

March 25, 2020

Aurore Pharmaceuticals Private Limited: Rating downgraded to [ICRA]BBB- (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/cash credit	40.0	40.0	[ICRA]BBB- (CE) (Negative); Downgraded from [ICRA]BBB
Long term: Term loan	128.0	128.0	(CE) (Stable), outlook revised to Negative from Stable
Total	168.0	168.0	

*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 rating for the Rs. 168-crore bank facilities of Aurore Pharmaceuticals Private Limited (Aurore Pharma/the company) is 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

- Borrower shall not, without the prior written approval of the bank, enter into any merger, amalgamation, etc, or do a buyback or invest in any other entity
- Any changes in the current shareholding pattern require prior approval from the bank

Key rating drivers and their description

Credit strengths

Explicit support in the form of corporate guarantee for Rs. 168 crore from Tenshi – The rating derives 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 33.02% in Aurore Pharma. The promoter group has infused Rs. 42.1-crore equity from the company's inception in May 2017 till March 2019 towards the acquisition of an API plant from Mylan Pharmaceuticals. Going forward, Aurore Pharma might raise additional equity from the promoter group/third parties on a need basis.

Credit challenges

Nascent stage of operations characterised by small scale and net losses – Aurore Pharma is currently incurring losses due to its nascent stage and small scale of operations. Moreover, it only supplies to Mylan, in line with the acquisition agreement signed in H1 FY2019. Going forward, an increase in the scale of operations and in supplies to additional customers, post Mylan's agreement, remains a key monitorable.

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, the company 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 rating would remain sensitive to any movement in the ratings or outlook of the guarantor, Tenshi.

Negative triggers – The rating 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 rating is based on the unconditional and irrevocable corporate guarantee extended by Tenshi
Consolidation/Standalone	The rating is based on the standalone financial statements

About the company

Established in 2017 as Sphery Life Sciences Private Limited, a 34.89% stake was acquired by Tenshi in FY2019 through its step-down subsidiary, HAPS. Following the acquisition of the stake by HAPS, the company's name was changed to Aurore Pharmaceuticals Private Limited, in line with its sister company – Aurore Life Sciences Pvt Ltd. Aurore Pharma had acquired a USFDA-approved API manufacturing plant from Mylan in H1 FY2019 for a consideration of Rs. 151 crore. As a part of the acquisition agreement, the company will supply only to Mylan for two years following which it is expected to add new customers. Over the longer term, Aurore Pharma is expected to cater to regulated markets like the US, Europe and Japan.

Mr. J. Rajender Rao, who holds a 22.1% stake in Aurore Pharma, has more than 25 years of experience in the pharmaceuticals industry. He is the founder of RA Chem Pharma Limited, which manufactures and markets APIs, intermediates, formulations and pre-formulation intermediates.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	-	57.5
PAT (Rs. crore)	-	-27.2
OPBDIT/OI (%)	-	-13.3%
RoCE (%)	-	NM
Total Outside Liabilities/Tangible Net Worth (times)	-	9.1
Total Debt/OPBDIT (times)	-	NM
Interest Coverage (times)	-	NM
DSCR	-	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 25-Mar-2020	FY2020 22-Apr-2019	FY2019 21-Dec-2018	FY2018	FY2017
1	Term Loans	Long Term	128.0	128.0	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	-	-
2	Cash Credit	Long Term	40.0	-	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB (SO) (Stable)	-	-
3	Unallocated	Long Term	-	-	-	[ICRA]BBB (SO) (Stable); withdrawn	Provisional [ICRA]BBB (SO) (Stable)	-	-

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-1	06-Jun-2018	NA	2025	45.0	[ICRA]BBB- (CE) (Negative)
NA	Term Loan-2	24-Oct-2018	NA	2025	83.0	[ICRA]BBB- (CE) (Negative)
NA	Cash Credit	NA	NA	NA	40.0	[ICRA]BBB- (CE) (Negative)

Source: Company

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

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