

April 6, 2022 ^{Revised}

Excelra Knowledge Solutions Pvt. Ltd: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term loans	47.00	[ICRA]A- (Stable); Assigned
Fund-based working capital facilities	15.00	[ICRA]A2+; Assigned
Non-fund based working capital facilities^	(6.00)	[ICRA]A2+; Assigned
Total	62.00	

*Instrument details are provided in Annexure-1; ^sub-limit to fund based working capital facilities

Rationale

The assigned ratings draw comfort from Excelra Knowledge Solutions Private Limited's (Excelra/the company) track record of more than a decade in providing data curation and analytical services to the life sciences industry. The ratings also factor in Excelra's established relationships with its customers and healthy order book position ensuring revenue visibility for the near term. The company's financial risk profile is characterised by strong profit margins coupled with healthy debt metrics and strong liquidity position. Excelra witnessed healthy revenue growth during FY2017–11M FY2022 (CAGR of 20%) on the back of improvement in data curation and clinical pharmacology services along with product segment revenues. The operating profit margins remained strong over 30% in the past five years, except in FY2019, when it moderated to 27% due to decline in revenues. Excelra's debt metrics have remained healthy backed by minimal debt levels and strong profitability, and the same is expected to sustain in the near term. Excelra's liquidity position remains strong with ~Rs. 170 crore of free cash and cash equivalents as on February 28, 2022.

The ratings are, however, constrained by the company's moderate scale of operations despite strong YoY growth of 59.2% and 60.0% in FY2021 and 11M FY2022, respectively. The ratings also consider the high customer concentration risk, with ~60% of revenues being derived from its top three clients. However, the vintage of its client relationships mitigates the concentration risk to a certain extent. Albeit reducing, more than 70% of the company's revenues are generated from the US, in line with the broader industry trend and the same is expected to remain in line with past trends. The ratings consider that Excelra's revenues and profitability are exposed to fluctuations in foreign exchange (forex) rates as most of its revenues are in foreign currency. However, ICRA notes that the company hedges its forex exposure on a continuous basis.

ICRA notes that Excelra has not provided any financial/operational support to GVK Group and that its cash flows are ring-fenced from the Group. ICRA also notes that the company has entered into a scheme of arrangement (as part of a group restructuring exercise), wherein following its amalgamation with its parent entity, GVK Davix Technologies Pvt. Ltd. (GVK Davix), the information technology business undertaking (data curation and analytical services) shall be demerged and subsequently merged with its fellow subsidiary, GVK Davix Research Pvt. Ltd. ICRA will continue to monitor developments regarding the same.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit with its established relationships with key customers while maintaining its strong financial profile. ICRA notes that Excelra has plans to expand organically and inorganically in the medium term. Any significant debt-funded acquisition/ major expansion impacting its credit metrics, therefore, remains an event risk and would be evaluated on a case-by-case basis.

Key rating drivers and their description

Credit strengths

Healthy business profile and promoters' vast experience in the industry – Excelra has experience of over a decade in providing data curation and analytical services for supporting the pharmaceutical and drug discovery sector. The company has built manually curated databases for scaling up its presence in the industry. Coupled with a large pool of over 600 scientists, it continues to support the business prospects of the company. The promoters' vast experience in the pharmaceutical and life sciences industries has supported business operations by associating with reputed clientele.

Financial profile characterised by strong profit margins, healthy debt metrics and strong liquidity position – The company has witnessed healthy revenue growth (CAGR of 20%) during the past six years, coupled with strong operating profitability of more than 30% (except for FY2019) on the back of improvement in product and service-based revenues. The debt metrics remained healthy, characterised by Total debt/OPBDITA of 0.6x as on February 28, 2022 and interest coverage of 86.2x during 11M FY2022. The same is expected to sustain in the near term backed by minimal debt and strong profitability levels. Further, Excelra had free cash reserves of ~Rs 170 crore as on February 28, 2022, indicating strong liquidity position.

Established relationship with customers and healthy order book position lending revenue visibility – The company shares established relationships with global and reputed pharmaceutical companies and has secured repeat orders from its key clientele over the years. Further, the company has an order book of ~Rs. 130 crore (including confirmed new orders and tentative renewals) for FY2023, which lends revenue visibility to a certain extent. However, the timely execution of orders and renewal of existing contracts would remain key to the company's revenue trajectory.

Credit challenges

Moderate scale of operations – Despite the improvement in the scale of operations in FY2021 and 11M FY2022, the company's scale of operations continues to be moderate. While the company has healthy order book and track record of repeat orders from its key customers, execution of the same will be critical to improving its scale. Further, execution of the company's plan to expand organically and inorganically, with improvement in service and product offerings, would remain a key monitorable.

High customer and geographic concentration risks – The company's revenues are highly concentrated to the extent of ~60% coming in from its top three customers. While established relationships with its customers provide comfort to a certain extent, improvement in customer diversification shall remain a key monitorable. Further, with respect to geographic diversification of revenues, more than ~70% of Excelra's revenues are generated by the US market, which is in line with the broader industry trend. While the US revenue concentration has reduced from 92% in FY2017 to 71% in 9M FY2022, the US market is expected to continue to be the highest contributing region, going forward.

Earnings susceptible to forex fluctuations – With most of its revenues generated in foreign currency, the company's revenues and profitability margins remain vulnerable to fluctuations in forex rates. However, Excelra has hedging policies in place, wherein its forex exposures are covered by forward contracts on a timely basis. Nonetheless, unfavourable movement in forex rates could impact the company's earnings to a certain extent.

Liquidity position: Strong

The company's liquidity position is **strong**, characterised by free cash and liquid investments of ~Rs. 170 crore as on February 28, 2022. The company had started availing working capital limits of Rs. 15 crore from December 2021, wherein the average utilisation is 90% during the period December 2021–February 2022. Excelra has debt repayment obligations of Rs. 7.6 crore in FY2023 and Rs. 15.3 crore per annum for FY2024 and FY2025 on the existing term debt. The company has capex plans of ~Rs. 15-17 crore for the next two years for maintenance and revamping of existing product applications. ICRA expects Excelra's liquidity position to remain strong over the medium term on the back of its healthy accruals and existing cash and liquid investment reserves.

Rating sensitivities

Positive factors – ICRA could upgrade the rating in case of improved customer diversification, significant revenue growth momentum while maintaining healthy profitability, liquidity position and debt coverage metrics on a sustained basis.

Negative factors – Pressure on ratings could arise with reduction in revenues and/or margins, or if there is higher-than-anticipated dividend pay-out, or weakening of coverage or return indicators owing to sizeable debt-funded organic/inorganic expansion. Specific trigger for rating downgrade would be Net debt/OPBDITA of more than 2.3x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Excelra.

About the company

Excelra Knowledge Solutions Pvt. Ltd. (previously known as GVK Informatics Private Limited) was incorporated in FY2014 and is majorly owned (60%) by GVK Davix Technologies Private Limited. The company was demerged from GVK Biosciences Pvt. Ltd. (incorporated in FY2000; now renamed as Aragen Life Sciences Pvt. Ltd.) in FY2014. Excelra provides data curation, analytical services and technology solutions to the biopharmaceutical industry. The company is a data and analytics partner to major pharmaceutical companies around the world and some of the leading drug discovery focused, artificial intelligence (AI) companies. The company acquired 55% equity stake in Anlitiks Inc., US, in February 2021. Anlitiks Inc. provides platform-based value evidence, and health economic and research outcome services to pharmaceutical companies.

Key financial indicators (audited)

Excelra Consolidated	FY2020	FY2021	11M FY2022*
Operating Income (Rs. crore)	89.1	141.9	204.8
PAT (Rs. crore)	24.9	54.0	71.5
OPBDITA/OI (%)	33.7%	44.3%	43.4%
PAT/OI (%)	28.0%	38.0%	34.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.3	0.7
Total Debt/OPBDITA (times)	0.1	0.4	0.6
Net Debt/OPBDITA (times)	-2.0	-1.1	-1.5
Interest Coverage (times)	52.2	134.8	86.2

*Provisional; NA: Not Available; PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations

Source: Company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2022 (Rs. crore)	Date & Rating	Date & Rating In FY2022	Date & Rating In FY2021	Date & Rating in FY2020
				April 6, 2022	-	-	-
1 Term loans	Long-term	47.00	47.00	[ICRA]A-(Stable)	-	-	-
2 Fund based working capital facilities	Short-term	15.00	--	[ICRA]A2+	-	-	-
3 Non-fund based working capital facilities	Short-term	(6.00)	--	[ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Fund based working capital facilities	Simple
Non-fund based working capital facilities	Very Simple

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 analysing 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 are available on ICRA's 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 loans	FY2022	~3%	FY2026	47.00	[ICRA]A- (Stable)
NA	Fund based working capital facilities	FY2022	NA	NA	15.00	[ICRA]A2+
NA	Non-fund based working capital facilities	FY2022	NA	NA	(6.00)	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Excelra Inc., USA	100.0%	Full Consolidation
Excelra B.V., Netherlands	100.0%	Full Consolidation
Anlitiks Inc., USA	55.0%	Full Consolidation
Excelra Employees Welfare Trust, India	100.0%	Full Consolidation

Corrigendum

Document dated April 6, 2022 has been corrected with revisions as detailed below:

The customer names (mentioned in the rationale Pg-1 - 1st paragraph, credit strengths last paragraph and credit challenges 2nd paragraph) and consideration details on one of its acquisitions (mentioned in About the company section) is removed based on the client request.

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About ICRA Limited:

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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.

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