

March 25, 2020

Naari Pharma 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
Term Loan	71.25	71.25	[ICRA]BBB- (CE) (Negative); Downgraded from [ICRA]BBB (SO) (Stable), outlook revised to Negative
Long Term – Fund-based Limits	20.00	20.00	[ICRA]BBB- (CE) (Negative); Downgraded from [ICRA]BBB (SO) (Stable), outlook revised to Negative
Short Term – Non-fund Based Limits	10.00	10.00	[ICRA]A3 (CE); Downgraded from [ICRA]A2 (CE)
Short Term – Fund-based Limits	5.00	5.00	[ICRA]A3 (CE); Downgraded from [ICRA]A2 (CE)
Total	106.25	106.25	

*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. 106.25-crore bank facilities of Naari Pharma Pvt. Ltd. (Naari/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%*

Key rating drivers and their description

Credit strengths

Explicit support in the form of corporate guarantee for Rs. 106.25 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 60.0% stake in the company. Naari raised equity of Rs. 100.0 crore from Ascent Capital in H2 FY2020 and expects to raise an incremental Rs. 25.0 crore in FY2021. Additionally, Tenshi infused Rs. 75.1-crore equity in Naari in FY2020. The capital raised will be used for R&D expenses, debt servicing and other operational activities.

Management team with extensive experience in pharmaceutical industry – The company's operations are guided by an experienced management team with over two decades of experience in the pharmaceutical business across global markets, which has ensured established relations with global pharmaceutical majors.

Credit challenges

Financial profile characterised by small scale of operations, net losses and stretched gearing and coverage indicators – The company's financial profile is characterised by a small scale of operations with revenues of Rs. 76.0 crore in FY2019, which limits operational flexibility and benefits of scale. Naari posted an operating profit of Rs. 1.3 crore in FY2019 (-Rs. 11.0 crore in FY2018) while the net loss was -Rs. 23.3 crore (-Rs. 28.7 crore in FY2018). The company's capitalisation and coverage metrics were strained as on March 31, 2019. In December 2019, Naari exited the API business with the sale of its API manufacturing plant in Kashipur to Natural Capsules Limited for Rs. 24.5 crore (on a slump sale basis). Going forward, the company is expected to become a full-fledged formulations player.

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, Naari could face supply chain disruptions owing to the COVID-19 outbreak on a global scale, which will remain a key near-term monitorable.

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

Naari was incorporated as Indo Phyto Chemicals Private Limited on February 23, 1978. The company manufactures active pharmaceutical ingredients (APIs), fermentation intermediaries and finished dosage form (FDF) products in the female healthcare domain. Naari has a presence in the female healthcare formulations business in more than 45 countries. In January 2016, Sequent Scientific Limited (SSL) purchased a 51.02% stake in Naari while the balance continued to be held by the promoters. SSL sold its stake to another promoter group entity, Tenshi Life Sciences Private Limited, in May 2017. In H2 FY2020, Naari issued cumulative convertible preference shares (CCPS) to Ascent Capital and received Rs. 100 crore in FY2020 with an incremental Rs. 25 crore to be received in FY2021.

Naari's API and intermediate manufacturing facility is in Kashipur, India and is spread across approximately 50,000 sq. mt. Naari signed an agreement with Natural Capsules Limited (rated [ICRA]BBB(Stable)/A3+) in December 2019 to sell its API plant on a slump sale basis for a consideration of Rs. 24.5 crore. The company has received Rs. 0.5 crore in FY2020 and is expected to receive the balance amount during FY2021 and FY2022.

Naari's FDF manufacturing facility is in Rudrapur, India and is spread across approximately 50,000 sq. mt. This facility develops and manufactures hormones with capabilities across tablets and soft gel capsules (under development). The total annual capacity is over 3 billion tablets and capsules with annual revenue potential of ~Rs. 1,000 crore. The R&D facility is recognised by the Department of Scientific and Industrial Research (DSIR).

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	62.3	76.0
PAT (Rs. crore)	-28.7	-23.3
OPBDIT/OI (%)	-17.7%	1.7%
RoCE (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	NM	NM
Total Debt/OPBDIT (times)	NM	122.3
Interest Coverage (times)	NM	0.1
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; consolidated) – 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	FY2019	FY2018		FY2017
					25-Mar-2020	13-Nov-2018	30-Mar-2018	21-Jun-2017	-
1	Term Loans	Long Term	71.25	63.1	[ICRA]BBB- (CE) (Negative)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB+ (SO) (Stable)	[ICRA]BBB+ (SO) &	-
2	Fund-based Limits	Long Term	20.00	19.5	[ICRA]BBB- (CE) (Negative)	[ICRA]BBB (SO) (Stable)	[ICRA]BBB+ (SO) (Stable)	[ICRA]BBB+ (SO) &	-
3	Non-fund Based Limits	Short Term	10.00	-	[ICRA]A3 (CE)	[ICRA]A2 (SO)	[ICRA]A2+ (SO)	[ICRA]A2+ (SO) &	-
4	Fund-based Limits	Short Term	5.00	-	[ICRA]A3 (CE)	[ICRA]A2 (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	March 31, 2016	11.4%	FY2022	71.25	[ICRA]BBB- (CE) (Negative)
NA	Fund Based - Cash Credit	March 31, 2016	11.4%	NA	20.00	[ICRA]BBB- (CE) (Negative)
NA	Non-fund Based - LC/BG	March 31, 2016	NA	NA	10.00	[ICRA]A3 (CE)
NA	Fund Based - PCFC	March 31, 2016	6.3%	NA	5.00	[ICRA]A3 (CE)

Source: Company

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

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