July 31, 2023

Neoanthem Lifesciences Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	415.00	200.00	[ICRA]AA- (Stable); reaffirmed
Short-term – Non-fund based (Sublimit)	(14.00)	-	-
Short-term – Non-fund based	-	14.00	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated	-	1.00	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	**415.00**	**215.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has taken a consolidated view of Anthem Biosciences Pvt. Ltd. (Anthem/ the company) and its subsidiary Neoanthem Lifesciences Private Limited (Neoanthem) while assigning the ratings, given the common management and significant operational and financial linkages between the entities. The analysis also considers the ongoing and future funding support likely to be extended by Anthem to Neoanthem.

The rating reaffirmation factors in Anthem Biosciences Pvt. Ltd.'s (Anthem/ the company) strong promoter background and robust research and development (R&D) capabilities which continue to support its market position as an established contract manufacturer to large pharmaceutical companies in regulated markets. The company's healthy financial profile characterised by strong margins, and debt metrics in addition to its robust liquidity position, further underpins the ratings.

During FY2023, the company witnessed a revenue degrowth of 14.2% majorly on account of delay in USFDA inspection of Unit 2 at Harohalli on account of Covid-19, causing some customers to defer their orders in addition to subdued demand from some of its customers. The company's operating margins remained healthy despite declining by 590 bps to 40.7% during FY2023 from 46.6% during FY2022. The company's debt metrics continue to remain strong with gearing and TD/OPBDITA of 0.1 times and 0.3 times respectively. Even as the company is currently undertaking a partly debt-funded capital expenditure (capex) of Rs.550.0 crore for setting up a new greenfield facility under its subsidiary, Neoanthem Lifesciences Private Limited, the consolidated debt metrics are expected to remain robust supported by its strong cash and liquid investment levels. Anthem has now received the USFDA approval for its Unit 2 and with strong ramp up expected from the expanded as well as from existing capacity and execution of the pending orderbook which could not be completed due to delayed USFDA inspection, it is expected to post healthy revenue growth during FY2024.

The ratings, however, remain constrained by high product concentration with Anthem expected to derive ~40% of its revenues from its top three products. ICRA also notes that the company is a mid-sized player with an operating income of Rs. 1,069.9 crore (FY2023) in the highly competitive contract research and manufacturing industry, however it has carved its niche on being focused in development and manufacturing for innovator NCE (New Chemical Entities) and NBE (New Biological Entities) molecules. Anthem's margins continue to remain vulnerable to foreign exchange (forex) rate fluctuations with export markets accounting for 79.6% of its revenues, and high customer concentration with its top 10 customers accounting for 75.3% of its revenues in FY2023. However, the healthy share of business and long-term association with customers provide comfort. Further, revenues remain susceptible to demand volatility of end products in addition to development risk during the clinical trials phase of the customer products. However, the company catering to multiple clients simultaneously mitigates the risk to an extent.

ICRA notes that the company has completed the capacity expansion at its Harohalli facility wherein the overall synthesis capacity of the company has now increased to 275 kL. The company received USFDA approval for Unit 2 at Harohalli in June 2023 and both the units at Bommasandra and Harohalli are now USFDA approved. The company is expected to incur a capex of Rs.60.0 crore at Harohalli facility during FY2024 for capacity expansion under the fermentation and nutraceuticals segments and the capex will be funded through internal accruals. ICRA also notes the ongoing, partly debt-funded capex of ~Rs. 550 crore towards setting up a greenfield facility established under a new 100% subsidiary, Neoanthem. The capex started in FY2022 and till March 31, 2023, ~Rs. 100.0 crore of capex was incurred, and the company is expected to incur capex of ~Rs. 410 crore in FY2024 and the remaining ~Rs. 40 crore in FY2025. While ICRA does not expect the same to impact Anthem's strong debt protection metrics and liquidity position, timely commencement and ramp-up of operations at the new facility and the impact of the same on the credit metrics remain key monitorables.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will continue to benefit from its established customer relationships, healthy order book position, R&D capabilities, healthy financial profile and the favorable demand outlook for the Indian CRAMS industry.

Key rating drivers and their description

Credit strengths

Strong financial profile characterised by healthy margins, robust credit metrics and strong liquidity – During FY2023, the company witnessed a revenue degrowth of 14.2% majorly on account of decline in revenues from contract manufacturing segment (degrowth of 21.8%) due to the delay in USFDA inspection of Unit 2 at Harohalli on account of Covid-19, causing some customers to defer their orders. Apart from this, the company witnessed lower-than-expected orders from one of its customers due to weak demand for a newly launched product, reduction in orders from another customer due to failure of phase three of the clinical trial and lower demand from European customers due to subdued demand following geopolitical tensions in the region. Operating margins remained healthy despite declining by 590 bps to 40.7% during FY2023 from 46.6% during FY2022. Decline in operating margin was on account of higher employee expenses as the company added employees and manpower required for sites on account of ongoing capacity expansion and higher raw material prices, mainly due to change in segment mix. That said, operating margins are expected to remain healthy going forward.

The company's capital structure continues to remain strong wherein Anthem's gearing and TD/OPBDITA increased to 0.1 times and 0.3 times respectively as on March 31, 2023, against 0.03 times and 0.1 times respectively as on March 31, 2022. The marginal increase in gearing and TD/OPBDITA was on account of term loans availed for capacity expansion at Harohalli and ongoing capex under Neoanthem. The interest coverage ratio improved to 93.6 times during FY2023 over 57.5 times during FY2022 on account of healthy operating profit and minimal interest expense during FY2023. The company's cash balances, and liquid investments stood at ~Rs. 901.5 crore as on March 31, 2023, aided by healthy accruals and provide additional comfort.

Strong R&D capabilities supplemented by timely capacity expansion in contract manufacturing services (CMS) segment – Anthem has a strong R&D team of more than 1,200 scientists working on various niche products. The company has completed the capacity expansion at its Harohalli facility wherein the overall synthesis capacity of the company has now increased to 275 kL. The company is expected to incur a capex of Rs.60.0 crore at Harohalli facility during FY2024 for capacity expansion of fermentation and nutraceuticals and the capex will be funded through internal accruals. Anthem is also setting up a new greenfield facility under its subsidiary Neoanthem and the same is expected to commence manufacturing in Q3 FY2024. The availability of additional capacity is likely to help the company increase its scale of operations going forward.

Strong promoter background– The company has a strong promoter background with the promoters having over 25 years of experience in the pharmaceutical and biotechnology industries.

Credit challenges

Revenues remain susceptible to demand volatility of end products in addition to developmental risk during the clinical trials phase of the customer's products– The company offers drug discovery services and also drug development and contract manufacturing services throughout all three phases of the clinical trial. Approval of a new drug and eventual commercial production results in the drug witnessing exponential growth in contract manufacturing orders. However, the company's revenue and margins are vulnerable to the outcomes of these clinical trials, as any failure in the drug's development at any stage can result in a loss of potential revenue that would have been generated if the drug had been successful. Furthermore, even after the drug is approved, the revenue generated from its contract manufacturing depends on the volatility of demand and its acceptance in the market. This risk is mitigated to an extent since the company caters to multiple clients simultaneously.

Mid-sized player in highly competitive industry – Anthem is a mid-sized player in the highly competitive contract research and manufacturing industry. However, it has carved its niche on being focused in development and manufacturing for innovator NCE (New Chemical Entities) and NBE (New Biological Entities) molecules Anthem derived about 60.1% of revenues from contract manufacturing in FY2023 (50.5% in FY2016). Going forward, ICRA expects Anthem to post healthy revenues on the back of its strong order book position and established track record of servicing reputed customers. There is further headroom for the company's growth in the CMS segment with the completion of the capacity expansion at Harohalli facility.

Revenues and margins remain susceptible to forex fluctuations –Anthem's margins remain vulnerable to the adverse forex movements as it is primarily an exporter, deriving 79.6% of its revenues from exports in FY2023. Although Anthem derived 75.3% of its revenues in FY2023 from its top 10 customers, the healthy share of business and long-term association with customers provide comfort. ICRA also understands that sales to some of the US customers (25-30 customers, including some reputed pharma players and smaller biotech firms) are invoiced through its top customer (eight out of top-10 customers are international firms in the field of pharma /nutrition). Anthem benefits from this arrangement by mitigating the receivables risk associated with working with smaller companies as the top customer ensures that the receivables from other customers are not delayed. Moreover, the increasing share of business from other customers is expected to reduce the concentration risk going forward.

Significant ongoing debt-funded capex to expand capacity under CMS segment and set up a new greenfield facility under Neoanthem– The company has completed the capacity expansion at its Harohalli facility wherein the overall synthesis capacity for the company has now increased to 275 kL. The company is expected to incur a capex of Rs.60.0 crore at Harohalli facility during FY2024 for capacity expansion of fermentation and nutraceuticals and the capex will be funded through internal accruals. The company is also setting up a new greenfield facility for ~Rs. 550 crore and it expects the same to be completed by Q3 FY2024. This facility is being established under a new 100% subsidiary, Neoanthem. Begun in FY2022, ~Rs. 100.0 crore of the capex was incurred till March 31, 2023, and the company is expected to incur capex of ~Rs. 410 crore in FY2024 and the balance ~Rs. 40 crore in FY2025. The project is being funded by ~Rs. 200 crore of debt while the balance will be funded by internal accruals. While ICRA does not expect the same to impact Anthem's strong debt protection metrics and liquidity position, however, the timely commencement and ramp-up of operations at the new facility and the impact of the same on the credit metrics remain key monitorables.

Liquidity position: Strong

Anthem's liquidity position is strong with free cash and liquid investments of Rs.901.5 crore on May 31, 2023. Its average working capital utilisation was ~15% of the sanctioned limits between May 2022 and May 2023. Also, the company has a buffer in its drawing power to enhance its working capital facilities if needed. The company is expected to incur a capex of Rs.480.0 crore and ~ Rs.150.0 during FY2024 and FY2025 respectively, which will be funded through mix of debt and internal accruals. The company has a repayment obligation of Rs.25.0 crore, Rs.39.0 crore and Rs. 49.0 crore during FY2024, FY2025 and FY2026 respectively. Despite the significant debt-funded capex, ICRA expects Anthem's liquidity position to remain strong on the back of higher accruals. Any significant incremental debt-funded acquisition, impacting the company's credit metrics, remains an event risk and would be evaluated on a case-by-case basis.

Rating sensitivities

Positive factors – ICRA may upgrade Anthem's ratings if there is a sustained improvement in its scale of operations while maintaining strong profitability, debt metrics and liquidity position.

Negative factors – Pressure on the ratings could arise with any sharp decline in the company's revenues and deterioration of profit margins on a sustained basis. A significant deterioration in the company's credit metrics or liquidity position owing to any large debt-funded acquisition/investment could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceutical Industry Consolidation and Rating approach
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the rated entity.

About Neoanthem Lifesciences Private Limited

Neo Anthem Lifesciences Private Limited is a wholly owned subsidiary of Anthem Biosciences Private Limited and was incorporated on the July 22, 2020, having its registered office at 49, F1&F2, Canara Bank Road, Bommasandra Industrial Area-Phase I-560099. The company will discover, develop, manufacture, and commercialize biopharmaceutical products that address significant unmet needs and provide biological solutions to improve industrial performance in all areas. In order to meet the growing demands for the biopharmaceutical product, the company intends to construct a new manufacturing facility at Harohalli industrial area on the sub-leased land owned by the parent company. The company has obtained the required approval from State level Environment Impact Assessment Authority, Karnataka in September 2020 and Consent for Establishment (CFE) from Karnataka State Pollution Control Board(KSPCB).

About Anthem Biosciences Pvt. Ltd.

Anthem, incorporated in Bangalore on June 13, 2006, is jointly promoted by Mr. Ajay Bhardwaj, Dr. Ganesh Sambasivam and Mr. K.C. Ravindra. It is a contract development & manufacturing organisation (CDMO) which offers early-stage drug discovery services including medicinal chemistry, process chemistry, custom synthesis, discovery research and analytical R&D. Anthem has integrated drug discovery, development and manufacturing services. Through its team of experienced chemists, biologists and engineers Anthem facilitates established biotechs and big pharma companies to develop, optimise and test proteins, monoclonal antibodies, peptides, large molecules, small molecules, toxins and much more. Over the years, Anthem has forward integrated into contract manufacturing to benefit from the synergies arising out of its involvement in the development of products

In addition to product research and development, Anthem helps test drugs for safety, efficacy (in-vitro and in-vivo), pre-clinical animal studies in a GLP facility, clone development, antibody drug conjugates, R&D and manufacture highly potent compounds, flow chemistry-based production and large-scale commercial products. It has leveraged its core competency in organic synthesis to develop new and challenging nutritional products with a strong scientific rationale. These are now being sold globally to nutraceutical and wellness product companies.

Anthem commenced its operations in July 2007 as an export-oriented unit (EOU). At present, it has two manufacturing units at Bommasandra and Harohalli, both in Bengaluru, India. The Bommasandra facility has been approved by the USFDA, PMDA (Japan), EU QPs, and has research facilities including chemistry labs, a kilo lab, a pilot plant, a containment suite for high potent molecules, analytical and discovery research facilities, microbial fermentation and cell culture facility. Anthem's larger manufacturing facility is in Harohalli, which is a USFDA and TGA approved facility, housing a large-scale fermentation facility and a large-scale custom synthesis manufacturing capacity. In April 2021, True North, acquired a 8.32% stake in the company. During FY2023, Anthem derived 76.5% of its revenues from CMS and CRO segments, while the balance 23.5% is derived from the products business.

Key financial indicators (audited)

Anthem Consolidated	FY2022	FY2023*
Operating income	1244.6	1069.9
PAT	405.5	336.7
OPBDIT/OI	46.6%	40.7%
PAT/OI	32.6%	31.5%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.3
Interest coverage (times)	57.5	93.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore * Provisional Data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jul 31, 2023	May 18, 2022	-	-
1	Term loans	Long term	200.00	11.13	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	-	-
2	Non fund based (Sublimit)	short term	-	-	-	[ICRA]A1+	-	-
3	Non-Fund Based	short term	14.00	-	[ICRA]A1+	-	-	-
4	Unallocated	Long term and short term	1.00	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Term loan	Simple
Short Term – Non-Fund Based	Very Simple
Long Term/ Short Term- Unallocated	NA

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**	FY2021	NA	FY2029	200.00	[ICRA]AA- (Stable)
NA	**Non-Fund Based**	FY2023	NA	NA	14.00	[ICRA]A1+
NA	**Unallocated**	NA	NA	NA	1.00	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Anthem Ownership	Consolidation Approach
Neoanthem Lifesciences Private Limited	100.00%	Full Consolidation

Source: Company

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

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