TCG Lifesciences Private Limited

April 06, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	184.97 (Enhanced from 83.06)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term (LT/ST) Bank Facilities	15.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Assigned
Long Term / Short Term (LT/ST) Bank Facilities	117.00 (Enhanced from 111.00)	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	**316.97 (Rs. Three Hundred Sixteen Crore and Ninety-Seven Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of TCG Lifesciences Private Limited (TCGLPL) continue to derive strength from its parentage of the resourceful TCG group providing financial flexibility, established presence in the contract scientific research industry and long relationship with its diversified customer base. The company has skilled manpower with moderate attrition and state-of-the-art research facilities with strong IT infrastructure for enhanced productivity and data security.

The ratings take note of the improvement in TCGLPL's consolidated total operating income (TOI) and profitability during 9MFY22 (refers to the period April 1 to December 31) due to the improvement in standalone TOI and profitability with revision in billing rates and execution of higher margin contracts. This was despite its subsidiary Clininvent Research Private Limited (CRPL) continuing to incur operating losses due to under-absorption of overheads. While the TOI had remained stable in FY21, consolidated profitability had witnessed moderation on account of moderation in standalone profitability and significant losses incurred by CRPL due to the impact of Covid-19 pandemic on operations resulting in loss of revenue. However, with increased inflow of orders in FY22, the performance of CRPL is expected to gradually improve going forward. Furthermore, the ratings continue to derive comfort from its comfortable capital structure and satisfactory debt coverage indicators.

The ratings, however, continue to remain constrained by the risks of competition and technology obsolescence, dependence on continued outsourcing of R&D by pharmaceutical companies, national and international regulations with respect to drug development, exposure to foreign fluctuation risk and project implementation risk. The ratings also take note of the increase in its exposure to group entities in FY21 with additional investment towards TCG Greenchem Inc (TCGG) to fund its capex and operating losses.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant growth in its consolidated TOI and improvement in Total Debt/PBILDT to less than 2x on a sustained basis.
- Improvement in capital structure (overall gearing < 0.50x) and ROCE > 15% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significant reduction in scale of operations and PBILDT margin below 15% on a sustained basis.
- Any debt funded capex leading to deterioration in capital structure (overall gearing > unity) or debt protection metrics (Total Debt/PBILDT remaining above 4x) on a sustained basis.
- More than envisaged support extended to related parties and/or sustained delay in turnaround of operations of its subsidiary having significant adverse impact on its credit profile.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group

TCGLPL is promoted by "The Chatterjee Group" (through TCG Lifesciences Mauritius Limited), a global investment conglomerate headquartered in New York. The group was established by Dr. Purnendu Chatterjee (Chairman of TCGLPL) who is a renowned industrialist with over 36 years of experience. Dr Chatterjee has also made several strategic investments in India, particularly in knowledge intensive industries, such as IT, IT-enabled services, Life Sciences, Real Estate, Petrochemicals etc.

TCGLPL is governed by a five-member board of directors. The company also has an advisory board which comprises of eminent scientists and business strategists recognized internationally in their fields of expertise.

Skilled manpower with moderate attrition

TCGLPL, being a contract research organisation (CRO), is highly dependent on scientific and technical personnel. Acquisition

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

and retention of right talent is critical to maintain desired operational standards. The skills and diversity of its employees give TCGLPL the flexibility to best adapt to the needs of customers across a diversified portfolio.
The company being highly dependent on the employee faces risk arising from the exit of its employees. Ability of the company to execute the contract is highly dependent on its ability to attract, develop, motivate and retain the skilled workforce (particularly scientists). The attrition has been controlled at less than 10% for FY21 and less than 3% for FY22.

State-of-the-art research facilities with strong IT Infrastructure for enhanced productivity and data security
TCGLPL's research infrastructure (> 250,000 sq. ft) includes state of art chemistry and biology laboratories, in-vitro and in-vivo pharmacology, electrophysiology laboratory, BSL 2&3 laboratory, analytical development and validation, specialty chemicals, and cGMP Kilo Lab facilities at its R&D centre in Kolkata. The company also subscribes to electronic databases including, journals & books which equip the scientists to participate in research and development programs. In Q4FY18, CRPL commenced clinical supplies operations in Hyderabad by manufacturing new chemical entities (NCEs). It has provided end-to-end service capability to the group for its early-stage drug discovery services and strengthen its position in the chemical and biological laboratory services as well. However, since the operations of CRPL are yet to achieve meaningful scale, it is incurring losses.

Strong customer profile; albeit concentration risk
Over the last two decades, TCGLPL has demonstrated a track record of successfully delivering 'pre-clinical drug molecules' to its clients. The company has developed relationships with over 40+ life science customers across pharma/biotech, crop science, animal health, nutraceutical, cosmeceutical and fine chemical domains. TCGLPL's customers are renowned pharmaceutical companies of the world. The company had 103 active customers as on December 31, 2021 out of which 21 new customers and 15 new line of business from existing customers were added in 9MFY22. However, the company is exposed to client concentration risk with top 5 customers contributing 34% of total revenue in FY21 (40% in FY20).
During FY21, TCGLPL earned 92% of its revenue from export market (PY: 95%). The company exports its products and CRO services to USA, Germany, Japan, Switzerland, United Kingdom among others.

Improvement in TOI and profitability in 9MFY22
TCGLPL's consolidated TOI remained stable at Rs.292.67 crore in FY21 as against Rs.294.84 crore in FY20. There was a marginal dip in TOI for FY21 compared with FY20 on account of Covid-19 pandemic wherein CRPL's unit in Hyderabad was shut-down for 3 months in Q1FY21. The consolidated PBILDT margin, however, witnessed a significant decline in FY21 mainly on account of increase in employee expenses to retain good talented scientists along with increase in legal and professional fees. Also, the novel chemical segment under CRPL reported losses with significant decline in revenue leading to under absorption of fixed costs.
On a standalone level, the company reported PAT of Rs.31.54 crore in FY21 (Rs.41.17 crore in FY20) on a TOI of Rs.269.66 crore in FY21 (Rs.226.75 crore in FY20).
In 9MFY22, on a consolidated level, the TOI of the company witnessed a growth of 32% y-o-y on account of higher revenue from contract research segment with company adding new clientele and adding new businesses from existing clients. PBILDT margin witnessed an improvement in 9MFY22 on account of revision in billing rates, higher margin contracts executed and marginal reduction in operating losses in CRPL.
On a standalone basis, in 9MFY22, the company reported PBILDT of Rs.65.01 crore (Rs.46.23 crore in 9MFY21) on a revenue of Rs.233.79 crore (Rs.197.64 crore in 9MFY21).

Comfortable capital structure and satisfactory debt coverage indicators; albeit moderation in FY21
On a consolidated level, the capital structure continued to remain comfortable marked by overall gearing at 0.73x as on March 31, 2021 vis-à-vis 0.68x as on March 31, 2020. Interest coverage ratio remained comfortable at 3.49x in FY21, though moderated from 4.98x in FY20 on account of the decline in PBILDT margin. However, the same again improved to 5.53x in 9MFY22 with the improvement in TOI and profitability margins during the period.

Key Rating Weaknesses
Risk of competition & technology obsolescence
TCGLPL faces competition from full-service CROs, captive R&D centres of multinational organisations, small speciality CROs, and, to a lesser extent, universities and teaching hospitals.
Furthermore, the pharmaceutical industry is characterized by rapid change, evolving industry standards, changing client preferences and new service introductions. Further, to mitigate this risk, the company undertakes regular capex to upgrade its laboratories and infrastructure capabilities.
Given the sensitive nature of business involving human health, there are various national and international regulations which companies engaged in the process of drug development have to adhere to and hence the company is exposed to various regulatory risks.

Dependence on continued outsourcing of R&D by pharmaceutical companies
TCGLPL remains dependent on the ability and the willingness of the clients to continue to spend on R&D and outsource the services. Although clients outsource both small and large research programme, R&D budgets fluctuate due to changes in available resources, consolidation of companies, spending priorities and institutional budgetary policies. Hence any fluctuations in R&D budgets of the counterparty can have a significant effect on the demand of the services of the company.

Exposure in group companies
The company has high exposure in terms of investments, loans and advances and security deposits to its group companies. The exposure at a consolidated level increased to 57.44% of the tangible net-worth of the company as on March 31, 2021 as against 52.77% as on March 31, 2020. The major increase in exposure is towards TCGG to fund capex and loss funding. TCGC will be the front-end of TCGLPL and CRPL in USA for the US Pharma and biotech companies. TCGG is expected to become a step-down subsidiary of TCGLPL going forward and is expected to contribute positively to the consolidated financials of TCGLPL.

Exposure to foreign exchange fluctuations risk
The company is exposed to fluctuation in the foreign currency, since majority of the revenues are denominated in foreign currencies and majority of the costs are incurred in INR. Being an Export Oriented Unit (EOU), the company exports all its services except for permitted levels of Domestic Tariff Area (DTA) sales. The company has foreign currency payments for importing raw material (chemicals, equipment; forming about 77% of raw materials consumed), repayment of foreign currency loans and consultancy services availed. The company has a policy to hedge its receivables which are not naturally hedged through forward contracts and principal & interest repayments on foreign currency loans through swaps. TCGLPL reported forex gain of Rs.2.58 crore in FY21 vis-à-vis loss of Rs.0.53 crore in FY20.

Project implementation risk
The company has planned capex for the purpose of expansion of new chemistry facility for around Rs.22 crore, expansion of biology facility for around Rs.13 crore apart from the routine capex of around Rs.22 crore in TCGLPL and its subsidiary in FY23. The company has not expended any cost till March 31, 2022 for the same.
The company plans to expand its capacity in Biology lab in Kolkata and set up a new Chemistry lab in Pune. The company plans to fund the capex by availing a term loan of Rs.37.5 crore (USD 5 mn) and balance out of internal accruals to be generated by the company. The entire project along with routine capex is expected to be completed in various phases during FY23. It remains exposed to the pre-implementation and post implementation risk associated with the planned capex.

Long ongoing dispute with DST
The statutory auditor of TCGLPL has given a qualified opinion in its audit report on the non-provision of liability amounting to Rs.7.49 crore with respect to the unsecured project loan availed by the company from the Department of Science and Technology (DST). There is a long ongoing dispute between the company and DST with respect to the repayment schedule of the aforesaid unsecured loan since April 1, 2010 which the company had availed between 2008-2010 for a research project. The matter being under dispute, DST has initiated arbitration proceedings for resolution of the same. The company has articulated that it has adequate financial strength to meet this obligation and is willing to resolve this dispute amicably with DST. Consequently, CARE Ratings Limited believes that this non-payment is not on account of any liquidity stress in the company but is due to the ongoing dispute between TCGLPL and DST.

Liquidity: Adequate
The company on a consolidated basis had an adequate liquidity position with free cash and cash equivalents of Rs.11.40 crore as on December 31, 2021. The company avails working capital loans in the form of packing credit which it utilises for financing its exports and the average utilization for the same stood at a moderate level of 87% for TCGLPL while for CRPL it was almost fully utilized for the trailing 12-month period ended February 2022. This apart, TCGLPL has increased its sanctioned working capital limits from Rs.105 crore to Rs.120 crore in December 2021 which is expected to provide greater cushion to its liquidity. A part of the planned capex is expected to be financed out of the term debt for which it has sufficient headroom available with moderate overall gearing. The cash accruals are expected to be sufficient to meet the remaining portion of the project. CARE Ratings also notes that during FY21 TCGPL was provided moratorium on loan repayment by its bank under the Covid-19 regulatory package announced by the RBI in March 2020 whereby the repayment schedule of some of its loans were deferred by a quarter. TCGPL's banker has also confirmed in writing that there was no delay in debt servicing by the company as they had allowed shifting of the instalment repayments by a quarter in line with the Covid-19 moratorium package implemented by the bank due to the pandemic. Consequently, CARE Ratings has not treated this event as delay in debt servicing.

Analytical approach: Consolidated. For arriving at the ratings of TCGLPL, CARE Ratings has taken a consolidated view of TCGLPL and its subsidiaries CRPL (100% holding) and Xtech International (Mauritius) Ltd (XIML; 100% holding) and associate TCG Centre for Research & Education in Science & Technology (20% holding).

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financials Ratio-Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Criteria on consolidation
Rating Methodology - Manufacturing companies
Rating Methodology – Pharmaceutical Sector

About the Company
TCGLPL is promoted by "The Chatterjee Group" belonging to Dr Purnendu Chatterjee (TCG Lifesciences Mauritius Limited being the holding company). TCGLPL was incorporated on August 03, 1998 in the name of Chembiotek Research Private Limited as a CRO to carry out contract scientific research on behalf of pharmaceutical and biotechnology companies in the area of 'early drug discovery and development'. It offers specific, functional solutions to integrated projects across multiple therapeutic areas with specific focus on the following segments: inflammation and pain; infectious diseases; central nervous system; and oncology. In August 2007, the name was changed to TCG Lifesciences Private Limited.
CRPL, wholly owned subsidiary of TCGLPL is into translational research and clinical development services. CRPL manufactures cGMP Active Pharmaceutical Ingredients (NCEs and Generic APIs), GMP ready regulatory starting materials (RSMs), as well as non-GMP manufacturing services to the pharma and fine chemicals industries to produce active ingredients, excipients, starting materials, and intermediates. It also set up a clinical supplies unit in Hyderabad which commenced operations from Q4FY18.
The group has also acquired stake in TCG Greenchem Inc (TCGG) in USA which is engaged in development of new chemicals. TCGLPL had advanced funds into TCGG over the last 2 years.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)#
TOI	294.84	292.67	233.79
PBILDT	85.50	53.33	65.01
PAT	49.78	24.33	34.12
Overall gearing (times)	0.68	0.73	NA
Interest coverage (times)	4.98	3.49	8.62

A: Audited; UA: Unaudited; NA: Not Available
Standalone

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2027	184.97	CARE A-; Stable
Fund-based - LT/ ST-Post Shipment Credit		-	-	-	20.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-Working Capital Demand loan		-	-	-	35.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	25.00	CARE A-; Stable / CARE A2+
Fund-based/Non-fund-based-LT/ST		-	-	-	12.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-Post Shipment Credit		-	-	-	25.00	CARE A-; Stable / CARE A2+
Fund-based - LT/ ST-EPC/PSC		-	-	-	15.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	184.97	CARE A-; Stable	-	1)CARE A-; Stable (31-Mar-21) 2)CARE A-; Stable (03-Apr-20)	-	1)CARE A-; Stable (02-Jan-19) 2)CARE BBB+; Stable (05-Apr-18)
2	Fund-based - LT/ ST-Post Shipment Credit	LT/ST*	20.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Mar-21) 2)CARE A-; Stable / CARE A2+ (03-Apr-20)	-	1)CARE A-; Stable / CARE A2+ (02-Jan-19) 2)CARE BBB+; Stable / CARE A2 (05-Apr-18)
3	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	35.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Mar-21) 2)CARE A-; Stable / CARE A2+ (03-Apr-20)	-	1)CARE A-; Stable / CARE A2+ (02-Jan-19)
4	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	25.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Mar-21) 2)CARE A-; Stable / CARE A2+ (03-Apr-20)	-	1)CARE A-; Stable / CARE A2+ (02-Jan-19)
5	Fund-based/Non-fund-based-LT/ST	LT/ST*	12.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Mar-21) 2)CARE A-; Stable / CARE A2+ (03-Apr-20)	-	1)CARE A-; Stable / CARE A2+ (02-Jan-19)
6	Fund-based - LT/ ST-Post Shipment Credit	LT/ST*	25.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Mar-21) 2)CARE A-; Stable / CARE A2+ (03-Apr-20)	-	-
7	Fund-based - LT/ ST-EPC/PSC	LT/ST*	15.00	CARE A-; Stable / CARE A2+				

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Fund-based - LT/ ST-EPC/PSC	Simple
4	Fund-based - LT/ ST-Post Shipment Credit	Simple
5	Fund-based - LT/ ST-Working Capital Demand loan	Simple
6	Fund-based/Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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