Veeda Clinical Research Limited (Revised)

April 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	20.00	CARE A-; Stable / CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Veeda Clinical Research Limited (Veeda) continue to take into account experienced and well-qualified management team, including professionals inducted by its private equity (PE) shareholders, established track record of operations backed by well-equipped facilities and its reputed and diversified customer base. The ratings continue to derive strength from the increased presence of Veeda in the clinical research value chain and diversification of its revenue profile with acquisition of the majority equity stake in the Bioneeds India Private Limited (BIPL; rated 'CARE BBB; Stable'), healthy but fluctuating profitability, comfortable capital structure and debt coverage indicators and adequate liquidity.

The ratings, however, continue to remain constrained on account of its moderate scale of operation, high contingent liabilities, regulatory risk associated with the clinical research industry and susceptibility of its profitability to the volatile foreign exchange rates.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Significant decline in combined TOI below ₹200 crore with PBILDT margin of less than 20% on a sustained basis.
- Any significant outgo on account of crystallisation 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.

Analytical approach: Consolidated

For the purpose of the credit risk assessment, CARE Ratings Limited (CARE Ratings) has considered financials of Veeda, its subsidiaries and joint venture (JV). The list of subsidiaries/JV whose financials have been consolidated is mentioned in **Annexure-3**.

Analytical approach has been revised from Standalone along-with factoring the operations of subsidiaries to Consolidated with Veeda holding 87% stake in BIPL as on December 31, 2022 (75.10% as on March 31, 2022) and FY22 was the first year of consolidation financials with BIPL as a subsidiary.

Outlook: Stable

The outlook on the long-term rating of Veeda is "Stable" considering its established track record and strong presence in the clinical research value-chain along with its healthy liquidity would enable the company to sustain its financial profile over the medium term.

Key strengths

Experienced and well-qualified management team

Promoted by Apurva Shah and Binoy Gardi, Veeda has more than 15 years of track record in the clinical research domain. During December 2018, CX Partners and its partner entities acquired majority stake in Veeda. Currently, Nitin Jagannath Deshmukh, is the Chairman and an independent director of the company. Ajay Tandon is the present Managing Director (MD), and prior to joining Veeda, he was the 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 experience in the pharmaceuticals and clinical research domain. Currently, Veeda has 12 directors on its board, out of which four are nominee directors from the PE investors. S. N. Vinaya Babu, Founder and MD of BIPL, is also on the board of directors of Veeda.

Established track record of operation in clinical research domain with established and diversified clientele

Veeda is a full service Indian clinical CRO specialising 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 three clinical units out of which two are in Ahmedabad, viz., Shivalik and Vedant (established in 2004 and 2015, respectively) and one is in Mehsana

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

(established 2019), with total combined bed capacity of 588 as on December 31, 2022. Furthermore, the number of professionals employed increased to 717 as on March 31, 2021, and to 845 as on December 31, 2022. 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 the export market, Veeda caters the customers in various countries like USA, UK, Belgium among others. Furthermore, it has diversified customer base with top 10 customers contributing around 41% of the net sales during FY22.

Increased presence in value chain and diversification of revenue profile with acquisition of BIPL
To diversify its business operation, Veeda acquired 75.10% equity stake in series of transaction in a BIPL from March 2021 to March 2022. Veeda further increased its stake to 87% as on December 31, 2022 by way of issue of fresh equity share along with purchase of equity shares from erstwhile promoters for considerations of around ₹45 crore. Furthermore, as articulated by the management, Veeda would acquire balance stake in the BIPL in near future.
BIPL is engaged in the pre-clinical services business and provides 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 studies submitted to regulatory bodies across the Globe. It has expertise and experience in handling small molecules, generics, vaccines, biologics, agrochemicals, industrial chemicals, medical devices and other substances for regulatory submissions. BIPL has a fully-equipped pre-clinical research facility with capacity of 127 animal rooms in Devarahosahally and biopharma and chemistry labs in Peenya situated in Bangalore, Karnataka.
BIPL is regularly audited by National Accreditation Board for Testing and Calibration Laboratories (NABL) and National GLP Compliance Monitoring Authority (NGCMA). The combined entity of Veeda and BIPL will have increased presence across entire chain of CRO industry resulting in operational synergy and diversification of revenue profile. For FY22, on standalone level, BIPL had reported TOI of ₹93.21 crore (FY21: ₹63.35 crore) with PBILDT and gross cash accruals (GCA) of ₹31.06 crore (FY21: ₹10.56 crore) and ₹20.63 crore (FY21: ₹5.55 crore), respectively.

Healthy albeit fluctuating profitability
On a consolidated basis, during FY22, Veeda has reported healthy profitability marked by PBILDT margin of 21.57% which further improved to 24.47% during 9MFY23 with higher contribution from the clinical trial services in Veeda-Standalone and healthy profitability in BIPL. Veeda acquired 30% stake in BIPL during March 2021, which was fair valued as on July 16, 2021, as per IND-AS requirement, and consequently, gain (considered non-cash) of ₹34.12 crore on fair value was recognised as an exceptional item during FY22. With healthy PBILDT margin and moderate interest and depreciation cost, profit after tax (PAT) margin too remained strong at 17.49% during FY22. Adjusted gross cash accruals (GCA; adjusted with fair-value gain of ₹34.12 crore) also remained healthy at ₹47.80 crore during FY22 and ₹56.21 crore during 9MFY23.
On standalone level as well, profitability of Veeda remained healthy albeit it moderated from 29.26% during FY21 (adjusted with GST refund of ₹34.55 crore) to 18.54% during FY22. The PBILDT margin was high during FY21 on the back of premium charged by the company on some of the studies; however, the same normalised during FY22. The PBILDT margin continues to remain healthy at 21.23% during 9MFY23.
Going forward, with expectation of the increasing contribution from the clinical trial services along with the acquisition of BIPL, CARE Ratings expects the PBILDT margin of Veeda at consolidated level to sustained at around 22-25% in the medium term.

Comfortable capital structure and debt coverage indicators
On a consolidated basis, Veeda has a comfortable capital structure marked by overall gearing of 0.25x as on March 31, 2022. Veeda has tangible net worth (TNW) of ₹401.87 crore with total debt of ₹98.79 crore (including lease liability of ₹51.59 crore) as on March 31, 2022. The debt coverage indicators remained comfortable marked by PBILDT interest coverage and total debt to gross cash accruals (TDGCA) of 6.52x and 2.07x during FY22. Going forward, with no major debt-funded capex planned, CARE Ratings expects the overall capital structure of Veeda to remain comfortable at below 0.50x.
On a standalone basis, the debt profile of Veeda comprises lease liability and working capital borrowing out of which utilisation of the working capital borrowing remained very low. It has strong net worth base of around ₹473 crore as on March 31, 2022. Veeda has raised fresh equity of around ₹334 crore including share swap with BIPL in various rounds from March 2021 to January 2022, leading significant augmentation of its net worth base, which stood at around ₹472.94 crore as on Mach 31, 2022.

Key weaknesses
Moderate scale of operation with concentrated revenue profile
On a consolidated basis, Veeda continues to operate on the moderate scale with TOI of ₹288.44 crore during FY22. For 9MFY23, TOI of Veeda grew by around 35% from ₹226.92 crore during 9MFY22 to ₹306.46 crore during 9MFY23 with healthy growth in Veeda-Standalone and BIPL.

On a standalone level, TOI of Veeda grew moderately from ₹195.71 crore (adjusted with GST refund of ₹35.52 crore) to ₹224.46 crore during FY22, mainly due to growth in the clinical trial segment, whereas the revenue from the BA/BE segment largely remained stable on y-o-y basis. Veeda continued to have revenue concentration to BA/BE segment, albeit the same has declined from 92% of its net sales during FY21 to 75% during FY22 and further to 68% during 9MFY23.

High contingent liability

The contingent liabilities of Veeda remained high at ₹132.52 crore as on March 31, 2022 (₹12.37 crore as on March 31, 2021). It mainly includes a compensation claim of ₹101.88 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., ₹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 includes disputed service tax and income tax dues arising out of normal course of business.

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 including suspension of the operation, thereby severely impacting the 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.

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 the regulated markets. The CRO industry consists of many players which 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 realisable value which in turn impacts the profitability.

Liquidity: Adequate

On a consolidated basis, Veeda has adequate liquidity marked by expected GCA of around ₹65-70 crore during FY23 as against debt repayment obligation (including lease liability) of around ₹21 crore. It reported cash flow from operation of ₹35.91 crore during FY22. Veeda's expected cash accruals are sufficient to cater its capex requirement with no new term debt planned in the near to medium term. Overall working capital utilisation remained very low providing sufficient cushion. Veeda has liquid investment and cash and bank balance ₹111.93 crore as on December 31, 2022, which as articulated by the management, would be utilised for the acquisition of the entity in the similar line of business and management is exploring the same. Current ratio and quick ratio remained comfortable at 2.06x and 2x, respectively, as on March 31, 2022. The operating cycle remained elongated at 72 days during FY22, mainly on account of its debtors' days which remained high at 90 days during FY22.

On a standalone basis, Veeda's liquidity remained adequate with negligible fund-based working capital utilisation during past 12 months ended December 31, 2022. On a standalone basis, Veeda does not have any term debt and it has only lease payment obligation, which are quite low as compared with its envisaged cash accruals.

Applicable criteria

Policy on default recognition
Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Pharmaceutical
Policy on Withdrawal of Ratings

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Veeda (CIN: U73100GJ2004PLC044023), originally incorporated in April 2004 under the name of Clinsearch Labs Private Limited, is a full service global Clinical Research Organization (CRO) specialising in the early clinical development of drugs by conducting early phase clinical trials on healthy volunteers and patients. The constitution of the company was changed to the present one on June 30, 2021. Veeda caters the pharmaceutical and biotechnology industries worldwide by providing the full range of services, i.e., 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 three 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 588 as on December 31, 2022. Veeda holds 87% stake in BIPL as on December 31, 2022. BIPL is a Bangalore-based preclinical CRO established in March 2007. Apart from BIPL, Veeda has one JV (Veeda holding 50% stake), namely, Ingenuity Biosciences Private Limited.

Brief Financials (₹ crore)- Consolidated	FY22 (A)^	9MFY23 (Prov.)
Total operating income	288.44	306.46
PBILDT	62.21	74.99
PAT	50.46	31.87
Overall gearing (times)	0.25	N.A.
Interest coverage (times)	6.52	6.92

A: Audited; Prov.: Provisional; N.A.: Not Available; Note: 'the above results are latest financial results available' ^financial of BIPL were consolidated with Veeda w.e.f. July 16, 2021.

Brief Financials (₹ crore)- Standalone	FY21 (A)	FY22 (A)	9MFY23 (Prov.)
Total operating income	231.34	224.46	229.05
PBILDT	102.25*	41.61	48.62
PAT	63.29	18.33	22.76
Overall gearing (times)	0.40	0.08	N.A.
Interest coverage (times)	21.29	9.09	13.72

A: Audited; Prov.: Provisional; *includes GST refund of Rs.34.55 crore; N.A.: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of the various instruments rated: Annexure-5

Lender details: Annexure-6

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	20.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Apr-22)	-	1)CARE BBB+; Stable / CARE A2 (17-Mar-21)

*Long term/Short term.

Annexure-3: List of subsidiaries/JV of Veeda getting consolidated:

Sr. No.	Name of the Entity	% holding by Veeda as on March 31, 2022
1.	Bioneeds India Private Limited	75% (w.e.f. July 16, 2021)
4.	Ingenuity Biosciences Private Limited	50%
3.	Amthera Life Sciences Private Limited	100% (w.e.f. July 16, 2021)*
4.	Activin Chemicals and Pharmaceuticals Private Limited	100% (upto July 20, 2021)*

*step-down subsidiary of Veeda.

Annexure-4: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-5: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple

Annexure-6: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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