Press Release

Clininvent Research Private Limited

February 12, 2018

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Facilities- Term Loan (including proposed limit of Rs.14.45 crore)*	54.00	IVR A- (SO) / Stable Outlook (IVR Single A Minus [Structured Obligation] with Stable Outlook)	Assigned
Long Term Fund Based Facilities - Cash Credit *	7.00	IVR A- (SO) / Stable Outlook (IVR Single A Minus [Structured Obligation] with Stable Outlook)	Assigned
Long Term Non Fund Based Facilities- Derivative Contract*	2.00	IVR A- (SO) / Stable Outlook (IVR Single A Minus [Structured Obligation] with Stable Outlook)	Assigned
Short Term Non Fund Based Facilities - Letter of Credit*	7.00	IVR A2+ (SO) (IVR A Two Plus [Structured Obligation])	Assigned
Total	**70.00**		

**Based on unconditional & irrevocable guarantee of TCG Lifesciences Private Limited (TLPL), the holding company.*

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Clininvent Research Private Limited (CRPL) derive comfort from the unconditional & irrevocable guarantee given by its holding company, TCG Lifesciences Private Limited (TLPL).

The credit profile of TLPL derive comfort from strong parentage of The Chatterjee Group (TCG), its experienced management team with skilled manpower, state of art research facilities with adequate IT infrastructure and reputed clientele. The credit profile is further supported by stable & comfortable profitability performance, comfortable capital structure with satisfactory debt protection matrices and healthy growth prospects for contract research organisation (CROs). However, the credit profile is constrained by high competition in the industry and susceptibility to regulatory changes, risk of technology obsolescence, exposure to foreign exchange fluctuations, customer concentration risk and exposure to group companies. The growth in scale of operation, profitability, gearing level and exposure to group companies are the key rating sensitivities.

List of Key Rating Drivers

- Strong parentage of The Chatterjee Group (TCG)
- Experienced management team with skilled manpower.
- State of art research facilities with adequate IT infrastructure
- Reputed clientele
- Stable & comfortable profitability performance
- Comfortable capital structure with satisfactory debt protection matrices
- Healthy growth prospects for contract research organisation (CROs)
- High competition and susceptibility to regulatory changes
- Risk of technology obsolescence
- Customer concentration risk
- Exposure to foreign exchange fluctuations
- Exposure in group companies

Detailed Description of Key Rating Drivers

Strong parentage of The Chatterjee Group (TCG)

TLPL is a subsidiary of TCG Lifesciences Mauritius Limited which is a part of "The Chatterjee Group" led by Dr. Purnendu Chatterjee – a highly qualified and experienced industrialist. Dr. Chatterjee was associated with internationally reputed names like Mckinsey, Soros Fund Management and served as an Investment advisor to entities in the Quantum Group of Funds for over 13 years. In this role, Dr. Chatterjee handled investments of over $3 billion across the world. The group has interests in various sectors like real estate, petrochemicals and information technology through it various companies with major company being Haldia Petrochemicals Ltd. (having a Turnover of Rs.103.8 bn and PAT of Rs.8.6 bn in FY17 [FY17 refers to the period from April 1 to March 31).

Experienced management team with skilled manpower

TLPL is administered by a four member board of directors. Shri Swapan Bhattacharya, MD, is at the helm of affairs of the company, duly supported by other directors of eminence and a team of experienced professionals from diverse fields. Further, the company is also supported by an advisory board which comprises of eminent scientists and business strategists recognized internationally in their fields of expertise. Senior employees of the company have over 20 years of experience in this field. Being a contract research organisation (CRO), TLPL is highly dependent on skilled workforce recruited on-campus from reputed institutions in India and abroad. The company also undertakes various skill development programs on a regular basis for skill enhancement of its employees. Although the company is exposed to employee attrition risk, the same is well mitigated by virtue of attractive compensation package (the attrition rate at TLPL was within 2% in the last one year).

State of art research facilities with adequate IT infrastructure

TLPL's research infrastructure (> 250,000 sq. ft) includes state of art chemistry and biology laboratories, in vitro and in vivo pharmacology, in vivo toxicokinetics, DMPK, electrophysiology laboratory, BSL 2&3 laboratory and cGMP Kilo Lab facilities at its R&D centre in Kolkata. The company also subscribes to various electronic databases including, journals & books which equip the scientists to participate in research and development programs and implemented best in class tracking software's for project monitoring and to maintain data confidentiality.

Reputed clientele

Over the years TLPL has developed established relationship with its customers across various domains like pharma/biotech, crop science, animal health, nutraceuticals, cosmeceuticals and fine chemicals. Its customers are reputed pharmaceutical companies across the world which underpin its credentials and strengthen its business risk profile.

Stable & comfortable profitability performance

The financial performance of the company on a consolidated basis remained stable with marginal y-o-y growth of ~3.3% in total operating income in FY17. The muted growth was due to reduced order flow during the year amidst high competition in the industry. However, on a consolidated basis, the EBIDTA margin and the PAT margin improved marginally and remained stable at 16.61% and 4.24% respectively in FY17 (as against 16.17% and 4.01% respectively in FY16). On a standalone basis, TLPL achieved a y-o-y growth of ~7% in FY17 with an EBIDTA margin of 16.42% and PAT margin of 4.92%.

In 9MFY18 (Unaudited), TLPL, on a standalone basis, achieved a PAT of Rs.7.64 crore on total operating income of Rs.121.41 crore. The EBIDTA margin stood satisfactory at 18.70%.

Comfortable capital structure with satisfactory debt protection matrices

The capital structure of the company, on a consolidated basis, remained comfortable with the long term debt equity ratio being at 0.25x and the overall gearing at 0.52x as on March 31, 2017. Further, the debt protection metrics, on a consolidated basis, also remained satisfactory marked by the healthy interest coverage ratio at 4.25x in FY17 and Total debt to GCA at 5.04x as on March 31, 2017. On a standalone basis, the debt equity ratio and the overall gearing ratio also stood satisfactory at 0.16x and 0.46x respectively with the Total debt/GCA at 3.87x as on March 31, 2017 and the interest coverage ratio at 4.57x in FY17 and as on March 31, 2017 respectively. Further, the interest coverage ratio remained comfortable at 6.14x in 9MFY18.

Healthy growth prospects for contract research organisation (CROs)

India's contract research industry is expected to grow at a steady pace over the medium to long term, given the growing research and development (R&D) costs and increasing need for global pharma majors to successfully discover and develop innovative molecules. India, is an attractive destination for such outsourcing backed by its advantage of low cost, good talent pool and strong process chemistry skills.

High competition and susceptibility to regulatory changes

The contract research industry is highly fragmented and competitive due to its moderate entry barriers. Several large pharmaceutical players globally are outsourcing contract research activities to India. Further, healthy prospect of growth in the industry is expected to attract more national and international players to enter the industry. Currently, TLPL faces competition from both Indian and foreign players including a number of full service global drug development companies which may choose to undertake research internally. Increase in industry participants may result in increasing competition and constraining pricing flexibility of established players. Furthermore, the industry is highly prone to various regulatory changes in the pharma sector across the world, especially in the regulated markets like European Union (EU) and USA.

Risk of technology obsolescence

Technology is one of the key factors in the pharma industry especially in the field of innovation and discovery of molecules. The industry is prone to rapid changes in technology with continuous innovation, change in consumer preferences and global trends. Accordingly, the CROs are always needed to catch up with the latest trends with continuous innovation and up-gradation in the existing technologies which indicates a business risk.

Customer concentration risk

The company derives significant portion of its revenue [~45% in H1FY18 (~55% in FY17)] from its top ten clientele which indicates a fair degree of customer concentration risk. Further, the volume of work outsourced by these companies may vary from year to year and they may even reduce spending on services due to change in economic environment and other factors relating to their business.

Exposure to foreign exchange fluctuations

TLPL is an export oriented unit (EOU) and exports its services mainly to overseas destinations along with Domestic Tariff Area (DTA) sales. However, the company enjoys a natural hedging as a large part of its required raw materials (chemicals, equipment) /services are imported. Further, it has a policy to hedge receivables through forward contracts and principal & interest repayments on foreign currency loans through swaps. Despite these mechanisms being in vogue, around 40% of its forex exposure remained open indicating exchange fluctuation risks. In FY17, TLPL incurred a loss of Rs.1.20 crore, as compared to a loss of Rs.0.87 crore in FY16 on foreign currency translation.

Exposure in group companies

TLPL has high exposure in its group companies in the form of investments, loans and advances and non-funded exposure in the form of corporate guarantee. The group exposure of the company (on a consolidated basis) as on March 31, 2017 were equity, loans and advances & receivables and corporate guarantee to Materials Chemicals and Performance Intermediaries Private Limited for its fund based (Rs.150 crore) and non-fund based bank facilities (Rs.735 crore). The majority stake of MCPI was acquired by TCG in November, 2016. However, MCPI achieved a PAT of ~Rs.351 crore on a total operating income of ~Rs.4412 crore in 9MFY18. Furthermore, MCPI has a robust cash balance of Rs.584.8 crore as on December 31, 2017. In view of good financial performance of MCPI and its robust cash balance the risk of invocation of corporate guarantee appears low. Further, TLPL is in the process of withdrawing the guarantee extended on behalf of MCPI from the bank (SBI) and the same is expected to be withdrawn in near term.

Analytical Approach & Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

CRPL (incorporated on July, 2003) was in the business of Human Clinical Trials. It is a wholly owned subsidiary of TLPL belonging to TCG. Due to adverse regulatory developments, it has not been able to procure sufficient orders and run the business profitably. Thus, in FY17, it exited such business and is currently venturing into manufacturing of Active Pharmacueticals Ingredients (API) and also New Chemical Entities (NCEs) at its newly acquired plant at Hyderabad which started operations from October, 2017. The total estimated acquisition cost of the aforesaid factory (including refurbishing of the facilities & other incidental cost) is about Rs.56.93 crore, which is being financed in the debt-equity ratio of 3.5x. CLPL has since spent Rs.42.71 crore till December 31, 2017 for the purpose.

About the Guarantor

TLPL was initially incorporated on August, 1998 as Chembiotek Research Private Limited (name changed in February 2002). TLPL is a subsidiary of TCG Lifesciences Mauritius Limited having 98.45% equity state in the company owned by the Chatterjee Fund Management. TLPL has two wholly owned subsidiaries, CRPL and Xtec International Mauritius Limited (an investment Company).

TLPL is working as a Contract Research Organization (CRO) and engaged in the business of providing contract research services to pharmaceutical companies in the area of early drug discovery and development. A Contract Research Organisation, also called Clinical Research Organization, is a service organization providing support to the pharmaceutical and biotechnology industries in the form of outsourced pharmaceutical research services (for both drugs and medical devices). TLPL set up its first laboratory at Salt Lake Electronic Complex, Kolkata, in 2001, to carry out chemistry research operation and gradually expanded its area of research over the years. Currently, the day-to-day affairs of the company are managed by Shri Swapan Bhattacharya, MD, an engineering graduate from IIT, Kharagpur, and a management graduate from Northwestern University, USA, with an experience of over three decades.

TCG was founded in 1989. TCG is a premiere private equity firm, with investments and operations spanning several continents and industries. Dr. Purnendu Chatterjee is the Founder and Chairman of the Group. The group has interests in real estate, Petrochemicals, Life Sciences, besides IT. Dr. Chatterjee was closely associated with Soros Fund Management from 1989 to 2000, and served as an Investment Advisor to entities in the Quantum Group of Funds for over 13 years. In this role, Dr. Chatterjee was responsible for investments of over $3 billion across the world.

Financials: TLPL (Consolidated):

(Rs. Crore)

For the year ended* / As On	31-03-2016	31-03-2017
	Audited	Audited
Total Operating Income	161.87	167.13
EBITDA	26.18	27.76
PAT	6.78	7.86
Total Debt	111.77	114.25
Tangible Net worth	212.44	218.26
EBITDA Margin (%)	16.17	16.61
PAT Margin (%)	6.13	6.73
Overall Gearing Ratio (x)	0.53	0.52

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15

S. No.	Name of Instrument/Facilities	Current Rating (Year 2017-18)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16	Date(s) & Rating(s) assigned in 2014-15
1.	Long Term Facilities - Term Loan	Long Term	54.00	IVR A- (SO) / Stable Outlook			
2.	Fund Based Facilities - Cash Credit	Long Term	7.00	IVR A- (SO) / Stable Outlook			
2.	Non Fund Based Facilities- Derivative Contract	Long Term	2.00	IVR A- (SO) / Stable Outlook	--	--	--
4.	Non Fund Based Facilities- - Letter of Credit	Short Term	7.00	IVR A2+ (SO)	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Facilities- Term Loan	Varied	Varied	Varied till, June-2024	39.55	IVR A- (SO) / Stable Outlook
Long Term Facilities- Term Loan (Proposed)	--	--	--	14.45	IVR A- (SO) / Stable Outlook
Long Term Fund Based Facilities - Cash Credit	--	--	--	7.00	IVR A- (SO) / Stable Outlook
Long Term Non Fund Based Facilities - Derivative Contract	--	--	--	2.00	IVR A- (SO) / Stable Outlook
Short Term Non Fund Based Facilities - Letter of Credit	--	--	--	7.00	IVR A2+ (SO)