

July 28, 2022

Tenshi Life Sciences Private Limited: Ratings downgraded; outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BB+(Stable); downgraded from [ICRA]BBB-(Negative)
Long Term/ Short Term – Fund Based	1.25	1.25	[ICRA]BB+(Stable)/[ICRA]A4+; downgraded from [ICRA]BBB- (Negative)/[ICRA]A3
Total	1.25	1.25	

*Instrument details are provided in Annexure-1

Rationale

The ratings downgrade factors in the continuation of losses in the portfolio companies of Tenshi Life Sciences Private Limited (Tenshi/the company) owing to a delay in commencement of anticipated operations in Tenshi Kaizen Private Limited (Kaizen) and weaker-than-expected performance in Naari Pharma Private Limited (Naari). The financial profile of Tenshi, which depends significantly on the performance of its subsidiaries remains stretched owing to its nascent stage of operations providing limited visibility on the profitability in the near to medium term. The ratings also consider the company's investment in Stelis Biopharma Private Limited (Stelis) of ~Rs 226 crore till date and further equity commitment of ~Rs 104 crore, which is expected be funded through debt at Tenshi. While Stelis' contract manufacturing operations achieved a break-even at OPBDITA level from Q3 FY2022, commencement of cash flows from the vaccine operations have taken longer than expected due to the ongoing geopolitical tensions in eastern Europe and Russia. 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 by the US Food and Drug Administration (USFDA) due to the pandemic. The timelines for the receipt of approvals remain a key monitorable.

However, the ratings continue 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. ICRA 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), Kaizen engaged in the development of proprietary technology platforms such as rapid dissolving tablets (RDTs, formulations), the entry in the injectables segment via Steriscience Specialties Private Limited and the development of biosimilars and vaccines at Stelis. The ratings also factor in the financial flexibility and operational support enjoyed by Tenshi as one of the key investment companies of the promoter. Further, one of the portfolio companies, Steriscience Specialties Private Limited and Steriscience Pte Ltd (through Six Rays Holdings Pte Ltd; collectively referred as Steriscience) has received equity infusion of ~\$44 million in FY2022 from private equity investor Medella Holdings Pte. Ltd. (affiliate of TPG group). However, Tenshi's liquidity position remains stretched with negative operational cash flows and continued reliance on promoter for funding the losses in the portfolio companies.

ICRA notes that while the company has invested ~Rs 178 crore as on March 31, 2022, in Biolexis Pte. Ltd. (which holds stake in Outlook Therapeutics Inc.), it expects to liquidate the investments over the medium term.

Key rating drivers and their description

Credit strengths

Fund-raising aided by support from reputed promoter group – Tenshi is promoted by Mr. Arun Kumar and his family. Mr. Kumar is the founder of Strides Pharma Science Limited (rated [ICRA]A (Negative)/A2+) 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. In the past, Tenshi's portfolio companies have 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). Further, ~\$44 million was infused in Steriscience by TPG group in FY2022; the company has further equity commitment of ~\$25 million from TPG. ICRA expects the cash outflows/incremental investments at Tenshi to be relatively lower, aided by the equity raised by the portfolio companies, except for Stelis going forward.

Presence in various segments of pharma supply chain with diversified 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 utilises proprietary technology platforms for the development of RDTs, Stelis is into development of biosimilars (and vaccines) and Steriscience caters to the injectables segment. Steriscience had sizeable R&D expenditure and capital expenditure (for purchase of manufacturing facilities and purchase of approved ANDAs from Mylan Inc.) in FY2022 which was funded by the TPG equity. While it has a carbapenem manufacturing facility in Gujarat through a joint venture (JV) with Brooks Laboratories Limited, product approvals for regulated markets are expected to be received in FY2023. It has also entered into a contract manufacturing agreement with Mylan Inc. for a tenor of three years, for which Steriscience has received facility fees of \$46.8 million. Steriscience is expected to launch ~9-10 products in the regulated markets in FY2023, which will support its in-house injectable business prospects, however timelines for the same remain monitorable.

Geographically-diversified business expansion – Tenshi is targeting different markets through its various portfolio companies, mitigating the risk arising from cyclicality 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 USFDA-approved facility in Bengaluru, is expected to cater to the regulated markets. Steriscience 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, 2022, and negative interest coverage ratio in FY2022). Further, its portfolio companies such as Kaizen, Naari, Stelis and Steriscience are still in the nascent stage of operations. While Kaizen was expected to commence its operations from the New Jersey facility in FY2022, the same did not happen due to pandemic restrictions. As the US plant is not operational, Kaizen began capacity expansion in Bangalore (project cost of Rs 183 crore; partly funded by debt) which is expected to support the ramp-up in its operations. Further, Kaizen's probiotics development plans are currently on hold. While Naari was expected to ramp-up its operations in FY2022 with improvement in profitability, it witnessed contraction in OPM due to lower-than-expected sales in margin-accretive formulation business. ICRA notes that Tenshi's portfolio companies are continuing to generate losses at standalone level due to investments in R&D and initial phase of operations. On a consolidated basis, in FY2022, Tenshi continued to witness losses with low operating income of ~Rs. 208 crore

(Rs 153.8 crore in FY2021). Over the near to medium term, Tenshi's business prospects and profitability are expected to be dependent on the stabilisation of operations at Kaizen, Steriscience and Naari.

Investments in Stelis, wherein commencement of vaccine operations is delayed – Till date, Tenshi has made significant investments of ~Rs 226 crore and has also subscribed to partly paid-up shares in Stelis in the last fund-raising round in March 2021 to the extent of ~Rs 104 crore. While the contract manufacturing business of Stelis has broken even at OPBDITA level from Q3 FY2022, the commencement of vaccine operations has been delayed on account of geopolitical tensions. Further delay in commencement of operations leading to operational losses and any incremental funding required for development of biosimilars would remain key monitorable.

Exposure to various market and regulatory risks associated with products developed by the company – Akin to industry players, the company faces regulatory concerns in the regulated markets. In FY2021 and FY2022, Tenshi's portfolio companies such as Naari and Kaizen faced delays in product approvals and US FDA approvals for their manufacturing facilities owing to the pandemic. However, the company had started receiving certain product approvals from FY2022 and the USFDA has initiated facility inspections. The receipt of approvals will remain a key monitorable for the ramp-up in its operations.

Liquidity position: Stretched

On a consolidated basis, Tenshi's liquidity position is stretched with negative cash flow from operations, sizeable investments in portfolio companies and the capital expenditure programme for FY2023 (~Rs 175-180 crore; funded by a mix of debt and equity). Based on the current debt profile, repayments are expected to be Rs. 32.7 crore in FY2023, Rs. 55.2 crore in FY2024 and Rs. 61.0 crore in FY2025. The company had cash and liquid investments of ~Rs 60 crore as on June 30, 2022 (including liquidity at portfolio company level). Even though the portfolio companies are at a nascent stage of operations, ICRA expects Tenshi to be able to meet its near-term commitments through the available cash balances, internal accruals and fresh equity/debt from the promoter group on a need basis.

Rating sensitivities

Positive factors – ICRA could revise Tenshi's rating 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, further 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.

About the company

Incorporated in FY2017, the company is promoted by Mr. Arun Kumar, who hold 72.88% stake in the company as on March 31, 2022 (directly and through his family office). He has more than three decades of experience in the pharmaceutical industry and is the founder of Strides Pharma Science Limited. The company has various subsidiaries catering to various segments of pharmaceutical industry, ranging from R&D to product development, spread across India, USA and other regulated and semi-regulated markets. The manufacturing plants and R&D centres of these companies are present in Bengaluru, Hyderabad,

Mysore, Vizag, Poland and Rudrapur. The company sold off stake in its majority revenue-generating company viz Sterling Pharma Solutions Limited (Sterling) during FY2019.

Key financial indicators (audited)

Tenshi Consolidated	FY2020	FY2021
Operating income (Rs. crore)	116.6	153.8
PAT (Rs. crore)	-79.9	-100.5
OPBDIT/OI (%)	-36.1%	-7.4%
PAT/OI (%)	-68.5%	-65.4%
Total outside liabilities/Tangible net worth (times)	1.2	1.6
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations; NM-Not meaningful

Source: Company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years				
		Amount Rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		
				July 28, 2022	Apr 22, 2021	--	Mar 25, 2020	Jun 14, 2019	
1	Issuer rating	Long term	--	--	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	--	[ICRA]BBB- (Negative)	[ICRA]BBB (Stable)
2	Fund-based bank facilities	Long term/short term	1.25	--	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BBB- (Negative)/[ICRA]A3	--	[ICRA]BBB- (Negative)/[ICRA]A3	[ICRA]BBB (Stable)/[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA
Fund-based bank 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: www.icra.in

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	-	-	-	-	[ICRA]BB+ (Stable)
NA	Fund based	November 22, 2018	-	-	1.25	[ICRA]BB+ (Stable)/[ICRA]A4+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Tenshi Pharmaceuticals Private Limited	99.83%	Full Consolidation
Naari Pharma Private Limited	60.00%	Full Consolidation
Tenshi Kaizen Private Limited	47.75%	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 BV	100.00%	Full Consolidation
Tenshi Kaizen Australia Limited	100.00%	Full Consolidation
Tenshi Healthcare Private Limited	100.00%	Full Consolidation
Naari UA Pte Limited	70.00%	Full Consolidation
Naari Pte Limited	99.56%	Full Consolidation
Naari BV, Netherlands	100.00%	Full Consolidation
Naari USA Inc.	100.00%	Full Consolidation
Naari Esta Pte Ltd	65.00%	Full Consolidation
SOP Pharma LLC, USA	37.78%	Equity method
Stelis Pte Limited	100.00%	Full Consolidation
Stelis Biopharma LLC, USA	100.00%	Full Consolidation
Triphase Pharmaceuticals Private Limited	60.00%	Full Consolidation
Biolexis Pte Limited	50.00%	Equity method
Stelis Biopharma Private Limited	17.28%	Equity Method
Outlook Therapeutics Inc.	59.50%	Equity Method
Steriscience Specialities Private Limited	100.00%	Full Consolidation
Steriscience Pte. Limited	100.00%	Full Consolidation
Steriscience BV	100.00%	Full Consolidation
Steriscience S.p. Zoo	100.00%	Full Consolidation
Steriscience Pvt Ltd	100.00%	Full Consolidation
SteriBrooks Penems Private Limited	55.67%	Equity Method
Six Rays Holdings Pte Ltd	100.00%	Full Consolidation
Velbiom Probiotics Private Limited (formerly Tenshi Life Care Private Limited)	29.00%	Equity Method

Source: Company; Tenshi consolidated financials FY2021; **Note:** ICRA has taken a consolidated view of the parent (Tenshi), its subsidiaries and associates while assigning the ratings

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545 5328

shamsherd@icraindia.com

Kinjal Shah

+91 22 6114 3442

kinjal.shah@icraindia.com

Mythri Macherla

+91 80 4332 6407

mythri.macherla@icraindia.com

Seetha Pillai

+91 80 4332 6411

seetha.pillai@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

B-710, Statesman House 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 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.