

May 03, 2023

Steriscience Specialities Private Limited: [ICRA]BB(Stable)/[ICRA]A4 Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	70.00	[ICRA]BB (Stable); Assigned
Long-term – Fund based facilities	35.00	[ICRA]BB (Stable); Assigned
Short-term – Non-fund based Facilities	30.00	[ICRA]A4; Assigned
Total	135.00	

*Instrument details are provided in Annexure-I

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of the operational and financial profiles of Steriscience Specialities Private Limited (SSPL), Steriscience Pte Ltd (Steriscience Singapore), Steriscience S.p.Z.oo, Poland, Brooks Steriscience Ltd and Steribrooks Penems Pvt Ltd, hereafter referred to as the Group, given the operational, financial and managerial linkages among the entities.

The assigned ratings factor in the extensive experience of the promoters and the management team in the pharmaceutical industry. Further, ICRA notes that Tenshi Pharmaceuticals Pvt Ltd (Tenshi), parent of SSPL, will provide need-based support to the Group. The ratings also derive comfort from the significant equity infusion from its private equity investor, Medella Holdings Pte. Ltd. (affiliate of TPG Group). The Group received cumulative infusion of ~Rs. 500 crore over last two financial years to meet its operational and debt servicing requirements. Further, apart from the 13 approved ANDAs (Abbreviated New Drug Applications), the Group is expected to build a product pipeline on the back of its research and development (R&D) capabilities. This is expected to support its business prospects over the medium to long term.

The Group reported revenues¹ of Rs. 157 crore in FY2022 and is estimated to witness revenues of ~Rs. 470 crore in FY2023. This was largely supported by facility fee income and contract manufacturing revenues from a major pharmaceutical player for which the agreement is entered for a period of three years. The Group has also entered into contract manufacturing agreements with other customers which has further supported the revenues in FY2023.

The ratings are, however, constrained by the Group's operating losses in FY2022 and FY2023 due to nascent stages of operations and high fixed costs. While SSPL and Steriscience Singapore has reported positive OPBDITA (pre-R&D²) during H2 FY2023, the Group has reported operating loss (at post R&D level) for FY2023. The Group's ability to successfully commercialise the product launches and ramp-up its operations through product and geographic diversification, while improving its margins, remains a key rating monitorable. The ratings also consider the Group's exposure to competition and regulatory risks pertaining to product approvals, compliance norms and pricing regulations, if any.

The Stable outlook on the long-term rating reflects ICRA's expectations that the experienced management, along with new product launches, shall support the Group's operations and thereby, its financial profile.

¹ Consolidating the revenues and profits/losses for all the group companies after adjusting the inter-company transactions

² Research and development expenses

Key rating drivers and their description

Credit strengths

Parent support and experienced promoter and management team – Tenshi, promoted by Mr. Arun Kumar and his family, holds majority stake in SSPL. ICRA believes the parent entity will provide need-based financial support to the Group. ICRA notes that 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. The Group's operations are also guided by an experienced management team with over two decades of experience in the pharmaceutical business across global markets.

Ongoing product developments – In December 2021, the Group acquired 13 approved ANDAs from Viatrix Inc. in addition to two manufacturing units in Bengaluru and one unit in Poland. Further, the Group is expected to build a healthy product pipeline of ~30-35 products backed by its R&D capabilities, to support its business prospects. ICRA notes that company has received approvals for few of its products. However, further successful approvals and product launches remain key monitorables as the same will depend upon various factors like time of launch, competitive position, and pricing pressures.

Significant equity infusion from investors in FY2022 and FY2023 – The Group has received significant equity infusion of ~Rs. 500 crore from TPG over the past two years to support its operational and debt servicing requirements. The capital raised is being used for acquisition, R&D expenses, debt servicing and other operational activities. Going forward, ICRA expects promoter support to continue for any need-based requirement.

Credit challenges

Nascent stage of operations – At present, the Group is incurring losses due to its nascent stages of operations and high fixed costs. It reported revenues of Rs. 157.0 crore in FY2022 with an operating loss of Rs. 75.7 crore. ICRA notes that the Group is estimated to report revenues of ~Rs. 470 crore in FY2023. While SSPL and Steriscience Singapore are estimated to post operating profits, losses are expected to continue in the other Group entities. Going forward, while contract manufacturing agreement with one of the major pharmaceutical players is expected to support the revenues of the company to a certain extent, the timelines for further scale-up of operations backed by successful product launches and other contract manufacturing contracts, remain key monitorable.

Exposure to regulatory risks – Akin to the industry, the Group remains exposed to regulatory restrictions or delays in product/facility approvals in regulated markets. However, an experienced management and promoter group with more than two decades of experience in the industry are expected to support operational efficiencies. ICRA notes that the Group has three US Food and Drug Administration (US FDA) approved manufacturing facilities, and one facility at Poland is yet to receive US FDA approval. While ICRA notes that the audit has been conducted, approval is awaited as on date.

Competition from global players – As the Group is engaged in supply of generic injectables, it is exposed to competition from leading pharmaceutical companies. While ICRA notes that the Group is expected to cater majorly to products under shortage, any unanticipated pricing pressures due to competition could impact the product realisation to a certain extent.

Liquidity position: Stretched

The Group's liquidity is stretched, with negative cash flow from operations and minimal undrawn working capital facilities. That said, the cash and liquid investments were ~Rs. 41 crore as of March 31, 2023. As per the current debt profile, repayment obligations are expected to be ~Rs. 21 crore in FY2024 and ~Rs. 23 crore in FY2025. The Group is expected to incur R&D costs of ~\$ 10-12 million over the next two years. In addition, maintenance capex of ~Rs. 15 crore per annum is also expected to be incurred. Overall, ICRA expects the Group to be able to meet its near-term commitments through internal accruals as well as need-based promoter/investor support.

Rating sensitivities

Positive factors – The ratings could be upgraded, in case of any significant scale-up in the revenues and profitability of the company, thereby leading to improvement in debt metrics and/or upon the strengthening of the credit profile of Tenshi Pharmaceuticals Private Limited (Tenshi).

Negative factors – Pressure on the ratings could arise from further deterioration in profitability and inadequate/lack of timely funding support from the promoter group/investors. Also, weakening of linkages with Tenshi or deterioration in the credit profile of Tenshi, could lead to rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Rating Approach – Consolidation Rating Approach – Implicit parent or group support
Parent/Group support	ICRA has taken implicit support from Tenshi, parent company of SSPL, for arriving at the Group's ratings.
Consolidation/Standalone	ICRA has taken a consolidated view of the operational and financial profiles of Steriscience Specialities Private Limited, Steriscience Pte Ltd, Steriscience S.p.Z.oo, Poland, Brooks Steriscience Ltd and Steribrooks Penems Pvt Ltd, given the operational, financial and managerial linkages among the entities.

About the company

Founded in 2020, SSPL is involved in the business of development, manufacturing, and supply of carbapenems (antibiotic agents), prefilled syringes, liquid vials, lyophilized vials, and peptides. Mr. Arun Kumar, promoter of Tenshi, had signed a non-compete in FY2014 for a span of six years during the sale of the injectables unit of Agila Specialities to Mylan Inc (now Viatris Inc.). Post completion of the non-compete tenor, SSPL was set up in FY2020, and it commenced operations in H1 FY2021. SPL also founded in 2020, is a wholesaler of pharmaceutical products. While Steriscience Singapore holds the ANDAs and associated Intellectual Properties (IPs) for various injectable products, SSPL manufactures the said products at its manufacturing facilities. Steri Poland is 100% step-down subsidiary of Steriscience Singapore. SSPL also entered joint venture with Brooks Laboratories Limited during October 2021 to form Brooks Steriscience Limited and Steribrooks Penems Private Limited. At present, the Group owns four manufacturing sites with one in Poland (EU-GMP approved, awaiting US FDA approval), one in Gujarat (US FDA approved) and two in Bengaluru, India (US FDA approved).

Key financial indicators (audited)

SSPL Standalone	FY2021	FY2022
Operating income	1.4	67.4
PAT	-9.6	-38.5
OPBDIT/OI	-449.6%	-39.6%
PAT/OI	-679.2%	-57.1%
Total outside liabilities/Tangible net worth (times)	4.2	16.2
Total debt/OPBDIT (times)	-13.3	-6.8
Interest coverage (times)	-6.7	-9.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amounts in Rs. crore

Source: Company, 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 (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 03, 2023	-	-	-
1 Term loans	Long term	70.00	70.00	[ICRA]BB(Stable)	-	-	-
2 Fund-based facilities	Long term	35.0	--	[ICRA]BB(Stable)	-	-	-
3 Non-fund based facilities	Short term	30.0	--	[ICRA]A4			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Fund-based facilities	Simple
Short-term – Non fund-based facilities	Very 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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2022	~7.5%	FY2029	70.00	[ICRA]BB(Stable)
NA	Fund based facilities	FY2022	NA	NA	35.00	[ICRA]BB(Stable)
NA	Non-Fund based facilities	FY2022	NA	NA	30.00	[ICRA]A4

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis - NA

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