May 18, 2022

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 – Working Capital	75.00	75.00	[ICRA]AA- (Stable); reaffirmed
Long-Term Fund Based – Term Loan	55.84	-	-[1]
Short-Term – Non-fund Based	7.00	12.00	[ICRA]A1+; reaffirmed
Long-Term – Unallocated	40.00	45.00	[ICRA]AA- (Stable); reaffirmed
Total	**177.84**	**132.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings factors in Anthem Biosciences Pvt. Ltd.'s (Anthem) strong promoter background and research & development capabilities with over 25 years of experience in the pharmaceutical and biotechnology industries, along with established relationships with large pharmaceutical companies. Anthem witnessed a revenue growth of ~12% in FY2022, while its profit margins and debt metrics continued to be robust. Anthem's cash balances and liquid investments significantly improved to ~Rs. 600 crore as on March 31, 2022, compared with Rs 246 crore as on March 31, 2021, aided by healthy accruals in FY2022.

Anthem's revenues continue to be supported by the increase in volume from certain large orders translating into healthy capacity utilisation. The strong accruals, coupled with the lower debt position, led to improved capitalisation and coverage indicators with the TD/OPBDITA at 0.1 times as on December 31, 2021 (0.3 times as on March 31, 2020). Further, the interest coverage improved to 126.9 times in 9M FY2022 from 24.1 times in FY2021, aided by lower debt and higher operating profit. Further, in FY2022, the company posted ~Rs. 1,232 crore revenues with profit margins and coverage indicators at similar levels.

The ratings, however, remain constrained by the vulnerability of Anthem's margins to foreign exchange rate fluctuations with the export markets accounting for 78.9% of its revenues, and the high customer concentration with the top-ten customers accounting for ~70% of the revenues in 9M FY2022. However, the healthy share of business and long-term association with customers provide comfort.

ICRA notes that the company is amid a capacity expansion plan of ~Rs. 185 crore towards upgrading the synthesis capacity of the existing Harohalli facility to 270 kilolitre (KL), out of which ~Rs. 100 crore capital expenditure (capex) was incurred in FY2022 and the balance ~Rs. 85 crore is expected to be incurred in FY2023. ICRA also notes the partly debt-funded capex of ~Rs. 550 crore towards setting up a greenfield facility established under a new 100% subsidiary, Neoanthem Lifesciences Private Limited. Anthem has already incurred ~Rs. 35 crore in FY2022 and is expected to incur capex of ~Rs. 400 crore in FY2023 and the balance ~Rs. 115 crore in FY2024. While ICRA does not expect the same to impact Anthem's strong debt protection metrics and liquidity position, timely commencement and ramp-up of operations at the new facility and the impact of the same on the credit metrics remain key monitorables.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will continue to benefit from its established customer relationships, healthy order book position, strong research & development (R&D) capabilities, healthy financial

[1] ICRA had rating outstanding of [ICRA]AA- (Stable) on Rs.55.84 crore term loans of ABPL earlier. This has currently been revised to nil.

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

Strong financial profile 2characterised by healthy revenue growth and margins, robust credit metrics and strong liquidity – Anthem witnessed a revenue growth of ~12% in FY2022, primarily driven by the increase in volume demand from its customers. Anthem's healthy operating and net profit margins expanded by 340 bps YoY and 170 bps to 40.3% and 26.3%, respectively, in 9M FY2022 (unaudited financials) compared with FY2021. The company has been working on a few molecules over the years, which were commercialised recently, supporting the revenue growth in FY2022. These molecules are margin-accretive and have supported the company's margin expansion.

The strong accruals, coupled with the lower debt position, led to improved capitalisation and coverage indicators with the TD/OPBDITA at 0.1 times as on December 31, 2021 (0.3 times as on March 31, 2020). Further, the interest coverage improved to 126.9 times in 9M FY2022 from 24.1 times in FY2021, aided by lower debt and higher operating profit. The company's cash balances and liquid investments were ~Rs. 600 crore as on March 31, 2022, supported by healthy accruals. Additionally, ICRA understands that some of the molecules that Anthem is working on, at present, are in advanced stages and expects it to further benefit from commercialisation of the same in the medium term. Overall, going forward, ICRA expects the company to post healthy revenues on the back of its healthy order book position and the Harohalli facility capacity expansion while maintaining its robust margin profile.

Strong R&D capabilities supplemented by timely capacity expansion in contract manufacturing services (CMS) segment – Anthem has a strong R&D team consisting of ~800 scientists working on various niche products. At present, it is undertaking a capacity expansion at its Harohalli facility, where the synthesis capacity is slated to expand to 270 KL. The capex of ~Rs. 185 crore is planned for the same and is expected to be funded by internal accruals. Out of ~Rs. 185 crore, a capex of ~Rs. 100 crore was incurred in FY2022 and the balance of ~Rs. 85 crore is expected to be incurred in FY2023. Anthem is also setting up a biological facility for ~Rs. 550 crore and is expected to be completed by FY2024. The capex of ~Rs. 35 crore was already incurred in FY2022 and is expected to incur capex of ~Rs. 400 crore in FY2023 and the balance ~Rs. 115 crore in FY2024. The availability of additional capacity is likely to help the company increase its scale of operations, going forward.

Strong promoter background – The company's promoters have over 25 years of experience in the pharmaceutical and biotechnology industries.

Credit challenges

Mid-sized player in highly competitive industry – Anthem is a mid-sized player with an operating income of ~Rs. 1,232.0 crore (FY2022) in the highly competitive contract research and manufacturing industry with large and established players. Anthem derived about 74.6% of revenues from contract manufacturing in 9M FY2022 (50.5% in FY2016). Going forward, ICRA expects Anthem to post healthy revenues on the back of its strong order book position. There is further headroom for growth in the CMS segment with the incremental capacity is expected.

Revenues and margins remain susceptible to forex fluctuations –Anthem's margins remain vulnerable to the adverse forex movements as it is primarily an exporter, deriving 78.9% of its revenues from exports in 9M FY2022. Although Anthem derived ~70.0% of its revenues in 9M FY2022 from the top-ten customers, the healthy share of business and long-term association with customers provide comfort. ICRA also understands that sales to some of the US customers (25-30 customers, including some reputed pharma players and smaller biotech firms) are invoiced through its top customer (eight out of top-10 customers are international firms in the field of pharma /nutrition). Anthem benefits from this arrangement by mitigating the receivables risk associated with working with smaller companies as the top customer ensures that the receivables from other customers are not delayed. Moreover, the increasing share of business from other customers is expected to reduce the concentration, going forward.

Debt-funded capex to expand capacity under CMS segment and set up new Greenfield facility under Neoanthem – At present**,** Anthem is expanding capacity at the Harohalli plant and expects the same to be completed in FY2023. Post-capex, its synthesis capacity is expected to increase to 270 KL. The capex is expected to be funded by internal accruals. The company is also setting up a new greenfield facility for ~Rs. 550 crore and expects the same to be completed in FY2024. This facility will be established under a new 100% subsidiary, Neoanthem Lifesciences Private Limited. The project is expected to be funded by ~Rs. 400 crore of debt while the balance will be funded by the company's internal accruals. While ICRA does not expect the same to impact Anthem's strong debt protection metrics and liquidity position, however, the timely commencement and ramp-up of operations at the new facility and the impact of the same on the credit metrics remain key monitorables.

Liquidity position: Strong

Anthem's liquidity position is **strong** with healthy fund flow from operations in 9M FY2022, lower working capital utilisation, and healthy cash and liquid investments. Its average working capital utilisation was 22.0% of the sanctioned limits between January 2021 and January 2022. In April 2022, the company's working capital utilisation was 36.9% with undrawn limits of ~Rs. 47 crore (against sanctioned limits of Rs. 75.0 crore). Also, the company has a buffer in its drawing power to enhance its working capital facilities if needed.

In FY2022, the company prepaid all of its existing term loans and has no repayment term loan obligations outstanding. Anthem's total cash and liquid investment balance was ~Rs. 600 crore as on March 31, 2022. Despite the high debt-funded capex, ICRA expects Anthem's liquidity position to remain strong on the back of higher accruals from the availability of incremental capacity and the recent equity infusion from the PE partner. Any significant debt-funded acquisition, thereby impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

Rating sensitivities

Positive factors – ICRA may upgrade Anthem's ratings if sustained improvement in its scale of operations leads to healthy operating and net profit margins while maintaining its strong liquidity position and debt metrics.

Negative factors – Pressure on the ratings could arise with any sharp decline in the company's revenues and deterioration of profit margins on a sustained basis. A significant deterioration in the company's credit metrics or liquidity position owing to any large debt-funded capex could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Consolidation and Rating approach
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 Bangalore on June 13, 2006, is jointly promoted by Mr. Ajay Bhardwaj, Dr. Ganesh Sambasivam and Mr. K.C. Ravindra. It is a contract development & manufacturing organisation (CDMO) which offers early-stage drug discovery services including medicinal chemistry, process chemistry, custom synthesis, discovery research and analytical R&D. Anthem has integrated drug discovery, development and manufacturing services. Through its team of experienced chemists, biologists and engineers Anthem facilitates established biotechs and big pharma companies to develop, optimise and test proteins, monoclonal antibodies, peptides, large molecules, small molecules, toxins and much more. Over the years, Anthem has forward integrated into contract manufacturing to benefit from the synergies arising out of its involvement in the development of products.

In addition to product research and development, Anthem helps test drugs for safety, efficacy (in-vitro and in-vivo), pre-clinical animal studies in a GLP facility, clone development, antibody drug conjugates, R&D and manufacture highly potent compounds, flow chemistry-based production and large-scale commercial products. It has leveraged its core competency in organic synthesis to develop new and challenging nutritional products with a strong scientific rationale. These are now being sold globally to nutraceutical and wellness product companies.

Anthem commenced its operations in July 2007 as an export-oriented unit (EOU). At present, it has two manufacturing units at Bommasandra and Harohalli, both in Bengaluru, India. The Bommasandra facility has been approved by the USFDA, PMDA (Japan), EU QPs, and has research facilities including chemistry labs, a kilo lab, a pilot plant, a containment suite for high potent molecules, analytical and discovery research facilities, microbial fermentation and cell culture facility. Anthem's larger manufacturing facility is in Harohalli, which houses a large-scale fermentation facility and a large-scale custom synthesis manufacturing capacity. In April 2021, True North, acquired a 8.32% stake in the company.

Key financial indicators

Anthem	FY2021 (audited)	9M FY2022 (unaudited)
Operating Income (Rs. crore)	1,103.2	859.5
PAT (Rs. crore)	271.3	226.1
OPBDIT/OI (%)	37.0%	40.4%
PAT/OI (%)	24.6%	26.3%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.2
Total Debt/OPBDIT (times)	0.3	0.1
Interest Coverage (times)	24.1	126.9

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

Source: Company, ICRA Research; All ratios as per ICRA calculations

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 Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 18, 2022	Oct 7, 2021	Sep 28, 2020	Jul 4, 2019
1	Fund-based working capital	Long term	75.00	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Term Loan	Long term	--	0.00	--[2]	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non-fund based	Short term	12.00	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A2+
4	Unallocated	Long term	45.00	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Stable)	--

[2] ICRA had rating outstanding of [ICRA]AA- (Stable) on Rs.55.84 crore term loans of ABPL earlier. This has currently been revised to nil

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund Based – Working Capital	Simple
Short Term – Non-fund Based	Very Simple
Long Term – 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 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 /Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Working capital	FY2021	NA	-	75.00	[ICRA]AA- (Stable)
NA	Non-fund Based	FY2021	NA	-	12.00	[ICRA]A1+
NA	Unallocated	NA	NA	NA	45.00	[ICRA]AA- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Neoanthem Lifesciences Private Limited*	100.00%	Full Consolidation

Source: *Company;* ***Note****: ICRA has taken a consolidated view of the parent, its subsidiaries and associates while assigning the ratings*

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About ICRA Limited:

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For more information, visit www.icra.in

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