

March 13, 2023

## Advity Research Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	0.00	10.00	[ICRA]BB-(Stable); Reaffirmed
Long-term – Unallocated	10.00	0.00	-
<b>Total</b>	<b>10.00</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating considers the significant experience of Advity Research Private Limited's (ARPL) promoters in the clinical research industry, which has supported ARPL in building relationships with its customers, despite being a new entrant. The company commenced operations in July 2022, and recorded revenue of Rs. 9.7 crore in 11M FY2023. The company has a healthy order book of Rs. 17.7 crore with Central Drugs Standard Control Organisation (CDSCO) approval, which would support the company's growth in FY2024. In addition, it has Rs. 33.4-crore orders for which it has applied to CDSCO for approval.

The rating is constrained by ARPL's small scale of operations and operational loss in FY2023. However, ICRA expects the company to record healthy revenue growth in FY2024, albeit on a small base, which is expected to support improvement in earnings. The timely and significant ramp-up of operations remains crucial for improving the company's credit profile. The rating is further constrained by intense competition in the clinical research industry and exposure of operations to the high regulatory risks in the industry.

The Stable outlook on the rating reflects ICRA's expectation that the entity will ramp up its operations given its healthy order book, which would support improvement in earnings and debt protection metrics.

### Key rating drivers and their description

#### Credit strengths

**Long track record and experience of promoters for more than two decades** – The promoters of the company have a long track record and experience of more than two decades in the clinical research industry. The promoters' experience in the industry has resulted in established relationships of the management with several reputed pharmaceutical companies, which is expected to support order inflow.

**Favourable research unit location** – The research unit is located close to the key commercial centres in Hyderabad, providing access to a large catchment area.

#### Credit challenges

**Small scale of operations; timely and adequate ramp up of operations remains critical** – The company's scale of operations is expected to remain small despite a healthy revenue growth of 100-130% in FY2024. The company clocked revenues of Rs. 8.3 crore in 9M FY2023 and Rs. 9.7 crore in 11M FY2023. ICRA expects the company to generate revenues of Rs. 10.5–12.0 crore for full year FY2023. ARPL has a healthy order book of Rs. 17.7 crore with CDSCO approval, which would support the growth in FY2024. In addition, it has Rs. 33.4-crore orders for which it has applied to CDSCO for approval. Timely ramp up of operations while improving its profitability margins remains critical.

**High competition in the industry** – The growth of the Indian clinical research industry would be driven by increased outsourcing from international pharmaceutical companies and new drug launches by Indian companies. Cost pressures faced by pharmaceutical companies are creating the need to implement cost cutting measures across operations. The growth in outsourcing of clinical trials will be closely paralleled with the growth in R&D spending of pharmaceutical companies. The industry consists of many players who are compliant with regulatory authorities, resulting in intense competition.

**Susceptibility of operations to regulatory risks** – The clinical research industry is exposed to high regulatory risk wherein the Clinical Research Organization (CRO) has an important responsibility to ensure safety of its subjects upon whom the various clinical trials/ studies are conducted. The Ministry of Health and Family Welfare, Government of India, has a pre-defined patient compensation guideline in case of clinical trials along with compensation for any unforeseen injury or unfortunate death caused during the trials conducted in India. Any adverse impact on the health of a subject during the trials could discredit the CRO and may lead to investigation and subsequent action from regulatory authorities, thereby severely impacting its business. Furthermore, CROs require various approvals, licenses, registrations and permissions for their routine business activities. The approval process is also complex, lengthy and expensive. Any delay or failure in getting approvals could adversely affect the business prospects of the company.

### Liquidity position: Stretched

The company's liquidity position is stretched, as reflected in the limited buffer of Rs. 0.1 crore available in the working capital limit as on January 31, 2023, and low cash and bank balances of Rs. 0.1 crore as on December 31, 2022. ARPL's retained cash flows are expected to be in the range of Rs. 0.3–0.9 crore against repayment obligations of Rs. 0.7 crore in the next 12 months.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if there is a significant ramp up of operations leading to healthy operating margins and improved liquidity position on a sustained basis.

**Negative factors** – Negative pressure on ARPL's rating could arise if slower-than anticipated scale up of operations impacts earnings and cash flow position or affects its liquidity position.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

### About the company

Advity Research Private Limited was incorporated on September 03, 2021, by Dr. Rajendra Prasad and four other directors. The company is an Independent Global Clinical Research Organization, which offers a range of clinical research solutions including clinical trials, Bio Availability and Bio Equality (BA/BE) studies, pharmacovigilance, etc., to various pharmaceutical companies. The company has set up its clinical research facility at Kukatpally, Hyderabad, with a 94-bed capacity and five special intensive care (SIC) units. The research unit is Good Manufacturing Practices (GMP) compliant and CDSCO approved.

## Key financial indicators (audited)

Standalone	FY2022	9MFY2023*
Operating income (Rs. crore)	-	8.3
PAT (Rs. crore)	-	(1.6)
OPBDITA/OI	-	(15.5%)
PAT/OI	-	(19.7%)
Total outside liabilities/Tangible net worth (times)	-	1.1
Total debt/OPBDIT (times)	-	(3.9)
Interest coverage (times)	-	(4.4)

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; OI – Operating income; Amount in Rs crore;

\*Provisional numbers

## 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 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 13, 2023	Jul 08, 2022			
1 Term Loans	Long Term	10.00	6.6	[ICRA]BB-(Stable)	-	-	-	-
2 Unallocated	Long Term	0.00	-	-	[ICRA]BB-(Stable)	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term Loan	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: [Click Here](#)

#### Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	August 2022	-	July 2031	10.00	[ICRA]BB- (Stable)

Source: Company

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

#### Annexure II: List of entities considered for consolidated analysis – Not Applicable

## ANALYST CONTACTS

**Shamsher Dewan**

+91 12 44545300

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar K**

+91 44 45964318

[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Nithya Debbadi**

+91 40 45474829

[nithya.debbadi@icraindia.com](mailto:nithya.debbadi@icraindia.com)

**Raviteja Etikala**

+91 40 45474829

[etikala.teja@icraindia.com](mailto:etikala.teja@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



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