-than-expected cash accruals or if large capex program affects ABPL's debt indicators and overall liquidity profile.

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.

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 ~800 scientists working on differentiated formulations. Further, the incremental capacity of ~100 KL at the newly constructed plant is supporting 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 revenue growth backed by established relationships and capacity expansion – The company witnessed a revenue growth of ~35.3% YoY primarily on the back of healthy capacity utilization at the newly constructed Harohalli plant. Further, established relationships with renowned international pharma majors across the globe has supported the strong revenue growth momentum of the company.

Healthy Financial profile – Financial profile of ABPL is characterized by healthy operating margins and net margins which expanded by 90 bps YoY and 440 bps YoY to ~27.2% and ~12.0%, respectively, in FY2019 on the back of relatively lower depreciation and interest expenses and relatively higher other income on the back of export incentives. Healthy accruals and improved operations led to comfortable capitalization and coverage indicators with the gearing and TD/OPBDITA standing at 0.6x and 1.1x respectively as on March 31, 2019. Further, interest coverage stood at 10.2x as on March 31, 2019 as against 6.8x as on March 31, 2018 owing to reduced debt level. (according to unaudited financials)

Credit challenges

Mid-sized player in a highly competitive industry – ABPL is a mid-sized player with operating income of Rs. 624.8 crore (FY2019) in a highly competitive contract research and manufacturing industry with large and established players; however, we expect the company to grow its scale on the back of incremental capacities available.

High customer concentration – ABPL derived ~53.2% of its revenues in FY2019 from top five customers; however, healthy share of business and long-term association with the customers provides comfort. Further increasing share of business with other customers is expected to reduce the concentration going forward.

High Geographical concentration – ABPL derived ~52.7% of its revenues from US market in FY2019; however, the company's dependence on US markets has reduced to a certain extent from ~63.05% in FY2018 as it has focused on acquiring customers from Asian and European markets diversifying its geographical foothold.

Revenues and margins remain susceptible to foreign exchange fluctuations – ABPL's margins are susceptible to adverse forex movements as it is primarily an exporter deriving majority of its revenues from North America and Europe.

Liquidity position

ABPL's liquidity position has remained healthy supported by comfortable collection terms and low working capital intensity. The company had unencumbered cash balances and liquid investments of Rs. 78.94 crore as on March 31, 2019 and average working capital utilization was a moderately low at ~35.7% during the period April 2018 to March 2019. The company also had undrawn non-fund-based limits of Rs. 7 crore. The company had outstanding debt of Rs. 140.2 crore as on March 31,2019 of which it has repayment obligation of ~Rs.31.3 crore in FY2020 and Rs.31.7 crore in FY2021. Going forward, ABPL's liquidity position is likely to remain comfortable at existing levels supported by healthy working capital position and improving capacity utilization and consequent accruals from its new plant.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating Methodology for Pharmaceutical Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the issuer

About the company

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 ~80.6% of its revenues from contract manufacturing and contract research segments, while the balance ~19.4% is derived from the products business.

Key financial indicators

	FY2018 (Audited)	FY2019 (Provisional)
Operating Income (Rs. crore)	462.0	624.8
PAT (Rs. crore)	35.1	75.3
OPBDIT/OI (%)	26.3%	27.2%
RoCE (%)	18.5%	27.2%
Total Debt/TNW (times)	0.9	0.6
Total Debt/OPBDIT (times)	2.0	1.1
Interest Coverage (times)	6.8	10.2

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating FY2020 July-19	Date & Rating FY2019 May-2018	Date & Rating in FY2017 Jan-2017	Date & Rating in FY2016 Dec-2015
1	Fund-based TL	Long Term	131.00	133.00	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)
2	Fund Based	Long Term	75.00	21.2	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB (Stable)
3	Non-Fund Based	Short Term	7.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[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: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2016	NA	FY2024	35.00	**[ICRA]A- (Stable)**
NA	Term Loan 2	FY2015	NA	FY2024	56.00	**[ICRA]A- (Stable)**
NA	Term Loan 3	FY2018	NA	FY2023	31.00	**[ICRA]A- (Stable)**
NA	Term Loan 4	FY2015	NA	FY2023	9.00	**[ICRA]A- (Stable)**
NA	Fund Based Facilities	FY2019	NA	-	75.00	**[ICRA]A- (Stable)**
NA	Non-Fund based Facilities	FY2015	NA	-	7.00	**[ICRA]A2+**

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.

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