

March 30, 2023

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	7.29	[ICRA]A (Stable); Reaffirmed
Fund based - Cash credit	10.00	20.00	[ICRA]A1; Reaffirmed
Unallocated	2.97	-	-
Total	46.21	27.29	

*Instrument details are provided in Annexure-I

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 ratings reaffirmation considers improvement in the consolidated financial performance of TCGL in the current year, supported by a turnaround in CRPL's operations and a steady performance of the standalone entity. ICRA notes that, CRPL, after incurring losses in the last two years, has turned profitable at the operating level in FY2023, led by execution of high-margin order from Zoetis. CRPL's outstanding order book position of ~Rs. 100 crore provides revenue visibility in the near term. Also, CRPL is now focusing on high-margin orders to maintain cash accruals, going forward. TCGL's standalone operations remain steady with an estimated revenue growth of 15-20% in FY2023, along with healthy margins, which are expected to sustain in the near term. The ratings continue to consider 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. ICRA notes that in the current year, while CRPL has turned profitable at the operating level, TCG Greenchem will continue to incur operating level losses. Consequently, while the debt protection metrics of the standalone entity remain healthy, the same will remain impacted at the consolidated level. 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 also factor in TCGL's long-term relationships with its customers across geographies and stable business generated from such customers on a regular basis. 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 both CRPL and Greenchem is yet to witness steady generation of cash flows. The ratings are constrained by the exposure of TCGL's business to termination risks in the absence of take-or-pay condition 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 to an extent. It is 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 mainly denominated in the Indian currency. 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's performance would improve, led by improvement in subsidiaries' financial performance.

Key rating drivers and their description

Credit strengths

Healthy operational profile of the consolidated entity – TCGL, together with its subsidiaries, 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 TCG 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.

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 varied 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 despite improvement in CRPL's financial performance – CRPL, after incurring losses in the last two years has turned profitable at the operating level in FY2023, driven by execution of high-margin order from Zoetis. CRPL's outstanding order book position of ~Rs. 100 crore provides revenue visibility in the near term. CRPL is now focusing on high-margin orders to maintain its cash accruals, going forward, however, the sustainability of the same will be monitored. Additionally, TCG Greenchem started operations in FY2021 and is expected to incur operating losses in the current year as the operations have not yet stabilised. However, the company has entered into contracts with various customers, which provide long-term revenue visibility 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.

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 its business is a key risk. Also, TCGL's revenue is denominated in foreign currency, with exports accounting for ~95% of the 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 Group entities, 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 (WC) facilities during the current year. ICRA, however notes that WC as a percentage of its drawing power has almost been fully utilised, though the sanctioned limits are higher. While the company has moderate debt repayment obligations of of Rs. ~35-40 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 subsidiaries' 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 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, 2022, the company had two subsidiaries and one associate company, that are enlisted in Annexure 2.

About the company

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. It is a wholly-owned subsidiary of TCGL.

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	FY2021	FY2022
Operating income	286.7	380.7
PAT	24.3	-11.3
OPBDIT/OI	16.5%	16.6%
PAT/OI	8.5%	-3.0%
Total outside liabilities/Tangible net worth (times)	0.9	1.3
Total debt/OPBDIT (times)	5.1	4.8
Interest coverage (times)	2.9	3.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

CRPL Standalone	FY2021	FY2022	9M FY2023
Operating income	23.6	31.3	60.7
PAT	-17.0	-22.3	0.7
OPBDIT/OI	-46.7%	-47.6%	15.2%
PAT/OI	-72.3%	-71.1%	1.2%
Total outside liabilities/Tangible net worth (times)	10.4	12.6	
Total debt/OPBDIT (times)	-9.4	-7.6	
Interest coverage (times)	-1.4	-1.5	5.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Infomercs Ratings' credit rating on CRPL's bank lines remain in ISSUER NOT COOPERATING category as per its PR dated December 15, 2022 owing to lack of adequate information regarding the company's performance for monitoring of ratings.

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History or the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020		
				Mar 30, 2023	Feb 17, 2022	Jun 14, 2021	-	Feb 24, 2020	Jul 3, 2019	
1 Term loan	Long Term	7.29	7.29	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)		[ICRA]A (Stable)	[ICRA]A(SO) (Stable)	
2 Fund based - Cash credit	Short Term	20.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1		[ICRA]A1	[ICRA]A1(SO)	
3 Unallocated	Short Term	-	-	-	[ICRA]A(Stable)/ [ICRA]A1	[ICRA]A(Stable)/ [ICRA]A1				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund based - Cash credit	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2018 -FY2019	6.25-10.25%	FY2022 -FY2025	7.29	[ICRA]A(Stable)
NA	Fund based - Cash credit				20.00	[ICRA]A1

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	TCGL Ownership	Consolidation Approach
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 FY2022

Note: ICRA has taken a consolidated view of the parent (TCGL), its subsidiaries and associates while assigning the ratings.

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