Veeda Clinical Research Limited (Revised)

April 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	**20.00**	**CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)**	**Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two)**
Total Facilities	**20.00 (Rs. Twenty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Veeda Clinical Research Limited (Veeda) takes into account series of equity infusion by its existing as well as new investors which was partly utilized to acquire controlling stake in the Bioneeds India Private Limited (BIPL) and balance is kept in the form of liquid investment and cash and bank balance strengthening its liquidity profile. Also, acquisition of BIPL has led to increased presence of Veeda in value chain and diversification of its revenue profile with addition of pre-clinical trails as service offering.

The ratings continue to derive strength from the experience of its promoters supported by the well qualified management team including professionals inducted by its private equity (PE) shareholders, Veeda's established track record of operation backed by well-equipped facilities and its reputed & diversified customer base. The ratings further derives strength from its healthy profitability, which however, exhibited fluctuating trend in past, adequate liquidity and comfortable capital structure and debt coverage indicators.

The ratings are, however, continues to remain constrain on account of its moderate scale of operation, high contingent liabilities, regulatory risk associated with clinical research industry and susceptibility of its profitability to volatile forex rates.

Rating Sensitivities

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

- Diversification of service offering leading to growth in total operating income (TOI) beyond Rs.500 crore along with profit before interest, lease, depreciation and tax (PBILDT) margin of around 25% on sustained basis

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

- Significant decline in combined TOI below Rs.200 crore with PBILDT margin of less than 20% on sustained basis
- Any significant outgo on account of crystallization of its contingent liability and its impact on the company's liquidity
- Any large size debt-funded capex or acquisition leading to deterioration in its overall gearing beyond 0.60x

Detailed description of the key rating drivers

Key Rating Strengths

Strong net-worth base and healthy liquid investment and cash and bank balance on the back of equity infusion by existing as well as new investors

Veeda has raised fresh equity of ~Rs.230 crore and ~Rs.104 crore through share swap with BIPL in various rounds from March 2021 to January 2022. This equity infusion was subscribed by existing investors as well as new investors like Sabre Partners and AIF Trust. Part of the fund raised was utilized for acquiring of stake in BIPL viz. as on January 31, 2022, Veeda has invested total amount of Rs.226 crore in Bioneeds (including share swap of Rs.104 crore worth of shared for purchase of equity stake from promoters and investment in preference shares of Rs.23 crore in BIPL). Veeda further proposed to acquire remaining 24.90% stake in BIPL (making BIPL wholly owned subsidiary of Veeda) for Rs.75 crore.

Balance funds raised are kept as liquid investment and cash and bank balance which has strengthened its liquidity and as on December 31, 2021, on a combined basis (Veeda and Bioneeds) has healthy liquid investment and cash and bank balance of Rs.200.77 crore. Furthermore, in September 2021, Veeda had filled DRHP for its proposed IPO (Rs.500 crore for offer for sale and Rs.331.60 crore as fresh issue) with SEBI and with object of proceeds to be used in pre-payment of debt, acquisition of balance stake in BIPL, capex requirements and general corporate purpose.

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

Increased presence in value chain and diversification of revenue profile with acquisition of BIPL
To diversified it business operation, Veeda acquired 75.10% stake in series of transaction in a Bioneeds, which is engaged in the pre-clinical services business. BIPL is into providing Integrated Discovery, Development and Regulatory Services to Pharmaceutical, Biopharmaceutical, Agrochemical, Industrial chemical, Herbal / Nutraceutical, Cosmetics, Animal Health and Medical device companies. BIPL has established track record of catering to various industries with over 8000 Good Laboratory Practice (GLP) studies submitted to regulatory bodies across the Globe. It has expertise and experience in handling small molecules (NCEs), generics, vaccines, biologics, agrochemicals, industrial chemicals, medical devices & other substances for regulatory submissions. BIPL has the capability to manufacture reagents and kits required for biosimilar analytical studies (which is being done by Veeda). Combined entity of Veeda and BIPL will have increased presence across entire chain of clinical research organization (CRO) industry resulting in diversification of revenue profile. As per audited results of BIPL for FY21, it had reported TOI of Rs.64.57 crore with PBILDT and gross cash accruals (GCA) of Rs.11.77 crore and Rs.5.55 crore respectively.

Experienced promoter group supported by well qualified senior management team
Promoted by Mr. Apurva Shah and Mr. Binoy Gardi, Veeda has more than fifteen years of track record in clinical research domain. During December 2018, CX Partners and its partner entities acquired majority stake in Veeda. Currently, Mr. Nitin Jagannath Deshmukh, is the Chairman and an Independent Director of Veeda. Mr. Ajay Tandon is present Managing Director of Veeda. Prior to joining Veeda, Mr Tandon was Partner-Operations with CX Advisors LLC (an India mid-market focused private equity investment advisor). Furthermore, the company has well qualified senior management team who has vast experienced in pharmaceuticals and clinical research domain.

Established track record of operation in clinical research domain with established and diversified clientele
Veeda is a full service Indian Clinical Research Organization (CRO) specializing in clinical trials since 2004. Its facilities have been inspected by regulatory authorities like USFDA, UK-MHRA, WHO, ANVISA, MCC, DCGI, AGES, AFSSAPS and NPCB. Veeda has 3 clinical units out of which two are in Ahmedabad viz. Shivalik and Vedant (established in 2004 and 2015, respectively) and one is in Mehsana (established 2019), with total combined bed capacity of 570 nos. as on December 31, 2021. Further, the number of professionals employed increased to 749 nos. as on March 31, 2020 to 803 nos. as on December 31, 2021. With its established operational track record of in the industry, Veeda has an established relationship with reputed clients, both in domestic as well as overseas markets. In export market it caters clients in countries like USA, UK, Belgium among others. Furthermore, its clientele is diversified with top 10 customers contributing around 42% of net sales during FY21.

Healthy profitability with fluctuation trend
On standalone level, profitability of Veeda remained healthy albeit shown fluctuating trend with significant improvement in PBILDT margin from 14.26% during FY20 to 29.90% during FY21 (excluding GST refund of Rs.34.55 crore received during FY21). Improvement in the profitability during FY21 was on the back of premium charged by the company on some of the studies. With healthy PBILDT margin and moderate depreciation and interest charges, PAT margin remained healthy at 27.11% during FY21 as compared to minor losses during FY20. GCA excluding GST refund too grew from Rs.15.17 crore during FY20 to Rs.43.05 crore during FY21. PBILDT margin however, normalized during 9MFY22 to 19.26%.
Going forward, with acquisition of Bioneeds, PBILDT margin on a combined basis, are expected to remain healthy at 22%-25%.

Key Rating Weaknesses

Moderate scale of operation with concentrated revenue profile
Post decline during FY20 due to impact of the Covid 19 pandemic, TOI of Veeda grew by 53.53% to Rs.233.43 crore during FY21. Growth in scale of operation was on the back of increase in the income from the BA/BE segment along with GST refund of Rs.34.55 crore during FY21. Overall net sales (excluding GST refund) grew by ~40% during FY21 on y-o-y basis. Despite growth in scale of operation, Veeda continues to operate on moderate scale of operation. Furthermore, Veeda's standalone revenue profile is concentrated with BA/BE studies continued to remain the major revenue driver forming ~90-95% of TOI.

High contingent liability
The contingent liabilities of Veeda remained high at Rs.129.37 crore as on March 31, 2021. It mainly includes a compensation claim of Rs.101.84 crore lodged by one of its customers with respect to the clinical trials conducted by Veeda. As informed by Veeda's management the same matter is pending at commercial court in Ahmedabad and the company is adequately insured. Moreover, as informed by the management, Veeda has a liability clause in the contract entered with customer which restricts its liability to the extent of the contract value i.e. Rs.1.89 crore. However, the extent of liability and any consequence of the same on the business operations of the company shall remain crucial from the credit perspective. The other contingent liabilities of Veeda include disputed service tax and income tax dues arising out of normal course of business. Any outgo on account of crystallization of these liabilities and its impact on company's liquidity would be crucial from the credit perspective.

Exposure to high regulatory risk
The clinical research industry is exposed to high reputation/regulatory risk wherein the CRO has an important responsibility to ensure safety of its subjects upon whom the various clinical trials/studies are conducted by it. The Ministry of Health and Family Welfare, Government of India, has a pre-defined patient compensation guideline in case of clinical trials along with compensation for any unforeseen injury or unfortunate death caused during the trials conducted in India. Any adverse impact on the health of the subject during the trials could discredit the CRO and may lead to investigation and subsequent action from the regulatory authorities, thereby severely impacting its business.

Furthermore, CROs require various approvals, licenses, registrations and permissions for their routine business activities. The approval process is also complex, lengthy and expensive. The time taken to obtain approval varies from country to country and it ranges from one month to year. Any delay or failure in getting approval could adversely affect the business prospects of the company.
In one of the incidents, Veeda had received show cause notice from the Central Drugs Standard Control Organization (CDSCO) officials on February 16, 2021 which were duly replied by Veeda in May 2021. The CDSCO issued further orders to suspend the enrolment of the new studies for few days at Veeda's clinical facilities. Thereafter operations have resumed at its full pace and operations of Veeda are regular post that event.

Increasing competition in the Indian CRO industry
The growth of the Indian CRO industry would be driven by increased outsourcing pharmaceutical companies. Cost pressures faced by international companies are creating the need for the pharmaceutical companies to implement cost cutting measures across operations, including drug development costs. The growth in outsourcing of clinical trials will be closely paralleled with the growth in R&D spending of pharmaceutical companies in regulated markets. The CRO industry consists of many players who are compliant with the regulatory authorities. Furthermore, the large pharmaceutical players have their captive CROs which further intensify the competition. With increase in competition, the CROs also face challenges pertaining to availability of diversified subjects and patients to conduct trials or studies.

Profitability susceptible to volatility associated with forex rates
Veeda derives nearly 50-60% of its TOI from export which exposes it to foreign exchange fluctuation risk in absence of any active hedging policy. However, forex risk is partially mitigated through forward cover and natural hedge as the company imports some machinery required for clinical analysis. However, the timing difference between the import and export may impact the realizable value which in turn impacts the profitability.

Liquidity: Adequate
On a standalone basis, Veeda's liquidity remained adequate with negligible fund based working capital utilization of around 20% for past 12 months ended December 31, 2021. Furthermore, Veeda doesn't have any term debt and it has only lease payment obligation which are adequate as compared with its envisaged cash accruals for FY22. Cash flow from operation remained healthy at Rs.76.15 crore during FY21 as compared with Rs.9.75 crore during FY20. Liquidity is further underpinned by healthy liquid investment and cash and bank balance of Rs.44.81 crore as on March 31, 2021 and Rs.194.75 crore as on December 31, 2021 due to fund raising by issuance of the new equity shares.
Current ratio and quick ratio remained comfortable at 1.76x and 1.68x respectively as on March 31, 2021 as compared with 1.55x and 1.46x respectively as on March 31, 2020. Operating cycle of the company improved from 88 days during FY20 to 60 days during FY21 on the back of moderation in the debtors days of the company which was elongated as on March 31, 2020 due to impact of Covid 19 pandemic.
On a combined basis, Veeda is expected to earn GCA of Rs.45-50 crore as compared with debt repayment obligation of ~Rs.18 crore (including lease liability).

Analytical Approach: Standalone along-with factoring the operations of its subsidiary, BIPL (revised from Standalone).

Analytical approach has been revised from Standalone to Standalone along-with factoring the operations of its subsidiary with Veeda acquiring 75.10% equity stake (for total consideration of Rs.202.96 crore) in BIPL as on January 31, 2022. Veeda has also invested Rs.23.33 crore as preference share capital in BIPL as on March 31, 2021. CARE had considered the combined financials of Veeda and BIPL from FY22 onwards after netting of intergroup transactions.

Applicable Criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Pharmaceutical
Service Sector Companies

About the Company

VCRL (CIN: U73100GJ2004PLC044023) originally incorporated in April 2004 under the name of Clinsearch Labs Private Limited, is a full service global Clinical Research Organization (CRO) specializing in the early clinical development of drugs by conducting early phase clinical trials on healthy volunteers and patients. Constitution of the company was changed to present one on June 30, 2021. Veeda delivers caters the pharmaceutical and biotechnology industries worldwide; providing the full range of services: Bio-Availability (BA)/ Bio-Equivalence (BE), phase-I and II clinical research and data management services. The clinical trial

facilities of Veeda in India are inspected by the USFDA (US), MHRA (UK), WHO and ANVISA (Brazil), MCC (South Africa), DCGI (India), AGES (Austria), AFSSAPS (France), and NPCB (Malaysia) so far.
Veeda has 3 clinical units out of which two are in Ahmedabad viz. Shivalik and Vedant (established in 2004 and 2015, respectively) and one is in Mehsana (established 2019), with total combined bed capacity of 570 nos. as on December 31, 2021.
Veeda acquired 75.10% stake in series of transaction from March 2021 to January 2022 in a BIPL. BIPL is a Bangalore based preclinical CRO established in March 2007. With this acquisition, Veeda on a combined basis (including BIPL) will have presence across entire chain of CRO industry.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	152.04	233.43	159.17
PBILDT	21.68	104.35	30.65
PAT	-0.04	63.29	11.78
Overall gearing (times)	0.64	0.40	N.A.
Interest coverage (times)	4.26	21.72	8.66

A: Audited; Prov.- Provisional; N.A.- Not Available

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/ ST-CC/PC/Bill Discounting	-	-	-	-	20.00	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/ ST-CC/PC/Bill Discounting	LT/ST*	20.00	CARE A-; Stable / CARE A2+	-	1)CARE BBB+; Stable / CARE A2 (17-Mar-21)	1)CARE BBB+; Stable / CARE A3+ (11-Mar-20)	1)CARE BBB+; Stable / CARE A3+ (26-Mar-19) 2)CARE BBB+; Stable / CARE A3+ (05-Apr-18)

* 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/ ST-CC/PC/Bill Discounting	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:

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