

June 14, 2021

## Clininvent Research Pvt. Ltd.: Ratings reaffirmed at [ICRA]A(Stable)/A1; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	34.48	33.24	[ICRA]A (Stable); Reaffirmed
ST - FB Facilities	10.10	10.00	[ICRA]A1; Reaffirmed
Unallocated		2.97	[ICRA]A(Stable)/A1; Reaffirmed
<b>Total</b>	<b>44.58</b>	<b>46.21</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has taken a consolidated view of TCG Lifesciences Private Limited (TCGL), and its subsidiary, Clininvent Research Private Limited (CRPL), while assigning the credit ratings, given the common management and significant operational and financial linkages between them.

The reaffirmation of the ratings considers the consolidated entity's established position in the field of early stage drug discovery, its financial flexibility for being a part of The Chatterjee Group (TCG Group), and a conservative capital structure. The ratings also factor in TCGL's long-term relationships with its customers across geographies and stable business generated from such customers every year. ICRA has noted TCGL's recent efforts to diversify its customer base, such that the sales to top 10 customers came down to ~51% in FY2021 from 74% in FY2016, thus reducing customer concentration risks.

TCGL's operational profile is strengthened by its foray into commercial scale manufacturing of new chemical entities (NCEs) through CRPL. However, the manufacturing business at CRPL is still at a nascent stage and is yet to witness steady and reliable generation of cash flows. ICRA notes that CRPL received the United States Food and Drugs Administration (USFDA) licence in FY2020, which led to a sharp rise in employee and overhead expense, however, the benefit of the license is yet to be reflected on its business volumes. In FY2021, CRPL reported a sharp decline in revenues and incurred large operating losses after a healthy performance in FY2019 and FY2020. ICRA opines that in the long run, the manufacturing capability developed in CRPL would help the consolidated entity in widening its service and product reach to its customers, but the near-term business position remains uncertain due to inadequate revenue outlook. Consequently, TCGL is expected to infuse funds into the subsidiary to take care of its debt service requirements. Further, ICRA notes that the TCG Group is expected to invest ~\$10 million into its US subsidiary, TCG Greenchem Inc. in FY2021-FY2022, which will be partly funded by debt. Such fund infusions in the subsidiaries without adequate generation of returns as on date are key concerns for the company. Despite these fund infusions, ICRA estimates the capital structure of the consolidated entity to remain comfortable.

The above strengths are offset by the exposure of TCGL's business to termination risks in the absence of take-or-pay conditions in its contract research agreements. Nevertheless, long-term customer relationships and healthy outsourcing budgets of these companies for early stage drug discovery services are likely to mitigate the risk of early termination of agreements to an extent. TCGL's consolidated revenues and profits are exposed to the risk of foreign exchange rate fluctuations as contract research rates are denominated in foreign currencies, whereas the company's costs are largely denominated in rupees. The consolidated RoCE, which had been depressed due to large loans and advances given to Group entities, is expected to remain under pressure going forward. Any further exposure to Group entities and/or write-off of existing loans could have an impact on the consolidated financial profile of TCGL.

The Stable outlook is based on ICRA's expectation that the consolidated entity would continue to benefit from its established position in the business of providing contract research and manufacturing services in the field of early stage drug discovery.

Nonetheless, the company's ability to generate new business from existing customers as well as add new customers at profitable terms would be the key rating sensitivities.

## Key rating drivers and their description

### Credit strengths

**Healthy business profile of the consolidated entity** – TCGL, together with CRPL, has developed end-to-end capability in the early stage drug discovery services, encompassing chemical synthesis, biological testing, kilo scale as well as commercial scale manufacturing of NCEs. Such capabilities provide the consolidated company with a healthy business profile.

**Established relationship with a diversified customer base** – The TCGL Group has developed a diversified customer base, which has been generating healthy revenue over the years. The customers are located across geographies, mitigating concentration risk to an extent. Over the years, TCGL has been adding new customers and reducing concentration risks, such that sales to its top 10 customers reduced to ~51% in FY2021 from ~74% in FY2016.

**Conservative capital structure** – TCGL has a conservative consolidated capital structure with an estimated gearing of 0.7 times as on March 31, 2021. The debt coverage indicators remain comfortable, relative to its debt servicing. ICRA notes that the TCG Group is expected to invest ~\$10 million into TCG GreenChem Inc, its US subsidiary in FY2021-22, which will be partly funded by external debt. Despite this, the capital structure is expected to remain comfortable.

**Financial flexibility for being a part of TCG Group** – TCGL, and hence CRPL, has financial flexibility for being a part of the TCG Group.

### Credit challenges

**Muted performance of CRPL** – The manufacturing business of CRPL is still at a nascent stage and is yet to witness steady and reliable generation of cash flows. ICRA notes that CRPL had received the USFDA licence in FY2020, which led to a sharp rise in employee and overhead expenses, but the benefit of the license is yet to be reflected on its business volumes. In FY2021, CRPL reported a sharp decline in revenues and incurred large operating losses after a healthy performance in FY2019 and FY2020. In the long run, the manufacturing capability developed in CRPL would help the consolidated entity in widening its service and product reach to its customers, but the near-term business position remains uncertain due to inadequate revenue outlook. The turnaround of CRPL's operations remains a key rating sensitivity.

**Absence of take-or-pay clause in research contracts** – TCGL's contract research agreements with its customers do not have a take-or-pay clause in them. This exposes the company to the risks associated with contract termination. However, long-term relationships with customers mitigate such risk, to an extent.

**Competitive business environment** – The contract research business is competitive. Hence, the company's ability to scale up business in such an environment is a key risk.

**Exposure to unfavourable foreign exchange movement** – TCGL's revenue is denominated in foreign currency, with exports constituting ~95% of total revenues, whereas its costs are largely denominated in rupees. This exposes the company's revenues and profits to the risk of foreign currency movements.

**Exposure to Group entities** – TCGL has large financial exposure to other Chatterjee Group companies, which exposes TCGL to lending risks associated with such companies.

### Liquidity position: Adequate

TCGL's liquidity is adequate because of its steady consolidated cash flow from operations, adequate cash balance and unutilised working capital lines of ~Rs. 35 crore as on March 31, 2021. The company has annual consolidated external debt repayment liabilities of Rs. ~30-35 crore in the next 2-3 financial years. ICRA expects TCGL to generate adequate cash flows vis-a-vis its debt repayment liabilities even under a stretched scenario of low sales at CRPL.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the consolidated entity registers a steady growth in business with a healthy return on capital employed of ~18% on a sustained basis.

**Negative factors** – Pressure on ratings could arise if there is a loss of business, resulting in a negative income growth and/or TD/OPBITDA is over 2.3 times on a sustained basis. Any sustained delay in turnaround of CRPL's operations could also be a trigger for ratings downgrade. Large debt-funded capex compared to the company's current scale and/or any increase in exposure to other Chatterjee Group entities or any write-off of current investments in Group entities can lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Rating Methodology for Entities in the Pharmaceutical Industry</a> <a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	While assigning the ratings, ICRA has taken a consolidated view of TCG Lifesciences Private Limited and Clininvent Research Private Limited. The ratings are based on the consolidated financial profiles of the company. As on March 31, 2020, the company had two subsidiaries and one associate company, that are enlisted in Annexure 2.

## About the company

Incorporated in 1998, TCG Lifesciences Private Limited (TCGL) provides contract research services, mainly for early stage drug discovery and development. The company provides services for chemical synthesis of small molecules, first-level screening of drugs (in vitro testing) and small animal testing. Its wholly-owned subsidiary, Clininvent Research Private Limited (CRPL), manufactures cGMP active pharmaceutical ingredients (APIs, both NCEs as well as generic APIs) and GMP-ready regulatory starting materials. The manufacturing unit started operations in FY2018, following the takeover of an existing API manufacturing unit in Hyderabad, Telangana.

TCGL is promoted by The Chatterjee Group, which was founded by Dr. Purnendu Chatterjee in 1989. The Group has diversified interests in investment banking, life sciences and pharmaceuticals, real estate, petrochemicals, hedge fund and wealth management products. It also provides outsourcing and technology services, including BPO services, and has a presence in the US, Europe and South Asia. It is headquartered in New York.

CRPL reported a standalone net profit of Rs. 3.0 crore on an operating income of Rs. 62.4 crore in FY2020 against a net profit of Rs.5.3 crore on an operating income of Rs. 78.0 crore in FY2019. The consolidated profit after tax stood at Rs. 46.4 crore on an operating income of Rs. 290.9 crore in FY2020 as compared to a PAT of Rs. 28.8 crore on an operating income of Rs. 266.2 crore in FY2019.

## Key financial indicators (audited)

CRPL – Standalone	FY2019	FY2020
Operating Income (Rs. crore)	78.0	62.4
PAT (Rs. crore)	5.3	3.0
OPBDIT/OI (%)	25.4%	19.8%
PAT/OI (%)	6.8%	4.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.4	3.1
Total Debt/OPBDIT (times)	4.6	7.7
Interest Coverage (times)	3.9	1.8

TCGL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	266.2	290.9
PAT (Rs. crore)	28.8	46.4
OPBDIT/OI (%)	26.6%	26.0%
PAT/OI (%)	10.8%	15.9%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	0.8
Total Debt/OPBDIT (times)	2.8	2.3
Interest Coverage (times)	6.4	4.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
						Feb 24, 2020	July 3, 2019	
				Jun 14, 2021	-			
1 Term Loan	Long Term	33.24	33.24	[ICRA]A (Stable)		[ICRA]A (Stable)	[ICRA]A (CE) (Stable)	
2 ST - FB Facilities	Short Term	10.00	-	[ICRA]A (Stable)		[ICRA]A (Stable)	[ICRA]A1(CE)	
3 Unallocated	Short Term	2.97	-	[ICRA]A/Stable/A1				

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
ST - FB Facilities	Very Simple
Unallocated	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 analyzing 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, is available on ICRA's website: [www.icra.in](http://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	FY2019 -FY2019	6.25-10.25%	FY2022 - FY2025	33.24	[ICRA]A (Stable)
NA	ST - FB Facilities				10.00	[ICRA]A (Stable)
NA	Unallocated				2.97	[ICRA]A1

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	TCGL Ownership	Consolidation Approach
TCG Lifesciences Private Limited	Parent	
Clininvent Research Private Limited	100.00%	Full Consolidation
X-tec International (Mauritius) Limited	100.00%	Full Consolidation
TCG Centre for Research and Technology (Formerly, Global Institute of Science and Technology)	20.00%	Equity Method

Source: TCGL annual report FY2020

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