

# Infomerics Valuation and Rating Pvt. Ltd



## Press Release

**Karuna Healthcare Pvt. Ltd.**

**October 9, 2018**

## Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Current Rating	Rating Action
1.	Non-Convertible Debentures (Present outstanding)	160.00	IVR BBB+ (SO)/Stable Outlook (IVR Triple B Plus Structured Obligation with Stable Outlook)	Revised from IVR A(SO)/Stable Outlook (IVR Single A Structured Obligation with Stable Outlook)
	<b>Total</b>	<b>160.00</b>		

**Details of Instrument are in Annexure 1**

## Detailed Rationale

The revision in rating takes into account the significant fall in the security cover to 1.3 times (as on September 24, 2018) arising out of decline in market prices of Strides Pharma Science Ltd. (Strides) and Sequent Scientific Ltd. (Sequent) and the highly volatile equity market. While such adverse development is likely to be mitigated considerably due to additional security cover, backed by shares of certain unlisted companies of the group which are planned for monetisation; this alongwith the inherent challenges in monetisation have also been factored while revising the rating.

The rating is essentially based on the unconditional & irrevocable guarantee of Mr. Arun Kumar Pillai, the main promoter, and the 11 entities belonging to the promoter group having sizeable amount of unencumbered equity stake in three major listed group pharmaceutical companies (Strides, Solara Active Pharma Sciences Limited (Solara) and Sequent), backed by a defined structure. The rating also takes cognisance of the association of Vistra ITCL India Ltd., a reputed company in the Indian trusteeship industry, as the trustee to the transaction, good standing of Strides & Sequent, and very short track record of Karuna Healthcare Pvt. Ltd. (KHPL) and presence of significant keyman risk. Volatility of the equity market in the ensuing days vis-a-vis performance of shares of Strides, Sequent and Solara and the success of the monetisation plan of the unlisted shareholdings are the key rating sensitivities.

## List of Key Rating Drivers

### Rating Strengths

- Unconditional and irrevocable guarantee of 11 companies and/or LLPs belonging to promoter group and the main promoter.
- The guarantors are having sizeable amount of unencumbered equity stake in listed group pharmaceutical companies, Strides, Sequent and Solara, besides having stake in certain unlisted companies with defined monetisation plan.
- Defined payment mechanism.
- Good standing of Strides and Sequent.
- Experienced promoter.
- Presence of a reputed Trustee company to monitor the implementation of the debt servicing structure.

### Rating Weaknesses

- Very short track record of the issuer company.
- Sharp fall in the market price of shares of listed companies leading to reduction in listed share cover.
- Volatility in the equity market.
- Keyman risk.
- Challenges in monetising the shareholding in unlisted companies.

### Detailed Description of Key Rating Drivers

The servicing of the NCDs is unconditionally and irrevocably guaranteed by Mr. Arun Kumar Pillai, the main promoter, and 11 group companies and/or LLPs.

The aforesaid guarantors collectively have unencumbered aggregate equity stake in Strides, Sequent and Solara. In addition, the guarantors also have investments in shares of certain unlisted companies across a diversified mix of sectors.

Based on the market value of aforesaid equity investment as on September 24, 2018, there is an implied cover to the extent of 1.3 times. The transaction documents also provide for monetisation timelines of key unlisted companies which have substantial economic value.

As per the debt servicing structure, the money required for debt servicing is to be deposited into a dedicated bank account five business days before the coupon payout date and a month before the principal redemption date. Each guarantor has undertaken to make all payments and discharge all obligations of the issuer owing to the NCD holders. All obligations of the guarantors are joint and several. In case of any insufficiency of fund, the trustee to the NCD issue, acting on the instructions and on behalf of the NCD holders, will have a set of rights to act upon (including invocation of guarantee). The debt servicing structure is backed by a Trust Deed and Guarantee Deeds, duly vetted by an independent legal counsel.

Strides is a vertically integrated global pharmaceutical company headquartered in Bengaluru. It has global manufacturing footprint with 14 facilities across India, Europe and Africa (including six US FDA approved facilities). The Company focuses on developing niche and complex pharmaceutical products across wide dosage formats for regulated and emerging markets. Given the above mentioned focus, it has often engaged in acquisition and divestments to achieve its strategy. As of now, it has businesses with significant growth potential in Sub Saharan Africa, Australia and North America, besides India.

Sequent is an integrated pharmaceutical company with presence in Human and Animal (APIs) and veterinary formulations. It has a global footprint and a proven expertise in pharmaceutical/life science products & services and industrial products.

Strides and Sequent have demerged a business division (the commodity/human API unit - Active Pharmaceutical Ingredient unit) into a separate entity called Solara. The demerger scheme was approved by NCLT in March 2018. The ex-date for demerger was on April 6, 2018. According to the scheme, for every six shares held in Strides, one share of Solara was allocated. And for every 25 shares of Sequent, one share of Solara is allocated. Solara has since got listed.

Vistra ITCL (India) Ltd. (Vistra ITCL), a SEBI approved debenture trustee, is the Trustee for the transaction. Vistra ITCL, formerly known as IL&FS Trust Co. Ltd. established in 1995, is the largest independent corporate trustee in India.

KHPL was incorporated in February 2017 to act as a group investment company to arrange funds deployment majorly in various manufacturing entities of the group. It does not have any distinct revenue model of its own.

Mr. Arun Kumar Pillai is the main person in the Strides group providing the strategic direction to the companies. The markets also derive comfort from his presence in charting the growth path for these two companies, in particular. Thus, the continued presence of Arun Kumar is a key imperative for the sustainable growth of these companies, indicating a significant keyman risk.

Indian capital market, by its nature, is volatile arising out of many developments taking place in the social and economic front both at the national and international levels. Despite of particular equity scrip continues to remain fundamentally strong; the market price of such scrip may get adversely impacted due to the market behaviour. As the collateral cover for debt servicing, in the instant case, is in the form of equity investment in three listed companies, the same is exposed to the risk of market volatility. However, such risk is proposed to be mitigated by way of adequate additional cover in few unlisted companies such as:

- i. Quadgen Networks Private Limited
- ii. Quadgen Wireless Solutions Inc
- iii. Skanray Technologies Private Limited
- iv. Tenshi Life Sciences Private Limited

### **Analytical Approach**

While arriving at the aforesaid rating by Infomerics, it has taken into consideration the unconditional and irrevocable guarantee of Mr. Arun Kumar Pillai, the promoter of the group, and 11 group business entities whose main assets are in the form of equity investments in Strides, Solara and Sequent, three major listed companies of the group and holding in few unlisted group companies with defined monetisation plan.

### **Applicable Criteria**

Rating Methodology for Structure Debt Transaction (Non-securitisation transaction)

Financial Ratios & Implication (Non-financial Sector)

## About the company

KHPL is a part of the Bengaluru based Strides group with Strides, Solara and Sequent, being the three major companies which are listed in BSE and NSE. KHPL is essentially an investment company of the Strides group incorporated in February, 2017. Strides is a vertically integrated global pharmaceutical company headquartered in Bengaluru. The Company focuses on developing niche and complex pharmaceutical products across wide dosage formats for regulated and emerging markets. Sequent is an integrated pharmaceuticals company with presence in Human and Animal Active Pharmaceutical Ingredients (APIs) and veterinary formulations. Solara is the recently demerged commodity / human API unit of Strides and Sequent. Shri Arun Kumar Pillai, the promoter of the group, and Shri Abhaya Kumar, Executive Director in Strides, are the pivots for providing strategic guidance to the group.

During FY18 (refers to April 01 to March 31), Strides reported a PAT of Rs.680 crore on Total Income of Rs.2839 crore. Sequent reported a PAT of Rs.430 crores on Total Income of Rs.848 crores during the aforesaid period.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Nil.

## Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	NCD	Long Term	160.00	IVR BBB+ (SO)/Stable Outlook	IVR A(SO)/Stable Outlook (Sep 14, 2017)	-	-

## Infomerics Valuation and Rating Pvt. Ltd



**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](http://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. 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 1: Details of Instrument**

Name of Instrument	Date of issuance	Coupon Rate	Maturity Date	Size of issue (Rs. Crores)	Rating Assigned/ Outlook
Non Convertible Debenture	May 5, 2017	Coupon – 4.5%  IRR – 10-15.5%, backed by a pricing formula (indicative)	January 31, 2020	160.00	IVR BBB+ (SO)/Stable Outlook