

April 22, 2021

Tenshi Kaizen Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	90.00	90.00	[ICRA]BBB-(CE) (Negative); reaffirmed
Total	90.00	90.00	

Rating Without Explicit Credit Enhancement	[ICRA]BB
---	-----------------

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by Tenshi Life Sciences Private Limited (Tenshi; rated [ICRA]BBB- (Negative)/[ICRA]A3), the parent of Tenshi Kaizen Private Limited (Kaizen), for the rated bank facilities programme. The Negative outlook on the rating reflects ICRA's outlook on the rating of the guarantor, i.e. Tenshi.

Adequacy of credit enhancement

For assigning the above rating, ICRA has assessed the attributes of the corporate guarantee provided by Tenshi for the rated bank facilities of Kaizen. The guarantee is legally enforceable, irrevocable, unconditional, and covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by Tenshi is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]BBB-(CE) against the rating of [ICRA]BB without explicit credit enhancement. In case the rating of the guarantor undergoes a change in future, the same would reflect in the rating of the aforesaid instrument. The rating of the instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- » The debt availed by Kaizen from group companies/associates/promoters is to be subordinated to the bank debt both in terms of interest and as well as principal repayments throughout the tenure of the bank debt.
- » The shareholding of Mr. Arun Kumar in Kaizen should not be less than 51% on a fully-diluted basis.
- » Any debt-funded acquisition or expansion requires the prior approval of the banker.
- » Any shortfall in debt servicing (interest and principal) has to be funded through equity.

Key rating drivers and their description

Credit strengths

Explicit support in the form of corporate guarantee from Tenshi – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by the guarantor, Tenshi.

Financial flexibility enjoyed due to regular equity infusions from shareholders – On a fully-diluted basis, Tenshi held an 80.54% stake in Kaizen as on December 18, 2020. Kaizen has received regular equity infusions and debt from its promoter group towards the setting up of its facilities in Bengaluru, Mysore, and New Jersey and for its research and development (R&D) expenses. The company is also expected to raise additional equity on a need basis.

Development of patented products in probiotics and RDT segment – Kaizen is developing rapid dissolving tablets (RDTs; for paediatric and geriatrics) for allergies, which dissolve in the mouth within 3 seconds. ICRA understands that this new method of drug delivery can be applied to existing drugs in the market. Kaizen has also signed agreements with multiple pharmaceutical companies and has started receiving licensing income for the same. The company has expanded its Bengaluru facility for the commercial manufacturing of RDTs and is expected to commence operations in FY2022. Kaizen's research-driven probiotics venture, Triphase Pharmaceuticals, offers patented high temperature probiotic strains for food, confectionary and dietary supplements. These patented and niche technologies are expected to support the company's business prospects and the commencement of commercial operations, going forward, is likely to drive revenue growth.

Credit challenges

Delay in commencement of commercial operations – Kaizen was supposed to commence commercial operations of RDTs in New Jersey in H1 FY2021; however, owing to the Covid-19 pandemic, the US Food and Drug Administration (FDA) inspection of the New Jersey facility was delayed. The company added incremental capacities in H2 FY2021 to its already existing low-scale US FDA-approved facility in Bengaluru, which is expected to comfortably cater to its customer requirements for the next two years. Going forward, ICRA expects Kaizen to manufacture RDTs at the Bengaluru facility until it receives approval for the New Jersey facility, which is likely to drive revenues going forward.

Financial profile characterised by elevated debt levels – The company's financial profile is characterised by high debt levels owing to the significant investment for the construction of its facilities in Bengaluru, New Jersey, and Mysore and for its R&D expenses. As on March 31, 2020, on a consolidated basis, Kaizen's o/s debt stood at Rs. 246.2 crore (Rs. 205.7 crore of bank debt and Rs. 40.5 crore of promoter debt) with a gearing of 1.8 times (1.6 times as on March 31, 2019). Further, the o/s debt as on March 31, 2021 is expected to increase due to the drawdown of debt to complete the pending capex across facilities and for incremental capacity addition in Bengaluru. However, with equity commitments from the promoters, the company's capitalisation indicators are likely to remain healthy.

Various market and regulatory risks associated with products developed by the company – In line with the industry, the company faces regulatory risks in the regulated markets. However, an experienced promoter group with more than three decades of experience in the industry supports operational efficiencies. Additionally, the US FDA approval for the formulations facility in New Jersey is yet to be received. ICRA expects a further delay gaining approval, given the ongoing pandemic situation, which is likely to restrict the scale of operations to a certain extent. Meanwhile, any disruptions arising from the increasing Covid-19 cases will remain a key near-term monitorable.

Liquidity position

For the support provider (Tenshi): Stretched

On a consolidated basis, Tenshi's liquidity position is stretched with negative cashflow from operations, sizeable investments in the portfolio companies and the capital expenditure programme for FY2022 (funded by a mix of debt and equity). Based on the current debt profile, repayments are expected to be Rs. 48.5 crore in FY2022, Rs. 82.3 crore in FY2023 and Rs. 71.4 crore in FY2023. The company had a cash balance of ~Rs. 53 crore as on April 14, 2021 and is expected to receive ~Rs. 79 crore in

the near term, supporting its liquidity position to a certain extent. Even though some of the portfolio companies are in a nascent stage and the rest are yet to commence commercial operations, ICRA expects Tenshi to be able to meet its near-term commitments through the available cash balances, internal accruals and fresh capital from the promoter group on a need basis.

For the rated entity: Stretched

Kaizen’s liquidity is stretched with negative cashflows from operations and moderate capex requirements in the next 2-3 years. As per the current debt profile, repayments are expected to be Rs. 34.9 crore in FY2022, Rs. 63.6 crore in FY2023, and Rs. 63.6 crore in FY2024. ICRA expects the company to be able to service its debt repayments and other commitments via equity infusions until it commences operations and begins generating revenues. Overall, ICRA expects Kaizen to be able to meet its near-term commitments through need-based promoter support.

Rating sensitivities

Positive factors: The rating would remain sensitive to any movement in the ratings or outlook of the guarantor, Tenshi.

Negative factors: The rating would remain sensitive to any movement in the ratings or outlook of the guarantor, Tenshi.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	The assigned rating is based on the unconditional and irrevocable corporate guarantee extended by Tenshi
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

Tenshi Kaizen Private Limited, formerly known as Higher Pharmatech Private Limited, was incorporated on April 2, 2007. It is currently setting up facilities for the development and manufacturing of formulations and probiotics for sale in global markets. Kaizen is backed by promoters, Mr. Arun Kumar and Mr. Venkat S Iyer, who have in-depth knowledge of the pharmaceutical industry and a track record of incubating and developing pharmaceutical businesses. Kaizen has an R&D and US FDA-approved manufacturing facility in Harohalli, Bengaluru, and a probiotics manufacturing facility in Mysore. It also has a manufacturing plant in New Jersey, USA, which is expected to commence commercial operations post receipt of US FDA approval.

About the guarantor

Incorporated in FY2017, Tenshi is promoted by Mr. Arun Kumar, who holds a 61.26% stake in the company directly and a stake of more than 75% through his family office (as on March 31, 2020). He has more than three decades of experience in the pharmaceutical industry and is the founder of Strides Pharma Science Limited (rated [ICRA]A+ (Stable) /A1). The company has various subsidiaries catering to several segments of the pharmaceutical industry ranging from R&D to product development, spread across India and USA. The manufacturing plants and R&D centres of these companies are in Bengaluru, Hyderabad, Mysore, Vizag, Rudrapur and New Jersey. Tenshi sold its stake in its majority revenue-generating company, viz Sterling Pharma Solutions Limited (Sterling), in FY2019. It sold a 50% stake in HAPS (holding entity of Aurore Life and Aurore Pharma) to iLabs Capital in FY2020 and the remaining 50% to Mr. Kumar’s family office in FY2021.

Key financial indicators (audited) - Kaizen

Kaizen	FY2019	FY2020
Operating Income (Rs. crore)	6.6	4.0
PAT (Rs. crore)	-24.4	-33.7
OPBDIT/OI (%)	-139.0%	-422.0%
PAT/OI (%)	-369.5%	-844.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.8	2.4
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM

Source: Company, ICRA research; **Note:** Amount in Rs. crore; All calculations are as per ICRA research; NM – Not meaningful

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

* 9M FY2021 financials are unaudited

Key financial indicators (audited) - Tenshi

Tenshi Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	204.8	116.6
PAT (Rs. crore)	778.5	-79.9
OPBDIT/OI (%)	-13.7%	-36.1%
PAT/OI (%)	380.1%	-68.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	1.2
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM

Source: Company, ICRA research; **Note:** Amount in Rs. crore; All calculations are as per ICRA research; NM – Not meaningful

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	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2020 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
1 Term Loan	Long Term	90.00	82.10	Apr 22, 2021 [ICRA]BBB-(CE) (Negative)	--	Mar 25, 2020 [ICRA]BBB-(CE) (Negative)	Nov 16, 2018 [ICRA]BBB(SO) (Stable)

*Sublimit of long-term fund based

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 Loans	FY2018	10.75%	FY2025	90.00	[ICRA]BBB-(CE) (Negative)

Source: Company; sublimit of long-term fund based

Annexure-2: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Mythri Macherla
+91 80 4332 6407
mythri.macherla@icraindia.com

Mithun Hegde
+91 80 4332 6411
mithun@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.