



Infomerics Valuation and Rating Pvt Ltd

Press Release

Clininvent Research Private Limited.

May 03, 2017

Rating

Instrument	Size	Rating	Rating Action
Issuer Rating	Not applicable	IVR BBB(Is)/Stable outlook (IVR Triple B [Is] Stable outlook)	Assigned

Details of Instruments are in Annexure I

Infomerics Valuation and Rating Pvt. Ltd. has assigned an issuer rating of **IVR BBB(Is)/Stable outlook (IVR Triple B [Is]/Stable outlook)** to Clininvent Research Pvt. Ltd. (CRPL). Issuers with this rating are considered to offer moderate degree of safety regarding timely servicing of financial obligations. Such instruments carry moderate credit risk.

Detailed Rationale

The aforesaid rating derives comfort from CRPL being a subsidiary of TCG Lifesciences Pvt. Ltd belonging to The Chatterjee Group (TCG)., strong managerial & technical team, recent acquisition of a plant at Hyderabad for foraying in manufacturing of Active Pharmaceutical Ingredients (API) and New Chemical Entities (NCE) and buoyant & stable outlook of the pharmaceutical sector. The proposed unconditional & irrevocable guarantee of the holding company, TCG Lifescience Pvt. Ltd. (TCGL) having long standing in the pharmaceutical contract research, for all the current borrowings of CRPL also supports the rating. However, the rating is constrained by the weak financial profile of CRPL and risks associated with entry into new line of business which needs to be time tested. Continuity of support from the holding company and the group and successful & stable operation at the newly acquired plant shall be the key rating drivers in the medium term.

List of Key Rating Drivers

- A subsidiary of TCGL belonging to TCG Guarantee of the holding company for all the current borrowings of CRPL.
- Strong managerial & technical team.



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- Weak financial profile of CRPL.
- Recent acquisition of a plant for foraying in manufacturing of API and NCE.
- Risks associated with entry into new line of business.
- Buoyant & stable outlook of the pharmaceutical sector.

Detailed Description of Key Rating Drivers

CRPL is a wholly-owned subsidiary of TCGL belonging to TCG. TCG is a premiere private equity firm with investments & operations spanning several industries (like Real Estate, Petrochemicals, Life Science and Information Technology) across continents.

TCGL, incorporated as Chembiotek Research Pvt. Ltd. in 1998, has been in contract scientific research at the instance of pharmaceutical and biotechnology entities in the area of “early drug discovery & development”. The company commenced operation in 2001 and it has research facility at Kolkata. TCGL has the requisite expertise in several therapeutic areas entitling it to get repeat orders on regular basis. During FY16 (refers to April 01 to March 31), TCGL reported a Profit After Tax of Rs.6.47 crores on a Total Income of Rs.161.83 crores.

CRPL has been in the business of Human Clinical Trials over a decade. Due to adverse developments in the regulatory front, environment for human clinical research has become very stringent following the order of hon’ble Supreme Court in 2013. This has caused difficulties to CRPL to garner sufficient orders and hence, it has not been able to run its operations profitably for a couple of years. Consequently, it has exited from such business sometime in FY17. Now the company is venturing into manufacturing of API and NCE. For this purpose, CRPL has acquired a manufacturing facility at Hyderabad which was manufacturing API & intermediates and became non-functional since mid of FY15. The facility has 42 reactors, encompassing SS reactors, Glass lined reactors and Pressure reactors with wide product list in the areas of cardiovascular and anti-psychotic drugs. The existing capacity of the facility is about 130 KL. CRPL is envisaging setting up facilities for NCE manufacturing for leveraging TCGL’s expertise in this field and renovating the existing facilities, although the same is fairly in a good condition. The aggregate project cost is



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Rs.52.86 crores which is being financed at a debt-equity ratio of 3:1. Out of the proposed debt component of Rs.39.64 crores, Rs.29.00 crores has since been tied up and Rs.19.5 crores has since been availed. The required statutory approvals are in place and the facility is likely to commence operation in October, 2017.

Prior to the current borrowings made/being made for the aforesaid project, CRPL never had borrowings from the market and/or banking system and it had borrowed only from group companies, majorly from TCGL. Servicing of the aforesaid borrowings is unconditionally & irrevocably guaranteed by TCGL.

TCGL has been in NCE manufacturing for long and a major part of its revenue is derived from NCE sales, backed by its expertise in this field over the years. TCGL has a very strong managerial & technical team comprising highly qualified & experienced personnel. While CRPL is expecting to receive support of TCGL's technical team for NCE manufacturing, CRPL is also building up its team rapidly, given Hyderabad being the bulk drug capital of the country with major share of API manufacturers. Notwithstanding the above, Infomerics believes that re-building the work culture & working arrangements and suitable re-staffing shall have to be time tested.

The global pharmaceutical sector has been demonstrating a stable performance over decades, backed by increased health awareness, rising disposable income and increasing population base creating significant demand. Further, internationally big pharmaceutical companies are being forced to outsource its non-core activities like API manufacturing to achieve economy in cost and India is rapidly becoming the preferred destination for outsourced pharma manufacturing and R & D.

Analytical Approach: While arriving at the aforesaid rating by Infomerics, it has taken into consideration the comfort available in the form of unconditional & irrevocable guarantee of the current/immediate proposed borrowings of CRPL by TCGL.

Applicable Criteria

Rating Methodology for Manufacturing companies

Financial Ratios & Interpretation



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Criteria on Parent/Group Support

About the company

CRPL (incorporated August 2003) was in the business of Human Clinical Trials. It is a wholly owned subsidiary of TCGL belonging to The Chatterjee Group. 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 API and NCEs at its newly acquired plant at Hyderabad. In FY16, CRPL reported a Net Loss of Rs.2.3 crores on Total Income of Rs.5.8 crores.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Nil.

Rating History for the last three years: Not applicable

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 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.

Disclaimer:

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Annexure I: Details of Instrument

Name of Instrument	Date of issuance	Coupon Rate	Maturity Date	Size of issue (Rs. Crores)	Rating Assigned/ Outlook
Issuer Rating	Not applicable	Not applicable	Not applicable	Not applicable	IVR BBB(Is)/Stable Outlook (Triple B [Is] with Stable Outlook)