July 03, 2019

Clininvent Research Pvt. Ltd.: [ICRA]A(SO)(Stable)/[ICRA]A1(SO) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	34.48	[ICRA]A (SO)/Stable; assigned
Fund based limit	10.10	[ICRA]A1(SO); assigned
Total	**44.58**	

Instrument details are provided in Annexure-1

Rationale

The structured obligation ratings assigned to the bank facilities of Clininvent Research Pvt. Ltd. (CRPL) factor in the credit enhancement in respect of the rated bank lines by way of an unconditional and irrevocable corporate guarantee provided by CRPL's parent, TCG Lifesciences Private Limited (TCGL, guarantor) for repayment of principal, interest and other charges payable for the bank facilities. ICRA also notes the supplementary undertaking provided by the guarantor to the lender to ensure servicing of the guaranteed debt on or prior to the due date, in the event of the borrower's (CRPL) inability to do so on its own, and irrespective of the invocation of the guarantee by the lender. The ratings derive comfort from a healthy credit profile of the guarantor (TCGL, rated at [ICRA]A (Stable)/ [ICRA]A1), considering the consolidated operational and financial profile of the TCGL Group, which includes TCGL and CRPL, because of the managerial, operational and financial linkages among the companies.

The ratings factor in TCGL's established position in the field of early stage drug discovery, its financial flexibility for being a part of The Chatterjee Group (TCG Group), its healthy operating profitability and a conservative capital structure. The ratings also consider TCGL's recent foray into the commercial scale manufacturing of new chemical entities (NCEs) through its 100% subsidiary, CRPL. The manufacturing set-up of the subsidiary has provided end-to-end service capability to the TCGL Group for its early stage drug discovery services and strengthen its position in the chemical synthesis and biological laboratory services as well. However, the manufacturing business is in an early stage and, therefore, faces risks of significant customer concentration. The ratings also factor in TCGL's long-term relationships with its customers across geographies and the stable business generated from these customers every year.

The ratings are, however, tempered by the low sales growth registered by TCGL in the past because of its capacity constraints. TCGL is currently in the process of expanding its laboratory facilities by incurring a capital expenditure of ~Rs. 50 crore, to be largely funded by debt. Despite this, ICRA estimates that the TCGL Group's overall gearing is unlikely to deteriorate significantly, going forward. According to ICRA's estimates, the expanded facility represents revenue uptick potential of ~20%. However, such an increase in the scale of operations would be exposed to threats of competition in the contract research business. As a result, the TCGL Group's ability to generate new business from existing customers as well as acquire new customers at profitable rates would be important.

TCGL's business is also exposed to termination risks in the absence of take-or-pay conditions in its contract research agreements. Nevertheless, long-term customer relationships and the healthy outsourcing budgets of these companies for early stage drug discovery services are likely to mitigate the risk of early termination of agreements, to an extent. TCGL's revenues and profits are exposed to the risk of foreign exchange fluctuations, as contract research rates are denominated in foreign currencies whereas the company's costs are largely denominated in rupees. Additionally, the TCGL Group's ability to recruit and retain talent would be a key rating sensitivity.

Outlook: Stable

ICRA believes that the TCGL Group will continue to benefit from its established position in the business of providing contract research services in the field of early stage drug discovery. The outlook may be revised to Positive if there is a sustained improvement in the scale with healthy business return indicators. The outlook may be revised to Negative if the quantum of capital expenditure of the TCGL Group becomes so large that it weakens its liquidity profile.

Key rating drivers

Credit strengths

Unconditional and irrevocable corporate guarantee for the rated bank lines of CRPL from its parent, TCGL – The rated bank line of CRPL is backed by an unconditional and irrevocable corporate guarantee provided by its parent, TCGL (guarantor), for repayment of principal, interest and other charges payable for the bank facilities. The ratings are also supported by the supplementary undertaking provided by the guarantor to the lender to ensure servicing of the guaranteed debt on or prior to the due date, in the event of the borrower's (CRPL) inability to do so on its own, irrespective of the invocation of the guarantee by the lender. The ratings also derive comfort from the healthy credit profile of the guarantor, TCGL.

Healthy business profile – The TCGL Group 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. Such capabilities provide the TCGL Group with a healthy business profile.

Financial flexibility for being a part of TCG Group – The TCGL Group has financial flexibility for being a part of the TCG Group.

Established relationship with a diversified customer base – The TCGL Group has developed a diversified customer base, which has been generating healthy revenue over the years. The customers are located across geographies, thereby mitigating the concentration risk to an extent. Customer concentration risk of CRPL (standalone) is, however, high.

Conservative capital structure and healthy debt coverage indicators – The TCGL Group has a conservative capital structure and healthy debt coverage indicators, which are unlikely to deteriorate significantly, going forward, despite the debt-funded capital expenditure that the TCGL Group is undertaking at present.

Credit challenges

Absence of take or pay in research contracts – TCGL's contract research agreements with its customers do not have a take-or-pay clause in them. This exposes the parent to the risks associated with contract termination. However, long-term relationships with the customers mitigate such risks, to an extent.

CRPL's early stage of manufacturing operations – CRPL started manufacturing NCEs in FY2018. Hence, the company is exposed to significant customer concentration risk, as on date.

Competitive business environment – The contract research business is competitive. Hence, the TCGL Group's ability to scale up business in such an environment is a key risk factor.

Low revenue growth registered in the past – TCGL's revenue had remained largely static in the past few years on account of capacity bottlenecks as well as loss of some key customers. The ability to grow the business profitably is a key rating sensitivity.

Exposed to unfavourable foreign exchange movement – The TCGL Group's revenues are largely denominated in foreign currency whereas its costs are largely denominated in rupees. This exposes revenues and profits to the risk of foreign currency movements.

Liquidity position

The TCGL Group's liquidity profile is likely to remain healthy because of increasing cash generation from the business. Moreover, the financial flexibility for being a part of the TCG Group is also likely to benefit.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Financial Consolidation and Rating Approach
Parent/Group Support	The ratings are based on an unconditional and irrevocable corporate guarantee provided by TCGL to the rated bank facility of CRPL.
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of TCGL. As on March 31, 2018, TCGL had two subsidiaries and one joint venture, that are enlisted in Annexure 2.

About the company

Incorporated in 2003, Clininvent Research Pvt. Ltd. (CRPL) is a wholly-owned subsidiary of TCG Lifesciences Private Limited (TCGL, rated [ICRA]A (Stable)/A1). CRPL manufactures cGMP active pharmaceutical ingredients (APIs, both NCEs as well as generic APIs) and GMP-ready regulatory starting materials (RSMs). The manufacturing unit started operations in FY2018, following takeover of an existing API manufacturing unit in Hyderabad, Telangana.

Incorporated in 1998 and promoted by The Chatterjee Group, TCG Lifesciences Private Limited (TCGL) provides contract research services mostly in the areas of early stage drug discovery and development. The company provides chemical synthesis services of small molecules, first level screening of drugs (in vitro testing) and small animal testing.

TCGL and CRPL are 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 (TCGL Consolidated, audited)

	FY2016	FY2017	FY2018
Operating Income (Rs. Crore)	161.9	167.1	181.0
PAT (Rs. Crore)	6.8	7.3	18.2
OPBDIT/ OI (%)	16.7%	17.3%	19.8%
RoCE (%)		5.6%	8.4%
Total Debt/ TNW (times)	0.5	0.5	0.6
Total Debt/ OPBDIT (times)	4.2	4.0	3.6
Interest Coverage (times)	3.6	4.4	4.1

Status of non-cooperation with previous CRA:

CRA	Status of Non-cooperation	Date of Press Release
Infomerics Ratings	Based on information available at the time of last review/surveillance, the agency has migrated the ratings to 'IVR A-(SO) with Stable outlook and IVR A2+ (SO) (IVR Single A Minus [Structured Obligation]) with Stable Outlook and IVR A Two Plus [Structured Obligation]) ISSUER NOT COOPERATING'. In line with the extant SEBI guidelines, the agency has reviewed the rating on the basis of the best available information which, however, in the agency's opinion is not sufficient to arrive at a fair rating. Long-term rating – IVR A- (SO)/Stable (Issuer Not Cooperating) Short-term rating – IVR A2+ (SO) (Issuer Not Cooperating)	May 17, 2019

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Jul 2019	Date & Rating in FY2019 -	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Term Loan	Long Term	34.48	34.48	[ICRA]A (SO) (Stable)	-	-	-
2	ST - FB Facilities	Short Term	10.10	10.00	[ICRA]A1 (SO)			

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2018-FY2019	4.5% - 10.5%	FY2020 – FY2023	34.48	[ICRA]A(SO)(Stable)
NA	ST - FB Facilities	-	-	-	10.10	[ICRA]A1(SO)

Source: Clininvent Research Pvt. Ltd.

Annexure-2: 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
Inventage Materials Private Limited	49.00%	Equity Method

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About ICRA Limited:

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