September 28, 2020

Anthem Biosciences Pvt. Ltd.: Ratings upgraded to [ICRA]A (Stable)/[ICRA]A1

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Working Capital Facilities	75.00	75.00	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Fund Based – Term Loan	131.00	111.54	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Non-fund Based Working Capital Facilities	7.00	7.00	[ICRA]A1; Upgraded from [ICRA]A2+
Unallocated	0.00	19.46	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Total	**213.00**	**213.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the ratings considers Anthem Biosciences Pvt. Ltd.'s (Anthem/the company) healthy financial profile, characterised by an improvement in the margins (operating margin of 30.6% in FY2020 vs. 27.7% in FY2019), as well as its robust credit metrics with a gearing of 0.4x and TD/OPBDITA of 0.9x as on March 31, 2020 and interest coverage of 14.8x in FY2020 (gearing of 0.6x and TD/OPBDITA of 1.1x as on March 31, 2019 and interest coverage of 9.5x in FY2019). The company also has had cash balances and liquid investments of Rs. 121.9 crore as on March 31, 2020; further, the company's cash balances and liquid investments have improved following the healthy revenue growth in 5M FY2021.

Anthem posted revenues of Rs. 403.7 crore in 5M FY2021, aided by the spill over revenues from March 2020 (the Covid-19-induced lockdown impacted sales in March 2020) and the healthy demand from its customers. ICRA expects the company to post a strong revenue growth in FY2021 on the back of its healthy order book position, especially from the global customers. The ratings also factor in the extensive experience of Anthem's promoters in the pharmaceutical and biotechnology industries.

The ratings, however, remain constrained by the vulnerability of Anthem's margins to foreign exchange rate fluctuations with 74.9% of its revenues being derived from the export markets, the high geographical concentration with the US accounting for 53.6% of the revenues, and the high customer concentration with the top five customers accounting for 53.8% of the revenues in FY2020. The company is in the midst of a partially debt-funded capacity expansion plan of ~Rs. 150 crore during FY2021-FY2022. While its total debt position is expected to increase in the near to medium term, the additional capacity (current capacity utilisation: ~80%) would provide headroom for growth. Further, with Anthem's current margin profile, the resulting additional accruals are expected to support the cash flows, which, in turn, would support the capitalisation indicators going forward.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters, its established customer relationships, strong research and development (R&D) capabilities, healthy financial profile with robust credit metrics, healthy margins, strong liquidity position and the favourable demand outlook for its products.

Key rating drivers and their description

Credit strengths

Healthy financial profile characterised by healthy margins, robust credit metrics and strong liquidity; strong revenue growth expected in FY2021 – Anthem's financial profile is characterised by healthy operating and net margins, which expanded by 290 bps YoY and 330 bps YoY to 30.6% and 15.6%, respectively, in FY2020 (unaudited financials). This was driven by a change in the supplier mix (shift to domestic suppliers from imports) and in the product mix (repeat orders of similar products and increase in margin-accretive products). The healthy accruals, coupled with the lower debt position, led to improved capitalisation and coverage indicators with the gearing and TD/OPBDITA standing at 0.4x and 0.9x, respectively, as on March 31, 2020 (0.6x and 1.1x, respectively, as on March 31, 2019). Further, the interest coverage improved to 14.8x as on March 31, 2020 from 9.5x as on March 31, 2019, aided by the lower outstanding debt and higher operating profit. Anthem's revenues remained flattish at Rs. 632.8 crore in FY2020, primarily due to the Covid-19-induced lockdown which impacted the sales on account of operational constraints during the last fortnight of March 2020. However, the company posted revenues of Rs. 403.7 crore in 5M FY2021 on the back of spill over revenues from March 2020 and healthy demand from its customers. In FY2021, ICRA expects the company to post a strong revenue growth on the back of its healthy order book position, especially from the global customers.

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 R&D capabilities; supplemented by ongoing capacity expansion, which is expected to support the scale of operations – Anthem has a strong R&D team consisting of ~800 scientists working on various niche products. The company recently commenced capacity expansion at its Harohalli plant for a cost of ~Rs. 150 crore with the same expected to be completed in FY2022. Post capex, the synthesis capacity is slated to expand to ~270KL, which is expected to help Anthem enhance its scale of operations going forward.

Credit challenges

Mid-sized player in highly competitive industry – Anthem is a mid-sized player with an operating income of Rs. 632.8 crore (FY2020) in the highly competitive contract research and manufacturing industry with large and established players. In FY2021, ICRA expects the company to post strong growth on the back of spill over deliveries from Q4 FY2020 and healthy demand from the customers, leading to a healthy order book position. There is further headroom for growth with the incremental capacity expected to come online by FY2022.

Debt-funded capex to be undertaken by Anthem – Anthem has begun its capacity expansion at the Harohalli plant for a cost of ~Rs. 150 crore and expects the same to be completed in FY2022. Post capex, its synthesis capacity is expected to increase to ~270KL. The capex is likely to be funded through a mix of debt and internal accruals. While Anthem's total debt position is expected to increase in the near to medium term, ICRA expects the company to post higher revenues with the availability of additional capacity (current capacity utilisation is ~80%). Further, given its current margin profile, the resulting additional accruals are expected to support the accretion to reserves, which, in turn, will support Anthem's capitalisation indicators going forward.

High customer and geographical concentration; revenues and margins remain susceptible to forex fluctuations – Anthem derived 53.6% of its revenues from the US market in FY2020. However, the company's dependence on the US markets has reduced to a certain extent with increasing focus on acquiring customers from Asian and European markets to diversify its geographical foothold. Since Anthem is primarily an exporter, deriving 74.9% of its revenues from exports in FY2020, its margins remain vulnerable to adverse forex moments.

Although Anthem derived 53.8% of its revenues in FY2020 from the top five customers, the healthy share of business and long-term association with the customers provide comfort. Further increasing share of business with other customers is expected to reduce the concentration going forward.

Liquidity position: Strong

Anthem's liquidity position is **strong** with healthy fund flow from operations in FY2020, moderate working capital utilisation, and healthy cash and liquid investments. Its average working capital utilisation was 48.2% of the sanctioned limits between June 2019 and August 2020 with an available working capital buffer of Rs. 42.7 crore as on August 31, 2020 (against sanctioned limits of Rs. 75.0 crore). Going forward, the company has repayment obligations of Rs. 40.8 crore in FY2021, Rs. 35.1 crore in FY2022 and Rs. 31.2 crore in FY2023. Anthem's total cash and liquid investment balance as on March 31, 2020 was Rs. 121.9 crore and the same have improved further in the first five months of FY2021 aided by healthy revenue growth. Despite the high capex and repayment obligation requirements, ICRA expects Anthem's liquidity position to remain strong over the medium term on the back of higher accruals from the availability of incremental capacity and the existing cash and liquid investment balance.

Rating sensitivities

Positive triggers – ICRA may upgrade the ratings if the company demonstrates a sustained improvement in its scale of operations, leading to sustainable operating and net profits and strong credit metrics.

Negative triggers – Pressure on Anthem's ratings could arise with a sharp decline in the company's revenues and a deterioration in its profit margins on a sustained basis. Pressure on the ratings could also arise with a significant deterioration in the company's credit metrics owing to the debt-funded capex.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry
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 2006, is jointly promoted by Mr. Ajay Bhardwaj, Mr. K.C. Ravindra and Mr. Ganesh S. Anthem. It is a contract research player offering early-stage drug discovery services with its services encompassing medicinal chemistry, process chemistry, custom synthesis, discovery research and analytical R&D. Over the years, the company has forward integrated into contract manufacturing with a view to benefit from the synergies arising out of its involvement in the development of the product. Anthem commenced its operations in July 2007 as an export oriented unit (EOU) and has research facilities including chemistry labs, a kilo lab, a pilot plant, and analytical and discovery research facilities in its manufacturing plant at Bommasandra in Bangalore. In FY2020, Anthem derived about 80.4% of its revenues from the contract manufacturing and contract research segments while the balance (19.6%) was derived from the products business.

Key financial indicators

	FY2019	FY2020*
Operating Income (Rs. crore)	626.0	632.8
PAT (Rs. crore)	77.1	98.8
OPBDIT/OI (%)	27.7%	30.6%
PAT/OI (%)	12.3%	15.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.8
Total Debt/OPBDIT (times)	1.1	0.9
Interest Coverage (times)	9.5	14.8

*Source: Company financials; Note: * Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding 31-Aug-2020	Current rating 28-Sep-2020	FY2020 4-Jul-2019	FY2019 21-May-2018	FY2017 12-Jan-2017
1	Term Loan	Long Term	111.54	83.3	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund Based	Long Term	75.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund Based	Short Term	7.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	Unallocated	Long Term	19.46	-	[ICRA]A (Stable)	-	[ICRA]A- (Stable)	-

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2020	6.95%	FY2024	23.96	[ICRA]A (Stable)
NA	Term Loan 2	FY2015	8.35%	FY2023	37.58	[ICRA]A (Stable)
NA	Term Loan 3	FY2018	8.50%	FY2023	50.00	[ICRA]A (Stable)
NA	Fund-based Facilities	FY2020	NA	-	75.00	[ICRA]A (Stable)
NA	Non-fund Based Facilities	FY2015	NA	-	7.00	[ICRA]A1
NA	Unallocated	-	-	-	19.46	[ICRA]A (Stable)

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.

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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