February 17, 2022

Clininvent Research Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	33.24	33.24	[ICRA]A (Stable); Reaffirmed
Fund based Facilities	10.00	10.00	[ICRA]A1; Reaffirmed
Unallocated	2.97	2.97	[ICRA]A(Stable)/[ICRA]A1; Reaffirmed
Total	**46.21**	**46.21**	

**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 strong 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 favourable revenue outlook in the near-to-medium term. The ratings also factor in TCGL's long-term relationships with its customers across geographies and stable business generated from such customers on a regular basis. Sales to top ten customers came down to ~53% in 9M FY2022 from 74% in FY2016, thus reducing customer concentration risks. TCGL's operational profile is strengthened by its presence in commercial scale manufacturing of new chemical entities (NCEs) through CRPL and process development services offered by TCG GreenChem. However, the manufacturing business at CRPL is still at a nascent stage and is yet to witness steady generation of cash flows. In H1 FY2022, CRPL reported large operating losses owing to low revenues. Additionally, TCG Greenchem has started operations in FY2021 but is expected to incur operating losses in the current year. Consequently, while the debt protection metrics of the standalone entity remain healthy, the same will be impacted at the consolidated levels. However, the performances of the subsidiaries are expected to improve in the next financial year through addition of healthy orders and will remain the key rating monitorable.

The ratings are constrained 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 relationships with customers 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 also 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 Indian currency. The consolidated RoCE, which had been depressed due to large loans and advances given to subsidiaries and Group entities, is expected to remain under pressure, going forward. Any further exposure to subsidiaries could impact 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 operational 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. Along with the Indian operations, in FY2021, TCGL has also established its presence in the US by setting

up a subsidiary, TCG Greenchem, which is involved in process research and development facilities. 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 revenues 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. Sales to its top 10 customers reduced to ~53% in 9M FY2022 from ~74% in FY2016.

Financial flexibility for being a part of TCG Group – TCGL, and hence CRPL, have financial flexibility for being a part of the TCG Group. The TCG Group has diversified interests in investment banking, real estate, petrochemicals, life sciences and healthcare, hedge fund and wealth management products, outsourcing and technology services including BPO, and has a presence in the US, Europe and South Asia.

Credit challenges

Muted performance of subsidiaries – 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 benefits of the licence are yet to be reflected in its business volumes. In FY2021 and 9M FY2022, CRPL reported a sharp decline in revenues and incurred large operating losses. However, going forward, the financial performance is expected to improve with significant orders in pipeline, providing medium term revenue outlook to an extent.

Also, in the long run, the manufacturing capability developed in CRPL and process research development capability at TCG Greenchem would help the consolidated entity in widening its service and product reach to its customers. The turnaround of subsidiary 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 and exposure to foreign exchange risks – The contract research business is competitive. Hence, the company's ability to scale up business in such an environment is a key risk. Also, 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 its subsidiaries and other TCG Group companies, which exposes TCGL to lending risks associated with such companies. However, healthy financial performance of those entities mitigates this risk to an extent.

Liquidity position: Adequate

TCGL's liquidity is adequate because of its steady standalone cash flow from operations, adequate cash balance and unutilised working capital lines of ~Rs. 65-70 crore during the current year. 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 Moreover, TCGL enjoys financial flexibility for being a part of the TCG Group.

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 the ratings could arise if there is a loss of business, leading to negative income growth and/or the consolidated TD/OPBITDA is over 2.3 times on a sustained basis. Any sustained delay in turnaround of subsidiary operations could also be a trigger for ratings downgrade. Further, any large debt-funded capex compared to the current scale and/or any significant increase in exposure/ write-off of current investments to Group entities could also lead to ratings downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Pharmaceutical Industry Corporate Credit Rating Methodology
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.

Key financial indicators (audited)

TCGL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	290.9	286.7
PAT (Rs. crore)	47.5	15.1
OPBDIT/OI (%)	28.2%	16.5%
PAT/OI (%)	16.3%	5.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.9
Total Debt/OPBDIT (times)	2.5	5.1
Interest Coverage (times)	4.4	2.9

CRPL Standalone	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	62.4	23.6	22.0
PAT (Rs. crore)	3.2	-17.0	-15.6
OPBDIT/OI (%)	20.1%	-46.7%	-46.5%
PAT/OI (%)	5.1%	-72.3%	-71.1%
Total Outside Liabilities/Tangible Net Worth (times)	3.8	10.4	
Total Debt/OPBDIT (times)	7.6	-9.4	
Interest Coverage (times)	1.8	-1.4	-6.0

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 Jan 31, 2022 (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Feb 17, 2022	Jun 14, 2021	-	Feb 24, 2020	July 3, 2019	
1	Term Loan	Long Term	33.24	33.24	[ICRA]A (Stable)	[ICRA]A (Stable)		[ICRA]A (Stable)	[ICRA]A(CE) (Stable)	
2	Fund based Facilities	Short Term	10.00	-	[ICRA]A1	[ICRA]A1		[ICRA]A1	[ICRA]A1(CE)	
3	Unallocated	Long term/ Short Term	2.97	-	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund based 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

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	Fund based Facilities				10.00	[ICRA]A1
NA	Unallocated				2.97	[ICRA]A(Stable)/ [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 FY2021*

Note: TCG Greenchem will be consolidated from FY2022 onwards.

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