February 24, 2020

TCG Lifesciences Private Limited: [ICRA]A (Stable)/A1 ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	44.48	44.48	[ICRA]A (Stable); Reaffirmed
Long Term - FB Facilities**	(10.00)	(10.00)	[ICRA]A (Stable); Reaffirmed
Short Term - FB Facilities	70.00	70.00	[ICRA]A1; Reaffirmed
Short Term - NFB facilities	6.00	6.00	[ICRA]A1; Reaffirmed
Total	**120.48**	**120.48**	

**Instrument details are provided in Annexure-1*

***Sub-limit of short-term fund-based facilities*

Rationale

The reaffirmation of the ratings considers TCG Lifesciences Private Limited's (TCGL) established position in the field of early stage drug discovery, its financial flexibility for being a part of The Chatterjee Group (TCG Group), its healthy operating profitability and a conservative capital structure. The ratings also consider TCGL's presence in the commercial scale manufacturing of new chemical entities (NCEs) through its 100% subsidiary, Clininvent Research Private Limited (CRPL). The manufacturing set-up of the subsidiary provides end-to-end service capability to the company for its early stage drug discovery services and strengthen its position in the chemical synthesis and biological laboratory services as well. However, the manufacturing business is in an early stage and, therefore, faces risks of significant customer concentration. ICRA notes that the subsidiary has recently received the United States Food and Drugs Administration (USFDA) licence, which has widened the scope of its deliverables. TCGL is currently at an advanced stage of expanding its own laboratory facilities as well as manufacturing facilities in CRPL by incurring a capital expenditure of ~Rs. 90 crore, largely funded by debt. Despite this, ICRA estimates the company's consolidated capital structure to remain comfortable. The ratings also factor in TCGL's long-term relationships with its customers across geographies and the stable business generated from these customers every year. ICRA has noted the company's recent efforts to diversify its customer base, which resulted in the top 10 customers contributing ~68% to its revenue in FY2019 against 74% in FY2017. With addition of a number of new customers in the current year, TCGL's dependence on a select few customers would reduce even further, going forward.

The above strengths are offset by exposure of TCGL's business to termination risks, in the absence of take-or-pay conditions in its contract research agreements. Nevertheless, long-term customer relationships and the healthy outsourcing budgets of these companies for early stage drug discovery services are likely to mitigate the risk of early termination of agreements, to an extent. TCGL's revenues and profits are exposed to the risk of foreign exchange fluctuations, as contract research rates are denominated in foreign currencies whereas the company's costs are largely denominated in rupees. Additionally, the company's ability to recruit and retain talent would be the key factors, influencing its competitive position in the highly competitive contract research business. In the current year, ICRA expects the standalone performance of TCGL to be marginally better than in FY2019. However, increased overhead costs associated with obtaining the USFDA licence for CRPL and stagnant revenues of the subsidiary in the current year would result in some deterioration in the consolidated performance of the company. Consequently, the RoCE of the company, which had been subdued due to loans and advances of ~Rs. 145 crore given to Group entities, is expected to witness further pressure. While the standalone operating performance, going forward, is likely to benefit on account of business flowing from the recently added customers, benefits of the USFDA licence and increased business from expanded facilities are also expected to support the performance of CRPL. However, any further exposure to Group entities and/or write-off of existing loans could have an impact on the consolidated financial profile of TCGL.

TCGL's Stable outlook is based on ICRA's expectation that the company would continue to benefit from its established position in the business of providing contract research services in the field of early stage drug discovery. Nonetheless, the company's ability to generate new business from existing customers as well as add new customers at profitable terms would be the key rating sensitivities.

Key rating drivers and their description

Credit strengths

Healthy business profile – TCGL has developed end-to-end capability in the early stage drug discovery services, encompassing chemical synthesis, biological testing, kilo scale as well as commercial scale manufacturing of NCEs. Such capabilities provide the company with a healthy business profile.

Financial flexibility for being a part of TCG Group – TCGL has financial flexibility for being a part of the TCG Group.

Established relationship with a diversified customer base – TCGL has developed a diversified customer base, which has been generating healthy revenue over the years. The customers are located across geographies, mitigating concentration risks to an extent.

Conservative capital structure and healthy debt coverage indicators – TCGL has a conservative capital structure and healthy debt coverage indicators, which are likely to be maintained going forward, despite the debt-funded capital expenditure that the company is undertaking at present.

Credit challenges

Absence of take-or-pay clause in research contracts – TCGL's contract research agreements with its customers do not have a take-or-pay clause in them. This exposes the company to risks associated with contract termination. However, long-term relationships with customers mitigate such risk, to an extent.

Early stage of operations at 100% subsidiary – TCGL's 100% subsidiary, CRPL, started manufacturing NCEs in the last financial year. The subsidiary is exposed to significant customer concentration risk, as on date.

Competitive business environment – The contract research business is competitive. Hence, the company's ability to scale up the business in such an environment is a key risk.

Exposure to unfavourable foreign exchange movement – TCGL's revenue is denominated in foreign currency, whereas its costs are largely denominated in rupees. This exposes the company's revenues and profits to the risk of foreign currency movements.

Exposure to Group entities – TCGL has large financial exposure to other Chatterjee Group companies, which exposes TCGL to lending risks associated with such companies.

Liquidity position: Adequate

TCGL's liquidity is Adequate because of its healthy consolidated cash flow from operations, adequate cash balance and unutilised working capital lines of ~Rs. 45 crore. The company has annual consolidated external debt repayment liabilities of Rs. ~20-22 crore in the next two financial years. ICRA expects TCGL to generate adequate cash flows vis-a-vis its debt repayment liabilities even under a stretched scenario of low sales growth at its 100% subsidiary.

Rating sensitivities

Positive triggers – ICRA may upgrade TCGL's ratings if the consolidated entity continues to register steady growth in the business with a healthy core RoCE. Also, the debt service indicators (consolidated) need to be sustained at the current level.

Negative triggers –Pressure on TCGL's ratings may arise if there is a sustained loss in client, leading to negative income growth. A delay in turnaround of the subsidiary, CRPL, may also be a trigger for ratings downgrade. Large debt-funded capex compared to the company's current scale and/or any increase in exposure to other Chatterjee Group entities or any write-off of current investments in Group entities can lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for Entities in the Pharmaceutical Industry Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	While assigning the ratings, ICRA has taken a consolidated view of TCG Lifescienes Private Limited and Clininvent Research Private Limited. The ratings are based on the consolidated financial profile of the company. As on March 31, 2019, the company had two subsidiaries and one joint venture, that are enlisted in Annexure 2.

About the company

Incorporated in 1998 and promoted by The Chatterjee Group, TCG Lifesciences Private Limited (TCGL) provides contract research services, mainly for early stage drug discovery and development. The company provides services for chemical synthesis of small molecules, first-level screening of drugs (in vitro testing) and small animal testing. Its wholly-owned subsidiary, Clininvent Research Private Limited (CRPL), manufactures cGMP active pharmaceutical ingredients (APIs, both NCEs as well as generic APIs) and GMP-ready regulatory starting materials. The manufacturing unit started operations in FY2018, following the takeover of an existing API manufacturing unit in Hyderabad, Telangana.

TCGL is promoted by The Chatterjee Group, which was founded by Dr. Purnendu Chatterjee in 1989. The Group has diversified interests in investment banking, life sciences and pharmaceuticals, real estate, petrochemicals, hedge fund and wealth management products. It also provides outsourcing and technology services, including BPO services, and has a presence in the US, Europe and South Asia. It is headquartered in New York.

TCGL reported a standalone net profit of Rs. 22.05 crore on an operating income of Rs. 189.7 crore in FY2019 against a net profit of Rs.18.0 crore on an operating income of Rs. 170.7 crore in FY2018. The company had registered a consolidated profit after tax of Rs. 28.8 crore on an operating income of Rs. 266.2 crore in FY2019.

Key financial indicators (audited, Consolidated)

	FY 2017	FY 2018	FY 2019
Operating Income (Rs. crore)	167.1	181.0	266.2
PAT (Rs. crore)	7.3	18.2	28.8
OPBDIT/ OI (%)	17.3%	19.8%	26.6%
RoCE (%)	5.6%	8.4%	13.4%
Total Debt/ TNW (times)	0.5	0.6	0.8
Total Debt/ OPBDIT (times)	4.0	3.6	2.8
Interest coverage (times)	4.4	4.1	6.4
DSCR	1.19	1.28	1.71

Source: TCG Lifesciences Private Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					24-Feb-2020	12-Apr-2019	28-Feb-2019	-
1	Term Loan	Long Term	44.48	44.48	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	LT - FB Facilities*	Long Term	(10.00)	(10.00)	[ICRA]A (Stable)	[ICRA]A (Stable)		
3	ST - FB Facilities	Short Term	70.00	70.00	[ICRA]A1	[ICRA]A1		
4	ST- NFB facilities	Short Term	6.00	6.00	[ICRA]A1	[ICRA]A1		

Amount in Rs. Crore

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 Loan	FY2016 -FY2019	6.25-10.25%	FY2022 - FY2024	44.48	[ICRA]A (Stable)
NA	Long Term - FB Facilities*	NA	NA	NA	(10.00)	[ICRA]A (Stable)
NA	Short Term - FB Facilities	NA	NA	NA	70.00	[ICRA]A1
NA	Short Term- NFB facilities	NA	NA	NA	6.00	[ICRA]A1

** sub-limit of short-term fund-based facilities*

Source: TCG Lifesciences Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Clininvent Research Private Limited	100.00%	Full Consolidation
X-tec International (Mauritius) Limited	100.00%	Full Consolidation
Inventage Materials Private Limited	49.00%	Equity Method

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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.

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