

April 05, 2024

## Clininvent Research Pvt. Ltd.: Ratings reaffirmed; Outlook revised to Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term Loan	7.29	7.29	[ICRA]A; reaffirmed; Outlook revised to Negative from Stable
Short Term – Fund Based Facilities	20.00	20.00	[ICRA]A1; reaffirmed
<b>Total</b>	<b>27.29</b>	<b>27.29</b>	

\*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 revision in the long-term rating outlook considers weaker-than-expected performance of the entity in FY2024 owing to a slowdown in the US, which is a key market for TCGL as well as delay in execution of a few orders by CRPL. The standalone business of TCGL was impacted as the revenue is expected to decline to ~Rs. 370 crore in FY2024 from Rs. 410 crore in FY2023. The operating margin is also expected to moderate to 22% from 28.6% in FY2023. ICRA also notes that CRPL is expected to incur operating losses in FY2024 due to a delay in execution of few orders. ICRA also notes that in the current year, TCG Greenchem, a step-down subsidiary of TCGL, will continue to incur operating losses. Consequently, lower-than-anticipated profits adversely impacted the leverage and coverage metrics with OPBDITA/interest of 2-2.5 times expected in FY2024 compared to ~3.6 times in FY2023. However, the performance is likely to improve in FY2025 with the expected recovery in TCGL's standalone performance and higher revenue and profits expected in the subsidiaries. This is likely to improve the leverage and coverage metrics to an extent and will remain a key monitorable. 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.

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 generate steady cash flows. 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 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 largely 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 better financial results of the subsidiaries.

### 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 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.

**Financial flexibility for being a part of the 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

**Weaker-than-expected performance in FY2024; likely to improve in FY2025** – The TCGL standalone operations were impacted in FY2024, with a likely decline in revenues by ~10% owing to a slowdown in the US market, which is a key market for TCGL. At the consolidated level, CRPL's revenues were also impacted in FY2024 due to delay in execution of a few orders. Going forward, CRPL's outstanding order book position of Rs. 100-110 crore provides revenue visibility in the near term. However, sustainability of the same will be monitored. Additionally, TCG Greenchem started operations in FY2022 and is expected to incur operating losses in the current year as the operations have not yet stabilised. The consolidated operating margins are expected to reduce substantially in FY2024 due to operating losses at CRPL and TCG Greenchem. Consequently, the leverage and coverage metrics are also likely to be impacted in FY2024 with OPBDITA/interest of 2-2.5 times expected in FY2024 compared to ~3.6 times in FY2023.

However, the performance is expected to improve in FY2025 with the likely recovery in TCGL's standalone performance and higher revenue and profits expected in the subsidiaries. This will, however, remain a key monitorable. 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 business in such an environment is a key risk. Also, TCGL's revenue is denominated in foreign currency, with exports accounting for ~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 Group entities, which exposes TCGL to lending risk 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 utilisation of WC as a percentage of its drawing power has been almost fully utilised, while the sanctioned limits are higher. While the company has moderate debt repayment obligations 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 its 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 the 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 also lead to ratings downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Pharmaceuticals</a>
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, 2023, 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 (Good Manufacturing practices) 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	FY2022	FY2023
Operating income	357.9	546.0
PAT	6.6	26.6
OPBDIT/OI	20.7%	19.5%
PAT/OI	1.8%	4.9%
Total outside liabilities/Tangible net worth (times)	1.1	1.2
Total debt/OPBDIT (times)	4.2	3.3
Interest coverage (times)	4.0	3.6

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

CRPL Standalone	FY2022	FY2023
Operating income	31.3	83.3
PAT	-22.3	2.0
OPBDIT/OI	-47.6%	22.2%
PAT/OI	-71.1%	2.3%
Total outside liabilities/Tangible net worth (times)	12.6	9.8
Total debt/OPBDIT (times)	-7.6	5.5
Interest coverage (times)	-1.5	1.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Apr 5, 2024	-	Mar 30, 2023	Feb 17, 2022	Jun 14, 2021
1 Term Loan	Long term	7.29	5.24	[ICRA]A (Negative)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Fund Based Facilities	Short term	20.00	--	[ICRA]A1	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
3 Unallocated Limits	Long term/Short term	-	--	-	-	-	[ICRA]A (Stable)/ [ICRA]A1	[ICRA]A (Stable)/ [ICRA]A1

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Term Loan	Simple
Short Term – Fund Based Facilities	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	Long Term – Fund Based – Term Loan	FY2024	9.5%	FY2029	7.29	[ICRA]A (Negative)
NA	Short Term – Fund Based Facilities	-	-	-	20.0	[ICRA]A1

Source: Company; \*\*Sublimit of Short term – FB facilities

**Annexure II: List of entities considered for consolidated analysis**

Company Name	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 FY2023

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