

February 24, 2020

Clininvent Research Pvt. Ltd.: [ICRA]A (Stable)/A1 ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	34.48	34.48	[ICRA]A (Stable); reaffirmed
Fund-based Limit	10.10	10.10	[ICRA]A1; reaffirmed
Total	44.58	44.58	

*Instrument details are provided in Annexure-1

Note: Previously the rating was [ICRA]A (CE) (Stable)/A1 (CE). The (CE) suffix mentioned alongside the rating symbol indicated that the rated instrument/facility was backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating was specific to the rated instrument/facility, its terms and its structure and did not represent ICRA's opinion on the general credit quality of the entity concerned. Post consolidation of the rating view for Clininvent Research Private Limited (CRPL) with that of its promoter TCG Lifesciences Private Limited (TCGL), the rating for CRPL stands at [ICRA]A (Stable)/A1.

Rationale

The reaffirmation of the ratings of the bank facilities of Clininvent Research Pvt. Ltd. (CRPL) considers the close operational and financial linkages between CRPL and its parent, TCG Lifesciences Private Limited (TCGL). While reaffirming the ratings, ICRA has taken a consolidated view of the entities. CRPL's ratings were earlier accompanied by the suffix CE (Credit Enhancement), which has now been removed with a change in the rating approach.

The ratings take into account 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), a healthy operating profitability and a conservative capital structure. The ratings also consider TCGL's presence in the commercial scale manufacturing of new chemical entities (NCEs) through CRPL. The manufacturing set-up of CRPL provides end-to-end service capability to the company 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 the risk of significant customer concentration. ICRA notes that CRPL has recently received the United States Food and Drugs Administration (USFDA) licence, which has widened the scope of its deliverables. TCGL is currently at an advanced stage of expanding its own laboratory facilities as well as the manufacturing facilities in CRPL by incurring a capital expenditure of ~Rs. 90 crore, largely funded by debt. Despite this, ICRA estimates the capital structure of the consolidated entity to remain comfortable. The ratings also factor in TCGL's long-term relationships with its customers across geographies and stable business generated from such customers every year. The manufacturing capability developed in CRPL is likely to help the consolidated entity in widening its service and product reach to these customers. ICRA has noted TCGL's recent efforts to diversify its customer base. TCGL's customer concentration is likely to reduce further, going forward, with addition of a number of new customers in the current year.

The above strengths are off-set by exposure of TCGL's business 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 consolidated revenues and profits are 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 rupees. In the current year, ICRA expects the standalone performance of TCGL to be marginally better than in FY2019. However, increased overhead costs associated with obtaining the USFDA licence for CRPL and stagnant revenues would result in some deterioration in performance, both at the standalone and the consolidated levels. Consequently, the consolidated RoCE, which had been depressed due to loans and advances of ~Rs. 145 crore given to Group entities, is expected to witness further pressure. Going forward, benefits of the USFDA licence, coupled with increased business from expanded facilities, are expected to support the performance of CRPL. However, any further exposure to Group entities and/or write-off of existing loans could have an impact on the consolidated financial profile of TCGL.

CRPL's Stable outlook is based on ICRA's expectation that the consolidated entity would continue to benefit from its established position in the business of providing contract research and manufacturing services in the field of early stage drug discovery. Nonetheless, the company's ability to generate new business from existing customers as well as add new customers at profitable terms would be the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Healthy business profile – TCGL, together with CRPL, 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 consolidated company with a healthy business profile.

Financial flexibility for being a part of TCG Group – TCGL, and hence CRPL, has the 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, mitigating concentration risk to an extent.

Conservative capital structure and healthy debt coverage indicators – TCGL has a conservative consolidated capital structure and healthy debt coverage indicators, despite the debt-funded capital expenditure that the company is undertaking at present.

Credit challenges

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 parent to the risks associated with contract termination. However, long-term relationships with customers mitigate such risks, to an extent.

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

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

Exposure to unfavourable foreign exchange movement – TCGL’s revenue is denominated in foreign currency 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 other Chatterjee Group companies, which exposes TCGL to lending risks associated with such companies.

Liquidity position: Adequate

TCGL’s liquidity is Adequate because of its healthy consolidated cash flow from operations, adequate cash balance and unutilised working capital lines of ~Rs 45 crore. The company has annual consolidated external debt repayment liabilities of Rs ~20-22 crore in the next two financial years. ICRA expects TCGL to generate adequate cash flows vis-a-vis its debt repayment liabilities even under a stretched scenario of low sales growth at the 100% subsidiary.

Rating sensitivities

Positive triggers – ICRA may upgrade the TCGL Group’s ratings if the consolidated entity continues to register a steady growth in business with a healthy core return of capital employed. Also, the debt service indicators (consolidated) need to be sustained at the current level.

Negative triggers – Pressure on the TCGL Group’s ratings may arise if there is a sustained loss in clients, leading to a negative income growth. A delay in turnaround of the financials of CRPL may also be a trigger for a rating downgrade. Large debt-funded capex compared to the TCGL Group’s current scale and/or any increase in exposure to other Chatterjee Group entities or any write-off of current investments in Group entities can lead to a rating 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 rating, ICRA has taken a consolidated view of TCG Lifesciences Private Limited and Clininvent Research Private Limited. The rating is based on the consolidated financial profile of the TCGL Group. As on March 31, 2019, TCGL had two subsidiaries and one joint venture, that are enlisted in Annexure 2

About the company

Incorporated in 2003, Clininvent Research Private Limited (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, 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.

CRPL reported a standalone net profit of Rs. 5.31 crore on an operating income of Rs. 78.0 crore in FY2019 against a net loss of Rs.2.1 crore on an operating income of Rs. 15.9 crore in FY2018. TCGL had registered a consolidated profit after tax of Rs. 28.8 crore on the back of an operating income of Rs. 266.2 crore in FY2019.

Key financial indicators (TCGL consolidated, audited)

	FY 2017	FY 2018	FY 2019
Operating Income (Rs. crore)	167.1	181.0	266.2
PAT (Rs. crore)	7.3	18.2	28.8
OPBDIT/ OI (%)	17.3%	19.8%	26.6%
RoCE (%)	5.6%	8.4%	13.4%
Total Debt/ TNW (times)	0.5	0.6	0.8
Total Debt/ OPBDIT (times)	4.0	3.6	2.8
Interest coverage (times)	4.4	4.1	6.4
DSCR	1.19	1.28	1.71

Source: TCG Lifesciences Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					24-Feb 2020	03-Jul-2019	-	-
1	Term Loan	Long Term	34.48	34.48	[ICRA]A (Stable)	[ICRA]A (CE) (Stable)	-	-
2	ST - FB Facilities	Short Term	10.10	10.00	[ICRA]A1	[ICRA]A1 (CE)	-	-

Amount in Rs. Crore

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	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 (Stable)
NA	ST - FB Facilities	-	-	-	10.10	[ICRA]A1

Source: Clininvent Research Private Limited

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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