

TAKE Solutions Limited

February 11, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer Rating#	-	CARE BB+ (Is); Negative (Double B Plus (Issuer Rating)); Outlook: Negative	Reaffirmed

Details of facilities in Annexure 1

#The issuer rating is subject to the company maintaining overall gearing not exceeding 1.25x

Detailed Rationale & Key Rating Drivers

The rating assigned to TAKE Solutions Limited (TAKE) takes into account the continued challenging business environment accentuated by fresh wave of Covid-related lockdown restrictions being imposed in various parts of the globe resulting in subdued revenue generation. While CARE notes that the site operations have improved in Q3FY21, cash generation from operations are expected to remain muted. The ratings also reflects tightening liquidity position in the group marked by instance of delays which have since been regularized. The company has been exploring various options including capital raising a subsidiary level, however nothing material has fructified till date and with higher repayments coming up in the near term the liquidity position is expected to remain stressed.

The rating continues to be constrained by revenue concentration with high and increasing dependence on the US market after liquidation proceedings in the German subsidiary, fortunes linked with changing dynamics of the global pharma industry, relatively small size of operations in a highly competitive industry and risks associated with consolidation of the acquired businesses.

The rating, however, continues to factor in the long track record of operations and domain expertise in Life Science (LS) segment. In view of the company operating and generating majority of its revenue through various subsidiaries, the rating is based on TAKE's group operations as a whole and on the financial position of the company on a consolidated basis.

Outlook: Negative

The outlook continues to remain 'Negative' on account of the continued losses incurred by TAKE on account of the business disruptions arising out of the COVID pandemic. However, the outlook may be revised to stable if there is an improvement in the business environment with the company being able to profitably scale up operations and improve its liquidity position.

Rating Sensitivities

Positive Factors

- Improvement in liquidity position
- Ability to successfully integrate the recent large-sized acquisitions and generate adequate returns from the same.
- Ability to commence operations across all its facilities and stabilise revenue generation and maintain healthy profitability.

Negative Factors

- Increase in debt levels resulting in leverage levels, viz., overall gearing above 1.25x.
- Deterioration in collections period beyond 120 days.
- Extended impact of COVID-19 pandemic on the operations of the company resulting in a large fall in the revenues and profits.

Detailed description of the key rating drivers

Key Rating Weaknesses

Disruption in operations and drop in Income levels

TAKE has been reporting consistent growth in the revenues also aided by acquisitions from time to time. During FY20, TAKE (Consolidated) has achieved a growth of 8.53% in TOI on y-o-y basis and a CAGR of 21% for the last five years. The increase in revenue was mainly contributed by growth in LS segment by 10.57% to Rs.2,079 crore in FY20. However, from Q4FY20 onwards, the company has reported a sharp drop in the operating income on account of the Covid-19 pandemic, which has restricted access to hospitals for trial, etc. The company reported a TOI of Rs.336.63 crore for H1FY21 as compared with Rs.1191.13 crore for H1FY20. The revenue for the period Q2FY21 was Rs.170.73 crores as against revenue of Rs.165.89 crore in Q1FY21.

Losses being reported and consequent impact on liquidity

The PBILD margin of the company has moderated to around 7.6% for FY20 as compared with 19.19% in FY19. This was largely on account of sharp drop in operating income during Q4FY20. This sharp drop has led to the company reporting a loss PBDIT level in Q4FY20 and tempered the overall profitability for the year.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Limited revenue visibility on account of passive operating level and non-availability of minimum-pay clause in the agreements with clients, compound with the high fixed-cost intensive nature of clinical trial business is expected to put pressure on profitability. Rationalization of costs by way of head count reduction mainly in the western geographies wherein labor costs are high, off-shoring of work to Indian offices, wage cuts and cost cuts with respect to S&G Expenses have been implemented in H1FY21. However, timely commencement and scaling of operations apart from cost rationalization would be key to profitable operations of the company. The company has reported loss before tax of Rs. 354.36 crore for H1FY21 as against profit before tax of Rs. 117.11 crore in H1FY20. The loss before tax is Rs. 114.60 crore for Q2FY21 as against loss before tax of Rs. 240.93 crore reported for Q1FY21. The heavy losses have impacted the liquidity position of the company with cash generation from operations being severely impacted.

Highly dependent on US market

Revenue from USA region contributed 85% of the total revenue in FY20 (PY: 84%) on the back of higher orders from the region. TAKE's acquisitions in USA – KAI Research Inc. (clinical research organisation) and Dataceutics Holdings Inc. (clinical functional service provider) in FY19 and liquidation of the German subsidiary will further increase the concentration of the revenues in this market. The contribution in Asia-Pac stood at 13% (PY: 12%) and share of Europe declined to 2% (PY: 4%) of the total revenues in FY20.

Changing dynamics of global pharma industry

Pharmaceutical industry is tightly regulated all over the world with stringent norms and regulations. Structural reforms by governments stringent regulation both in regulated and semi-regulated market, intensification of competition has led to pricing pressure impacting the profitability of the industry players.

Competition and increased pricing pressure on pharma companies has resulted in cost cutting measures adopted by them to remain competitive, resulting in reduced business for the companies operating in the pharma/drug market value chain including IT service providers. This has resulted in vendor consolidation approach adopted by pharma companies forcing tier-I/tier-II companies/service providers in the industry to move up the value chain. Pure play clinical research organizations (CRO) have also started providing IT services.

Relatively small player operating in competitive environment and risks associated with consolidation of acquired business

TAKE has relatively moderate scale of operations in the global market. Presence of number of mid-sized technology companies that offer technology solutions to various pharmaceutical companies for regulatory submission and pharmacovigilance poses a stiff competition for the company. TAKE follows the approach of acquiring companies and increases its presence in the value chain. The ability of the company to successfully integrate the operations, manage overlapping customer profiles and monetize the integrated domain and technical expertise for long-term benefits is critical for its prospects.

Key Rating Strengths

Long track record of operations

TAKE was incorporated as a private limited company in December 2000. The company initially started with the Supply chain management solutions and over the years, the company has emerged as a significant player in the niche life sciences segments through various acquisitions and investments across the globe. The inorganic route has helped it acquire and enhance the domain expertise, enter new geographies, acquire new clients and augment its product and service offerings. With long track record, TAKE has established relationships with reputed clients in LS segment which includes leading global pharma companies. The operations are overseen by an 8-member board including 5 independent directors. Mr. Srinivasan H.R. is the Vice Chairman and Managing Director of the company. The company has seen resignation of one of the co-founders, the CEO, CFO and further the company secretary in recent times. Mr. Lalit Mahapatra (erstwhile CFO of Ecron Acunova Limited), who has been associated with the group, has taken over as the CFO of TAKE Solutions with effect from 01, July 2020 and Mr. P. Srinivasan has been appointed as the company secretary with effect from 18, January 2021.

Focus on LS business segment backed by strong domain expertise

TAKE had initially started in Supply Chain Management space and later expanded to Life Science segment providing opportunities for the company to grow and establish itself. However, in recent years, TAKE has been focusing more on LS segment. LS segment contributed 94% of the revenue in FY20 as against 92% in FY19 (refers to the period April 1 to March 31). Revenues from LS segment witnessed growth of 10.57%, however, the SCM segment witnessed de-growth of 15.66% in FY20. In September 2020, the board of TAKE has also approved sale of entire stake (58%) held in subsidiary APA Engineering Pvt Ltd. which is the supply chain division of the company. With this divestment, the company will exit the supply chain division.

Prospects

Given the socio-economic conditions arising out of the COVID-19 pandemic globally, the business environment for TAKE has been significantly affected and the company is likely to witness a drop in sales in the current year. Further, considering the high fixed cost nature of the business, largely employee cost and interest costs arising out of higher working capital requirement in recent times the profitability of the company is likely to be under pressure in the near term. Going forward, the revised operating procedures specified for conducting clinical trials across geographies is expected to prolong timelines for conducting trials and trim down margins in general, which would impact both revenue generation as well as profitability.

Liquidity – Stretched

The liquidity position has weakened with subdued cash generation from operations and with upcoming large repayments in the near term, the liquidity position remains under pressure. The company has been actively working on recovery of debtors and unwinding some of the advances given to supplier and technology partners to meet immediate liquidity requirement.

CARE as part of its due diligence exercise has become aware of over-dues beyond 30 days in recent months in the packing credit facilities of Navitas LLP, which have since been regularized. CARE notes that while the said facility has been guaranteed by Take Solutions Ltd, the guarantee was not invoked. The company has almost utilized the entire CC limit in Ecron Acunova Limited and Navitas LLP for the 12 month period ended 31, December 2020.

In the light of the lockdown imposed, where cash generation is stressed, the company has obtained moratorium on its working capital facilities and term loan in Ecron Acunova Limited. Ecron Acunova Limited has been sanctioned working capital term loan of Rs. 6.99 crore under the Guaranteed Emergency Credit Line Scheme for a period of 4 years including a moratorium of 1 year. Navitas LLP has also been sanctioned working capital term loan of Rs. 3.36 crore under the Guaranteed Emergency Credit Line Scheme for a period of 4 years including a moratorium of 1 year.

Analytical approach:

Considering the significant financial as well as operational linkages of TAKE with its subsidiaries, the consolidated financials of TAKE (together with its subsidiaries) have been considered for analysis. TAKE on standalone basis does not have any major operations. As on September, 2020, TAKE has 4 subsidiaries and 19 step-down subsidiaries. The board of TAKE has also approved sale of entire stake (58%) held in subsidiary APA Engineering Pvt Ltd. which is the supply chain division of the company and the same is reflected as “Asset held for sale” as on 30.09.2020. The holding company of TAKE is TAKE Solutions Pte. Ltd, Singapore, which is held by the promoters and is an investment company with no major operations. The companies considered for consolidation has been given as Appendix

Applicable Criteria

[Criteria on assigning ‘outlook’ and ‘credit watch’ to Credit Ratings](#)

[CARE’s Policy on Default Recognition](#)

[CARE’s Issuer Rating](#)

[Financial ratios - Non-Financial Sector](#)

[Liquidity analysis - Non-Financial sector](#)

[CARE’s Methodology for Service sector companies](#)

[Rating Methodology – Consolidation](#)

About the Company

TAKE Solutions Limited (TAKE) is a product led (mainly in pharma/ biotech) IT solutions and Services Company with focus in, Life Sciences (LS) segment. TAKE’s global headquarters is in Chennai, India. Two professionals, Mr H R Srinivasan (Ex-MD of Sembcorp Logistics, Singapore) and Mr D V Ravi founded TAKE as a private limited company in 2000. Mr. D V Ravi indirectly held 13.55% of shares in TAKE Solutions Limited. In June 2020, he sold 8.24% of shares via block deal in Stock Exchange. Mr. D V Ravi, who resigned as director, continues to hold 5.24% in TAKE Solutions Limited.

Brief Financials (Rs. crore) (TAKE Solutions Ltd. – Consolidated)	FY19 (A)	FY20 (A)
Total income	2,048.33	2,238.67
PBILDT	392.98	194.69
PAT	178.37	-10.95
Overall gearing (times)	0.39	0.46
Interest coverage (times)	15.71	4.72

A: Audited

Note:

1. Operating Lease Payable is considered for Overall Gearing calculation.
2. Current maturities of long term debt are not included in the capital employed and other debt-related ratios.

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: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE BB+ (Is); Negative

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Apr-17)
2.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (14-Nov-18)	1)CARE A1+ (08-Dec-17) 2)CARE A1+ (21-Sep-17)
3.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE BB+ (Is); Negative	1)CARE BB+ (Is); Negative (04-Jan-21) 2)CARE BBB (Is); Negative (24-Nov-20) 3)CARE A- (Is); Negative (10-Aug-20) 4)CARE A+ (Is); Negative (22-Jun-20) 5)CARE AA- (Is); Negative (19-May-20)	1)CARE AA- (Is); Stable (04-Mar-20)	1)CARE AA- (Is); Stable (21-Nov-18)	1)CARE AA- (Is); Stable (08-Dec-17) 2)CARE AA- (Is); Stable (21-Sep-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Issuer Rating-Issuer Ratings	Simple

Appendix:**Details of Subsidiaries:**

Name of the Company
Navitas LLP
TAKE Solutions Global Holdings Pte. Ltd.
Ecron Acunova Limited
APA Engineering Pvt. Ltd. (Consolidated as Asset Held for Sale)
TAKE Solutions ESOP Trust

Details of Step-down Subsidiaries:

Name of the Company
APA Engineering Pte Ltd, Singapore (Consolidated as Asset Held for Sale)
APA Engineering Inc., USA (Consolidated as Asset Held for Sale)
TAKE Solutions Information Systems Pte. Ltd., Singapore
TAKE Enterprise Services Inc., USA
TAKE Innovations Inc., USA
Navitas Life Sciences Holdings Ltd., UK
Navitas Life Sciences Limited
Acunova Life Sciences Inc., USA
Navitas Life Sciences Company Ltd. (fka Ecron Acunova Company Ltd.), Thailand
Navitas Life Sciences Gmbh (fka Ecron Acunova GmbH), Germany
Acunova Life Sciences Ltd., UK
Ecron Acunova Sdn Bhd, Malaysia
Million Star Technologies Ltd., Mauritius
Intelent Inc., USA
Navitas Inc., USA
Navitas Lifesciences S.A.S, Colombia
Ecron Acunova Sp. Z. p. o., Poland
Ecron Acunova LLC, Russia
Navitas Life Sciences AS (fka Econ Acunova AS), Denmark
Ecron LLC, Ukraine
Navitas Life Sciences Pte. Ltd. (fks Ecron Acunova Pte. Ltd.), Singapore

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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