

March 25, 2020

Aurore Life Sciences Pvt Ltd: Ratings downgraded to [ICRA]BBB- (CE)/ [ICRA]A3 (CE); Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-based TL	30.00	30.00	[ICRA]BBB- (CE) (Negative); Downgraded from [ICRA]BBB (CE) (Stable), outlook revised to Negative from Stable
Short Term – Fund Based	20.00	20.00	[ICRA]A3 (CE); Downgraded from [ICRA]A3+ (CE)
Short Term – Fund Based	10.50	10.50	[ICRA]A3 (CE); Downgraded from [ICRA]A3+ (CE)
Short Term – Non-fund Based	5.00	5.00	[ICRA]A3 (CE); Downgraded from [ICRA]A3+ (CE)
Total	65.50	65.50	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BB

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The ratings for the Rs. 65.50-crore bank facilities of Aurore Life Sciences Pvt Ltd (Aurore Life/the company) are based on the corporate guarantee provided by Tenshi Life Sciences Private Limited (Tenshi, rated [ICRA]BBB- (Negative)/[ICRA]A3). The Negative outlook on the rating reflects the outlook on the rating of the guarantor, Tenshi.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach whereby the rating of the guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, it doesn't have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by Tenshi is adequately strong to result in an enhancement in the rating of the said instrument to **[ICRA]BBB- (CE)** against the rating of [ICRA]BB without explicit credit enhancement. In case the rating of the guarantor was to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the guarantee documents

- *Effective holding of Mr. Arun Kumar in Tenshi should not fall below 51%*
- *The bank reserves the right at its sole discretion without assigning any reason whatsoever, to modify, vary or add the terms and conditions, or to terminate the bank facilities concerned, at any time, and to recall any or all of the amounts due under the bank facilities (Rs. 10.5-crore short-term fund-based facility)*

Key rating drivers and their description

Credit strengths

Explicit support in the form of corporate guarantee for Rs. 65.50 crore from Tenshi – The ratings derive comfort from the irrevocable and unconditional corporate guarantee extended by the guarantor, Tenshi.

Financial flexibility on the back of regular equity infusions from shareholders – As on December 31, 2019, Tenshi held a 50.0% stake in Hydra Active Pharma Sciences (HAPS), which, in turn, holds 76.26% in Aurore Life. The promoter group has infused Rs. 113.5 crore since inception in FY2017 till FY2019 towards the setting up of R&D facilities, R&D costs, acquisition of Eshwar Pharmaceuticals' API plant and capacity expansion of the acquired plant. Going forward, the company might raise additional equity from the promoter group on a need basis. Further, the company has recently commenced the manufacturing of Famipiravir and Hydroxy Chloro quine sulphate which has been recommended by Indian Council of Medical Research (ICMR) in the treatment of COVID-19 in extreme cases. The sales from these products is further expected to support the revenue growth going forward.

Credit challenges

Early stage of operation – Earlier, Aurore Life was dependent on the external contract manufacturers for the manufacturing of APIs. Aurore Life's capacity expansion programme at its newly acquired (FY2019) manufacturing plant in Hyderabad has been completed in March 2020 which has boosted the plant's capacity to 237 KL from 80 KL. However, due to the early stage of operations, company's current capacity utilisation currently is low. Going forward, ICRA expects the company to expand its margins on the back of increased capacity utilisation at the recently completed facility.

Various market and regulatory risks associated with the products developed by the company – In line with the industry, the company faces regulatory risks in the regulated markets. However, an experienced promoter group with more than three decades of experience in the industry supports operational efficiencies. In the near term, Aurore Life could face supply chain disruptions owing to the COVID-19 outbreak on a global scale, which will remain a key near-term monitorable. Further, pricing pressure and intense competition in the API manufacturing industry will be an important factor for the company's revenue as well as margin trajectory.

Liquidity position of the guarantor: Stretched

On a consolidated basis, Tenshi's liquidity position is stretched with negative cashflow from operations, sizeable investments in the portfolio companies and the capital expenditure programme for FY2020 (funded by a mix of debt and equity), and liquid investments of Rs. 191.1 crore. Based on the current debt profile, repayments are expected to be Rs. 68.0 crore in FY2020, Rs. 96.5 crore in FY2021 and Rs. 89.2 crore in FY2022. ICRA expects Tenshi to be able to meet its near-term commitments through internal accruals and fresh capital that can be raised at short notice on the back of its strong promoter group.

Rating sensitivities

Positive triggers – The ratings would remain sensitive to any movement in the ratings or outlook of the guarantor, Tenshi.

Negative triggers – The ratings would remain sensitive to any movement in the ratings or outlook of the guarantor, Tenshi.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in Pharmaceutical industry Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: Tenshi Life Sciences Private Limited The assigned ratings are based on the unconditional and irrevocable corporate guarantee extended by Tenshi
Consolidation/Standalone	The ratings are based on the standalone financial statements

About the company

Aurore Life commenced its operations in September 2016 with three independent research and development (R&D) centres in Hyderabad targeting domestic and semi-regulated markets like Indonesia, Bangladesh, Iran and Egypt. Post R&D, Aurore Life outsources manufacturing to other companies, which has impacted its margins in the last few years. To mitigate this, Aurore Life acquired the manufacturing plant of Eshwar Pharmaceuticals Private Limited in FY2019, where it expects to manufacture its own products in FY2021. The company incurred an acquisition cost of Rs. 15 crore for the above transaction and has incurred further capex of ~Rs. 65 crore to expand the manufacturing facilities of the acquired plant. The plant currently has a capacity of 80 KL, which is expected to increase to 237 KL by March 2020, post expansion.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	35.7	105.4
PAT (Rs. crore)	-15.5	-14.9
OPBDIT/OI (%)	-40.3%	-12.2%
RoCE (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	0.7	1.4
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM
DSCR	NM	NM

Source: Company; Note: NM – Not meaningful

About the guarantor

Incorporated in FY2017, Tenshi is promoted by Mr. Arun Kumar, who had a 77.08% stake in the company as on March 31, 2019 through his various promoter group companies. 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 different segments of the pharmaceutical industry, ranging from R&D to product development, spread across India and the US. These companies have manufacturing plants and R&D centres in Bengaluru, Hyderabad, Mysore, Vizag, Rudrapur and New Jersey. Tenshi sold off its stake in its majority revenue-generating company, Sterling Pharma Solutions Limited (Sterling), in FY2019.

Key financial indicators (audited) – Tenshi

	FY2018	FY2019
Operating Income (Rs. crore)	92.6	194.9
PAT (Rs. crore)	7.7	778.5
OPBDIT/OI (%)	-42.0%	-19.5%
RoCE (%)	3.2%	55.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.5
Total Debt/OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM
DSCR	0.9	12.2

Source: Tenshi; Note: NM – Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	FY2017
					25-Mar-2020	08-Jul-2019			
1	Term Loans	Long Term	30.00	10.2	[ICRA]BBB- (CE) (Negative)	[ICRA]BBB (SO) (Stable)	-	-	-
2	Fund-based Facilities	Short Term	20.00	-	[ICRA]A3 (CE)	[ICRA]A3+ (SO)	-	-	-
3	Fund-based Facilities	Short Term	10.50	-	[ICRA]A3 (CE)	Provisional [ICRA]A3+ (SO)	-	-	-
4	Non-fund Based Facilities	Short Term	5.00	-	[ICRA]A3 (CE)	[ICRA]A3+ (SO)	-	-	-

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	26-Oct-2018	NA	FY2024	30.00	[ICRA]BBB- (CE) (Negative)
NA	Fund-based Facilities	-	-	-	20.00	[ICRA]A3 (CE)
NA	Fund-based Facilities	-	-	-	10.50	[ICRA]A3 (CE)
NA	Non-fund Based Facilities	-	-	-	5.00	[ICRA]A3 (CE)

Source: Company

Annexure-2: List of entities considered for consolidated analysis - Not applicable

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