

March 25, 2020

Tenshi Kaizen 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: Term Loans	90.0	90.00	[ICRA]BBB- (CE) (Negative); Downgraded from [ICRA]BBB (CE) (Stable), outlook revised to Negative from Stable
Total	90.0	90.00	

*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. 90-crore bank facilities of Tenshi Kaizen Private Limited (Kaizen/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 into the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and does not 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 an explicit credit enhancement. If the rating of the guarantor undergoes 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 should be at least 51% in the company on a fully diluted basis
- The bank facility must have a minimum investment grade rating
- Any debt-funded acquisition or expansion requires prior approval from banker
- Any shortfall in debt servicing (interest and principal) has to be funded through equity

Key rating drivers and their description

Credit strengths

Explicit support in the form of corporate guarantee for Rs. 90 crore from Tenshi – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by the guarantor, Tenshi.

Development of patented products in probiotics and LODTs – Kaizen is developing lyophilised orally disintegrating tablets (LODTs; for paediatric and geriatrics) for allergies, which disperse in the mouth within 3 seconds. ICRA understands that this new method of drug delivery can be applied to existing drugs in the market. Kaizen's research-driven probiotics venture, Triphase Pharmaceuticals, offers patented high temperature probiotic strains for food, confectionary and dietary supplements. These patented and niche technologies are expected to support the company's business prospects going forward.

Financial flexibility on the back of regular equity infusions from shareholders – On a fully diluted basis, Tenshi held a 78.02% stake in Kaizen as on December 9, 2019. Kaizen has enjoyed regular equity infusions from its promoter group towards the setting up of facilities in Bengaluru, Mysore and New Jersey and for its R&D expenses. The company has raised ~Rs. 228.5-crore equity since inception and is likely to raise additional equity on a need basis.

Credit challenges

Commercial production yet to commence – Kaizen is currently setting up its formulation facilities in Bengaluru and New Jersey and its probiotics facility in Mysore. The company is likely to commence the commercial operations of probiotics and LODTs by H1 FY2021. The timely commencement of operations will be a key monitorable.

Financial profile characterised by elevated debt levels – The company's financial profile is characterised by high debt levels owing to the significant investment for the construction of its facilities in Bengaluru, New Jersey and Mysore and for its R&D expenses. As on March 31, 2019, on a consolidated basis, Kaizen's o/s debt stood at Rs. 141.2 crore (Rs. 82.3 crore as on March 31, 2018) with a gearing of 1.6 times (1.3 times as on March 31, 2018). Further, the o/s debt as on March 31, 2020 is expected to be Rs. 209.0 crore. However, with the equity commitments from the promoters, the company's capitalisation indicators are likely to improve going forward.

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 and semi-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 experience 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 rating would remain sensitive to any movement in the rating or outlook of the guarantor, Tenshi.

Negative triggers – The rating would remain sensitive to any movement in the rating 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 consolidated financial statements

About the company

Tenshi Kaizen Private Limited (Kaizen/the company), formerly known as Higher Pharmatech Private Limited, was incorporated on April 2, 2007. It is currently setting up facilities for the development and manufacture of formulations and probiotics for sale in global markets. Kaizen is backed by Mr. Arun Kumar and Mr. Venkat S Iyer, who have in-depth knowledge of the pharmaceutical industry and a track record of incubating and developing pharmaceutical businesses.

Kaizen has an R&D and manufacturing facility in Harohalli, Bengaluru and a probiotics manufacturing facility in Mysore. It also has a manufacturing plant in New Jersey, USA, which is expected to commence commercial operations in the next one year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	7.0	6.6
PAT (Rs. crore)	-19.9	-24.4
OPBDIT/OI (%)	-225.6%	-139.0%
RoCE (%)	NM	NM
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.8
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; 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: Company; 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	16-Nov-2018	-	-
1	Term Loans	Long Term	90.0	78.3	[ICRA]BBB- (CE) (Negative)	[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 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	Term Loan	Dec 28, 2017	NA	2025	90.0	[ICRA]BBB- (CE) (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Tenshi Kaizen Inc., USA	95.00%	Full Consolidation
Tenshi Kaizen USA Inc., USA	100.00%	Full Consolidation
Triphase Pharmaceuticals Private Limited	60.00%	Full Consolidation

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