

March 25, 2020

Tenshi Life Sciences Private Limited: Ratings downgraded to [ICRA]BBB-/ [ICRA]A3; Outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]BBB-(Negative); Downgraded from [ICRA]BBB (Stable), outlook revised to Negative from Stable
Fund Based (long term/short term)	1.25	1.25	[ICRA]BBB-(Negative)/ [ICRA]A3; Downgraded from [ICRA]BBB (Stable)/ [ICRA]A3+, outlook revised to Negative from Stable
Total	1.25	1.25	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Tenshi Life Sciences Private Limited (Tenshi) comprising Aurore Life Sciences Pvt Ltd (Aurore Life; rated [ICRA]BBB- (CE) (Negative)/[ICRA]A3 (CE)), Sovizen Life Sciences Private Limited (Sovizen), Tenshi Kaizen Private Limited (Kaizen; rated [ICRA]BBB- (CE) (Negative)), Naari Pharma Pvt. Ltd. (Naari; rated [ICRA]BBB- (CE) (Stable)/[ICRA]A3 (CE)), Biolexis Pte. Limited (Biolexis), Aurore Pharmaceuticals Private Limited (Aurore Pharma; rated [ICRA]BBB- (CE) (Negative)) and Stelis Biopharma Private Limited (Stelis; rated [ICRA]A (CE) (Stable)). Biolexis is the holding company of Outlook Therapeutics Inc. (Outlook Therapeutics) and Sovizen had a stake in Sterling Pharma Solutions Limited (Sterling).

Tenshi sold its 87.28% stake in Sterling in February 2019 for a consideration of Rs. 1,220.9 crore. Following the sale of Sterling (which accounted for the majority of Tenshi's revenues), the nascent stage of operations of Tenshi's portfolio companies provides limited visibility on profitability in the near to medium term. The ratings also remain constrained by the sizeable incremental investments that have already been made and the additional need-based investments required in the portfolio companies for commercialising/scaling up their operations. Fund raising in the current market conditions is likely to be constrained for the entire ecosystem. Tenshi is also prone to various regulatory risks and market risks, given its operations in regulated markets and the recent supply chain disruptions owing to the COVID-19 outbreak.

The ratings continue to favourably factor in the extensive experience of the promoter group, its demonstrated ability to raise equity and its track record of acquiring struggling companies, turning them around and exiting at a profit as demonstrated by the Sterling sale in February 2019. As of December 2019, at the consolidated level, Tenshi had raised cumulative capital (~63% from fresh equity and ~37% from promoter loans) of ~Rs. 1,287.7 crore since its incorporation in July 2016 from various investors including private equity investors. The ratings also factor in the financial flexibility and operational support enjoyed by Tenshi as one of the key investment companies of the promoter group. ICRA also notes that Tenshi's financial profile depends significantly on the performance of its subsidiaries, which cater to the entire pharma supply chain aided by R&D centres, manufacturing facilities and go-to-market strategies across various therapeutic segments in the pharmaceutical industry.

In FY2019, Tenshi's (consolidated) revenues grew 110.5% to Rs. 194.9 crore (ex-Sterling), primarily on the back of revenues from Aurore Life and Naari. However, the company incurred a loss (Rs. 37.9 crore) at the operating level on account of the nascent stage of operations of its portfolio companies. Tenshi's net profit margin stood at 399.4% in FY2019, supported by the extraordinary gain from the sale of Sterling (Rs. 860 crore). Excluding this, the company incurred a net loss of Rs. 81.5 crore in FY2019. While Tenshi's TD/OPBDITA was negative due to the operating loss, the gearing stood at 0.4 times as on March 31, 2019 (0.7 times as on March 31, 2018) supported by the proceeds from the sale of Sterling and equity infusions. However, the company's debt and interest coverage metrics remained strained as on March 31, 2019.

Going forward, Tenshi's performance is expected to be dependent on Aurore Life and Naari's operations in the short term. Over the long term, its performance is expected to be dependent on the commencement of the commercial operations of Kaizen and Outlook Therapeutics in addition to the stabilisation of Aurore Life and Naari's operations.

Key rating drivers and their description

Credit strengths

Established track record of management in achieving turnaround of distressed operations – Tenshi's management has a track record of incubating and developing pharmaceutical businesses globally. The company's objective is to acquire struggling companies, turn around their operations, and exit the same at a profit. Tenshi has demonstrated this ability by making a profitable exit from Sterling in February 2019 for a total consideration of Rs. 1,220.9 crore wherein it realised a total gain of Rs. 860 crore.

Strong support from reputed promoter group with demonstrated fund-raising capability – Tenshi enjoys considerable financial flexibility and technical support from its experienced promoters. As of December 2019, at the consolidated level, the company had raised ~Rs. 1,287.7 crore of capital (equity and promoter debt) since its inception in July 2016. These funds have been invested in various segments of the pharmaceutical industry targeting companies across geographies and sub-segments (API and formulation manufacturing, biosimilars, probiotics, patented formulation technologies, etc). Support from a reputed promoter group also aids in equity raising and helps acquire reputed customers in the pharmaceutical industry.

Presence across various segments of pharma supply chain across geographies with a diversified and patented product portfolio – The company is well positioned compared to its competitors due to its ability to cater to the entire lifecycle of product development. Each company held by Tenshi has a different product portfolio. While Naari caters to woman's healthcare, Kaizen is engaged in the development of probiotics and utilises proprietary technology platforms for the development of lyophilised orally disintegrating tablets (LODT). Aurore Life and Aurore Pharma are focused on the R&D and manufacture of APIs, while Stelis is engaged in the development of biosimilars and Outlook Therapeutics (held through Biolexis) is focused on a phase 3 clinical study of Oncobiologics.

Tenshi is targeting different markets through the various companies it owns, mitigating the risk arising from cyclicality in individual markets. While Aurore Life and Naari cater to semi-regulated and unregulated markets, Aurore Pharma caters to regulated markets and Kaizen is expected to target domestic, regulated and semi-regulated markets once it commences operations.

Credit challenges

Financial profile constrained due to nascent stage of operations of portfolio companies; limited visibility on profitability over the near to medium term – Tenshi’s financial profile is characterised by operating losses and consequent poor debt metrics (negative TD/OPBDITA as on March 31, 2019 and negative interest coverage ratio in FY2019). Further, some of its portfolio companies like Kaizen, Outlook Therapeutics and Stelis are yet to commence commercial operations while Naari, Aurore Life and Aurore Pharma are in the nascent stage of operations. A few of Tenshi’s portfolio companies are investing in R&D, leading to losses at the company level despite the moderate revenues of Rs. 194.9 crore posted in FY2019. Over the near to medium term, Tenshi’s business prospects and profitability are expected to be dependent on the stabilisation of Naari and Aurore Life’s operations and the commencement of commercial operations by Kaizen and Outlook Therapeutics.

Sizeable fund requirement to scale up investee companies – Tenshi has made sizeable investments in its portfolio companies such as Kaizen, Naari, Aurore Life, Aurore Pharma, Outlook Therapeutics and Stelis till December 31, 2019 and plans to invest more in some of these companies for the commencement/scaling up of operations. In FY2020, Tenshi invested Rs. 205.8 crore in its various investee companies (Kaizen, Naari, Biolexis and Stelis). Some of these companies have also raised third-party equity on their books. While Naari has raised Rs. 100 crore from Ascent Capital, Stelis is expected to raise ~Rs. 280 crore (for FY2020 and FY2021) from its parent company, Strides Pharma Science Limited. The operations of these portfolio companies are yet to turn around of operations and the companies are reporting losses. Going forward, in the current market conditions, Tenshi’s ability to raise additional equity to commercialise/scale up the operations of its portfolio companies remains a key monitorable.

Exposure to various market and regulatory risks associated with the products developed by the company – In line with the industry, the company faces regulatory concerns 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, Tenshi’s portfolio companies could experience supply chain disruptions owing to the COVID-19 outbreak on a global scale. However, the portfolio companies source raw materials from a diversified supplier base, providing comfort to a certain extent. Nevertheless, this will remain a key near-term rating monitorable.

Liquidity position: 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 – Given the current Negative outlook, a rating upgrade is less likely in the near term. ICRA could upgrade Tenshi’s ratings if there is an improvement in the performance of its portfolio companies, limiting the debt requirements and leading to an improvement in the credit profile on a sustainable basis.

Negative triggers – Pressure on the ratings could arise with a delay in the turnaround of the operations of the portfolio companies, leading to continued cash losses, deterioration in the credit profile of Tenshi and/or inadequate/timely funding support from the promoter group/third-party investors.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in Pharmaceutical industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on consolidated financial statements of the company

About the company

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)

	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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019		FY2018	FY2017
					25-Mar-2020	14-Jun-2019	3-Dec-2018	29-Oct-2018		
1	Issuer Rating	Long Term	-	-	[ICRA]BBB-(Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Fund Based	Long Term/ Short Term	1.25	-	[ICRA] BBB-(Negative)/ [ICRA]A3	[ICRA] BBB (Stable)/ [ICRA]A3+	[ICRA] BBB (Stable)/ [ICRA]A3+	-	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	-	-	-	-	[ICRA]BBB-(Negative)
NA	Fund based	22-11-2018	-	-	1.25	[ICRA] BBB-(Negative)/[ICRA]A3

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sovizen Life Sciences Private Limited	99.83%	Full Consolidation
Tenshi Kaizen Private Limited	78.02%*	Full Consolidation
Aurore Life Sciences Pvt Ltd	76.26%	Full Consolidation
Naari Pharma Pvt. Ltd.	60.00%*	Full Consolidation
Biolexis Pte Limited	50.00%	Equity method
Stelis Biopharma Private Limited	31.15%	Equity method
Aurore Pharmaceuticals Private Limited	33.02%	Equity method

Source: Company's audited financials; * Note: On a fully diluted basis

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