

April 22, 2021

Tenshi Life Sciences Private Limited: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---------------------------------------|--------------------------------------|-------------------------------------|---------------------------------------|
| Issuer Rating | - | - | [ICRA]BBB- (Negative); reaffirmed |
| Long Term/ Short Term – Fund Based | 1.25 | 1.25 | [ICRA]BBB- (Negative)/ A3; reaffirmed |
| Total | 1.25 | 1.25 | |

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of Tenshi Life Sciences Private Limited's (Tenshi) ratings continues to factor in the extensive experience of the promoter group, its demonstrated ability to raise equity and its track record of acquiring struggling companies, turning them around and exiting at a profit as demonstrated by the sale of Sterling Pharma Solutions Limited (Sterling) in February 2019. The ratings also factor in the financial flexibility and operational support enjoyed by Tenshi as one of the key investment companies of the promoter group. Tenshi's portfolio companies have also attracted private equity and strategic investors with an equity infusion of Rs. 125 crore in Naari Pharma Pvt. Ltd. (Naari; Rs. 100 crore raised in FY2020 and Rs. 25 crore in FY2021) by Ascent Capital, USD 155-million equity raised at Stelis Biopharma Private Limited (Stelis; Q4 FY2021) by multiple investors and a proposed equity raise at Steriscience Specialties Private Limited (Steriscience) by a strategic investor in the near future. ICRA expects the overall cash outflow/incremental investments by Tenshi in its portfolio companies to be relatively lower in the next two years on the back of the equity raised by the individual entities. ICRA also factors in Tenshi's presence in various segments of the pharmaceutical supply chain with Naari catering to woman's healthcare (active pharmaceutical ingredients (APIs) and formulations), Tenshi Kaizen Private Limited (Kaizen) engaged in the development of probiotics and proprietary technology platforms such as rapid dissolving tablets (RDTs, formulations), the recent entry in the injectables segment via Steriscience and the development of biosimilars at Stelis.

The ratings remain constrained by Tenshi's stretched financial profile owing to the nascent stage of operations of the portfolio companies providing limited visibility on the profitability in the near to medium term. Tenshi is also exposed to various regulatory and market risks, given its operations in regulated markets. The portfolio companies have faced delays in product and facility approvals {US Food and Drug Administration (FDA)} owing to the Covid-19 pandemic. ICRA also notes that Tenshi's financial profile depends significantly on the performance of its subsidiaries, which cater to the entire pharma supply chain aided by research and development (R&D) centres, manufacturing facilities and go-to-market strategies across various therapeutic segments in the pharmaceutical industry. ICRA also notes that Tenshi divested its entire stake in the majority revenue-generating entity, Hydra Active Pharma Sciences Pvt Ltd (HAPS), through which it held Aurore Life Sciences Pvt Ltd and Aurore Pharmaceuticals Private Limited, which are pure-play API companies.

ICRA maintains its Negative outlook on Tenshi due to the nascent stage of operations of its portfolio companies, the expectation of further delays in US FDA approvals owing to the recent increase in Covid-19 cases across the world and the stretched credit metrics. Going forward, Tenshi's performance is expected to be dependent on the stabilisation of Naari's operations, the timeline for the commencement of commercial operations at Kaizen and Steriscience in addition to the pace of ramp-up in the operations of Stelis and Outlook Therapeutics Inc.

Key rating drivers and their description

Credit strengths

Fund raising aided by strong support from reputed promoter group – Tenshi is promoted by Mr. Arun Kumar and his family office. Mr. Kumar is the founder of Strides Pharma Science Limited (rated [ICRA]A+ (Stable)/A1) and has more than three decades of experience in the pharmaceutical business. Tenshi enjoys considerable financial flexibility and technical support from its promoter group. Its management has a track record of incubating and developing pharmaceutical businesses globally. The company's objective is to acquire struggling companies, turn around their operations, and exit the same at a profit. Tenshi has demonstrated this ability by making a profitable exit from Sterling in February 2019 for a total consideration of Rs. 1,220.9 crore wherein it realised a total gain of Rs. 860 crore. Going forward, ICRA expects the promoters to continue providing operational and need-based financial support to the portfolio companies.

Tenshi's portfolio companies also attracted private equity and strategic investors with an infusion of Rs. 125 crore in Naari by Ascent Capital (FY2020-FY2021), USD 155-million equity raise at Stelis by multiple investors (Q4 FY2021) and a proposed equity raise at Steriscience by a strategic investor. Going forward, ICRA expects the cash outflows/incremental investments at Tenshi to be relatively lower aided by the equity raised by the portfolio companies.

Presence in various segments of pharma supply chain with diversified and patented product portfolio – Tenshi is well positioned compared to its competitors due to its ability to cater to the entire lifecycle of product development. Each company held by Tenshi has a different product portfolio. While Naari caters to woman's healthcare, Kaizen develops probiotics and utilises proprietary technology platforms for the development of RDTs. Tenshi is also foraying into the injectables segment via Steriscience wherein it has already invested ~Rs. 115 crore for the purchase of an injectables manufacturing facility in Poland and entered into a joint venture (JV) with Brooks Laboratories Limited to set up a carbapenems manufacturing facility in Gujarat. Steriscience has two products under commercialisation with a third expected to be commercialised by Q2 FY2022. Steriscience has sizeable R&D expenditure in FY2022 with the same expected to be funded by a proposed equity raise by a strategic investor. Stelis develops biosimilars while Outlook Therapeutics (held through Biolexis Pte. Limited) is currently in a phase 3 clinical study of oncobiologics.

Geographically-diversified expansion approach – Tenshi is targeting different markets through its various portfolio companies, mitigating the risk arising from cyclicity in individual markets. While Naari currently caters to semi-regulated and unregulated markets, it will eventually be focusing on regulated markets such as the US. Kaizen, with its US FDA-approved facility in Bengaluru, is expected to cater to the regulated markets. Steriscience, post commencement of operations, is expected to cater to the US and European markets with a relatively lower presence in domestic and semi-regulated markets. ICRA expects Tenshi to benefit from the diversified approach, which reduces country-specific risks to an extent.

Credit challenges

Financial profile constrained by nascent stage of operations of portfolio companies; limited visibility on profitability over the near to medium term – Tenshi's financial profile is characterised by operating losses and the consequent poor debt metrics (negative TD/OPBDITA as on March 31, 2020 and negative interest coverage ratio in FY2020). Further, some of its portfolio companies like Kaizen, Outlook Therapeutics, and Steriscience are yet to commence commercial operations while Naari and Stelis are in the nascent stage of operations. A few of Tenshi's portfolio companies are investing in R&D, leading to losses at the company level with a low operating income of Rs. 116.6 crore posted in FY2020. Over the near to medium term, Tenshi's business prospects and profitability are expected to be dependent on the stabilisation of Naari's operations and the commencement of commercial operations at Kaizen and Steriscience.

Sale of key revenue-generating entity – Tenshi previously held a 100% stake in HAPS through which it held majority stakes in Aurore Life and Aurore Pharma. However, in FY2020, it sold 50% of its stake in HAPs to iLabs Capital and the balance 50% in FY2021 to Mr. Kumar's family office. Tenshi derived 54.9% of its revenues in FY2019 and 29.2% of its revenues in FY2020 (only 2 months' revenue considered in the top line while it is consolidated on equity basis for the remaining 10 months) from Aurore

Life. Going forward, with Kaizen and Sterisience yet to commence commercial operations and Naari expected to stabilise, Tenshi is likely to continue incurring losses.

Exposure to various market and regulatory risks associated with products developed by the company – In line with the industry, the company faces regulatory concerns in the regulated markets. In FY2021, Tenshi's portfolio companies such as Naari and Kaizen faced delays in product approvals and in US FDA approval for their manufacturing facilities owing to the pandemic. However, the company had started receiving product approvals in H2 FY2021 and the US FDA has begun facility inspections in India for other pharmaceutical players. ICRA expects a further delay in the receipt of approvals, given the ongoing pandemic situation. Meanwhile, any disruptions arising from the increasing Covid-19 cases will remain a key near-term monitorable.

Liquidity position: Stretched

On a consolidated basis, Tenshi's liquidity position is stretched with negative cashflow from operations, sizeable investments in 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.

Rating sensitivities

Positive factors – Given the Negative outlook, a rating upgrade is unlikely in the near term. However, ICRA could revise Tenshi's outlook on stabilisation in the performance of the portfolio companies, thereby improving Tenshi's credit profile on a sustained basis.

Negative factors – Pressure on the ratings could arise with a delay in the turnaround of the operations of the portfolio companies leading to continued cash losses, deterioration in the credit profile of Tenshi and/or inadequate/lack of timely funding support from the promoter group/third-party investors.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|--|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry |
| Parent/Group Support | Not Applicable |
| Consolidation/Standalone | For arriving at the ratings, ICRA has considered the consolidated financials of Tenshi. ICRA has taken a consolidated view of Tenshi Life Sciences Private Limited (Tenshi) comprising Kaizen (rated [ICRA]BBB- (CE) (Negative)), Naari (rated [ICRA]BBB- (CE) (Negative))/[ICRA]A3(CE)), Biolexis, Stelis (rated [ICRA]A (CE) (Stable)), Sterisience and various other entities (refer annexure 2). Biolexis is the holding company of Outlook Therapeutics. |

About the company

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)

| 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 March 31, 2021 (Rs. crore) | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 | | Date & Rating in FY2019 | |
| | | | | | | | Mar 25, 2020 | Jun 14, 2019 | Dec 3, 2018 | Oct 29, 2018 |
| 1 | Issuer rating | Long term | -- | -- | [ICRA]BBB- (Negative) | - | [ICRA]BBB- (Negative) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) |
| 2 | Fund-based bank facilities | Long term/ short term | 1.25 | -- | [ICRA]BBB- (Negative)/ [ICRA]A3 | - | [ICRA]BBB- (Negative)/ [ICRA]A3 | [ICRA]BBB (Stable)/ [ICRA]A3+ | [ICRA]BBB (Stable)/ [ICRA]A3+ | - |

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 | Issuer rating | - | - | - | - | [ICRA]BBB- (Negative) |
| NA | Fund based | November 22, 2018 | - | - | - | [ICRA]BBB- (Negative)/ [ICRA]A3 |

Source: Company

Annexure-2: List of entities considered for consolidated analysis

| Company Name | Tenshi Ownership as on March 31, 2020 | Consolidation Approach |
|---|---------------------------------------|------------------------|
| Hydra Active Pharma Sciences Private Limited* | 50.00% | Equity method |
| Tenshi Pharmaceuticals Private Limited | 99.83% | Full Consolidation |
| Tenshi Life Care Private Limited | 51.00% | Full Consolidation |
| Aurore Life Sciences Private Limited* | 37.16% | Equity method |
| Naari Pharma Private Limited | 60.00% | Full Consolidation |
| Tenshi Kaizen Private Limited | 7.75% | Full Consolidation |
| Tenshi Kaizen Inc | 99.95% | Full Consolidation |
| Tenshi Kaizen USA Inc. | 100.00% | Full Consolidation |
| Tenshi Life Science Pte Limited | 100.00% | Full Consolidation |
| Navad Life Sciences Pte Limited | 60.00% | Full Consolidation |
| Tenshi Kaizen Pharma Pte Limited | 100.00% | Full Consolidation |
| Tenshi Kaizen UK Private Limited | 100.00% | Full Consolidation |
| Tenshi Kaizen Canada Limited | 100.00% | Full Consolidation |
| Tenshi Kaizen Netherlands Limited | 100.00% | Full Consolidation |
| Tenshi Kaizen Australia Limited | 100.00% | Full Consolidation |
| Tenshi KSM Private Limited | 100.00% | Full Consolidation |
| Tenshi Healthcare Private Limited | 100.00% | Full Consolidation |
| Empyrean Lifesciences Private Limited | 100.00% | Full Consolidation |
| Naari UA Pte Limited | 60.00% | Full Consolidation |
| Naari Pte Limited | 60.00% | Full Consolidation |
| NAARI BV, Netherlands | 100.00% | Full Consolidation |
| SOP Pharma LLC, USA | 37.30% | Equity method |
| Stelis Pte Limited | 100.00% | Full Consolidation |
| Stelis LLC, USA | 100.00% | Full Consolidation |
| Aurore Pharmaceuticals Private Limited* | 44.89% | Equity method |
| Triphase Pharmaceuticals Private Limited | 60.00% | Full Consolidation |
| Biolexis Pte Limited | 50.00% | Equity method |
| Stelis Biopharma Private Limited [#] | 31.15% | Equity Method |
| Outlook Therapeutics Inc. | 59.50% | Equity Method |

Source: Tenshi consolidated financials FY2020

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

* Tenshi completely divested its stake in Hydra Active Pharma, Aurore Life and Aurore Pharmaceuticals in FY2021; going forward, these entities are not considered for consolidation

[#] Tenshi's shareholding in Stelis is 19.66% as on March 11, 2021

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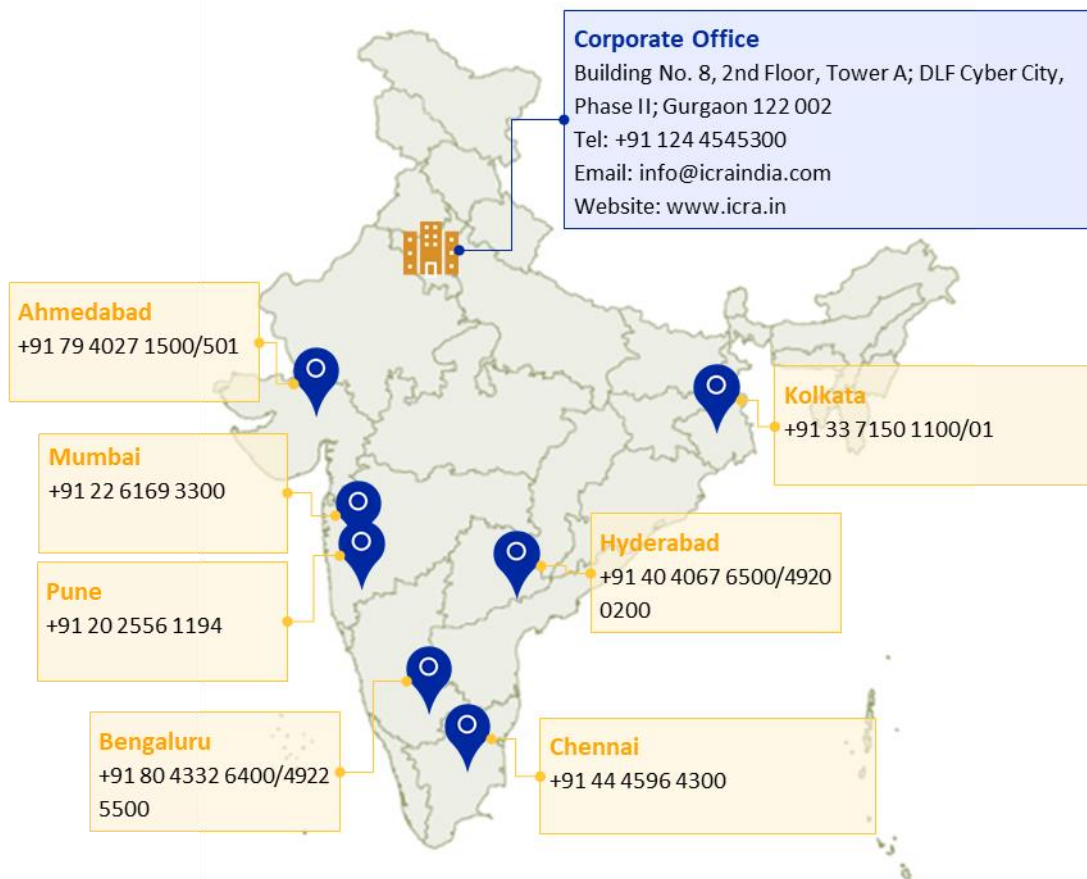


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