Axis Clinicals Limited

March 31, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	276.12 (Enhanced from 106.03)	CARE BBB+; Stable	Downgraded from CARE A-; Stable
Long-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to bank facilities of Axis Clinicals Limited (ACL) reflects moderation in its overall performance and credit metrics in FY24 with the trend expected to continue in FY25 and considerable increase in exposure to group companies.

The rating derives its strength from ACL being a part of the RPR group founded and promoted by P. V. Ramprasad Reddy, of which Aurobindo Pharma Limited (APL) is the flagship company. The rating is underpinned by established and long track record of operations, and well-equipped and accredited facilities with global presence. The rating is further underpinned by healthy profit before interest, lease rentals, depreciation and taxation (PBILDT) margin, successful track record of regulatory inspections, and comfortable capital structure.

However, the rating is constrained by exposure in the form of investments and loans/advances to group companies, regulatory risk, and increasing competition in the Clinical Research Organisation (CRO) industry. Going forward, the exposure to group companies will remain key monitorable.

CARE Ratings Limited (CARE Ratings) has withdrawn the long-term rating on external commercial borrowings considering its full repayment and the proposed working capital facilities at the request of the company, as the company has not used the same.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in total operating income (TOI) over 10% and maintaining PBILDT margin over 25% on a sustainable basis.
- Total debt to PBILDT below 2.50x on sustained basis.
- Exposure to group companies in the form of loans/advances and investments remaining below ₹300 crore on a sustained basis.

Negative factors

- Delcine in TOI by over 10%-15% on a sustained basis and fall in PBILDT margin below 25%.
- Total debt to PBILDT going above 3.50x on a sustained basis.
- Any deterioration in ACL’s linkages with Aurobindo Pharma Limited or RPR group.
- Exposure to group companies in the form of loans/advances and investments going above ₹550 crore on a sustained basis.

Analytical approach: Consolidated

CARE Ratings has adopted a consolidated approach for arriving at the rating of ACL given the strong operational linkages among its subsidiaries and being a part of the RPR Group whose flagship company is APL. The list of companies considered for consolidation is given as a part of Annexure-6 below.

Outlook: Stable

The stable outlook reflects the rated entity likely to maintain its established position in the CRO segment and will continue to maintain healthy operating margins in the medium term.

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

Detailed description of key rating drivers:

Key strengths

Established track record

ACL is a full-service global CRO with over 17 years of established track record. Its services include specialised services such as Bio-equivalence and Bio-availability (BE&BA) studies, and a full suite of clinical trials, including phase II-IV trails, Pharmacokinetic-Pharmacodynamic (PKPD) studies, feasibility studies, project management, site monitoring, and site management, among others. The company has successfully completed over 95 regulatory audits both by Indian and International regulatory agencies. It has also completed over 170 national and international sponsor audits and over 4000 clinical studies.

Well-equipped facilities with global accreditation

In India, ACL has a total nine study areas (four in Hyderabad and five in Ahmedabad) with an overall capacity of 330 beds. Additionally, in the US and Mexico, the company has 328 bed facilities. The bio-analytical lab at head office (Hyderabad) is equipped with 26 liquid chromatography-mass spectrometry (LC-MS/MS), two inductively coupled plasma optical emission spectroscopy (ICP-OES), and one inductively coupled plasma mass spectrometry (ICP-MS) to support bioanalytical services. Clinical research and clinical data management departments support phase trails in hospitals and data management by using oracle clinical. The company's laboratory is approved by NABL per ISO 15189:2012. ACL also has independent quality assurance team and common management system across all facilities to have uniform data, documentation, conduct of studies, and final report preparation. The company's facilities are accredited by regulatory authorities such as US FDA, UK-MHRA, AEMPS-Spain, INFARMED-Portugal, and ANSM-France, among others.

India-centric business with global presence

The company derives its revenue primarily through BE/BA studies and clinical trials. For BE/BA studies, which contributed ~50% of its total revenue for FY24 on a consolidated basis, the company has its own facilities in Hyderabad and Ahmedabad in India and in the US and Mexico. The company collaborates with various hospitals in India and abroad to conduct clinical trials. At a consolidated level, in FY24, the company derived ~50% (PY: 61%) of its revenue from Indian market followed by US -28% (PY:23%), and the balance from Mexico and rest of the world. The company derives ~50-55% of its revenue from APL.

Fluctuating revenue with healthy PBILDT margin

The revenue of the company has witnessed a steady growth trend from FY19-FY22 where the revenue had grown from ₹233 crore in FY19 to ₹483 crore in FY22, compounded annual growth rate (CAGR) ~28%. However, in FY23 and FY24, the company has witnessed de-growth in revenue. In FY24, the company has reported revenue of ~₹372 crore, a fall by over 15% from the revenue of FY23, where it reported revenue of ₹438 crore. The fall in revenue in FY24 was considering slowdown in India business, which historically constituted ~60% of its overall business at consolidated level. The slowdown in India business was due to delay in getting the approval from Drug Control General of India (DCGI) for conducting studies (Bio Studies and Clinicals Trials) for all clinical research companies. Although the company had orders in hand; however, delay in receiving approval impacted the revenue. The company generates ~55%-60% of its revenue from group companies. In the past, there were several projects focused on biosimilars, but these projects during FY24 were at final stages of completion and hence contributed lower revenue, leading to lower overall revenue. However, going forward, given the pipeline of the bio-similars projects, the company expects revenue to improve. The company has reported a reduction in PBILDT margin, falling from ~32% in FY23 to ~23% in FY24, driven by declining revenue and the impact of fixed costs. In 9MFY25, on consolidated basis, the company reported revenue of ~₹248 crore with PBILDT margin of ~21%. CARE Ratings expects that the company's TOI will grow at ~6-8% y-o-y and it will continue to maintain its PBILDT margin above 25%.

Key weaknesses

Exposure to group companies

ACL belongs to the RPR Group. The group's flagship company is APL. Over the years, the group has evolved and diversified its business interests, including pharmaceutical, packaging solutions for pharma industry, manufacturing chloromethane and caustic soda, mining, real estate, port management, and EPC construction contract. Due to presence of other businesses, the exposure to group companies, though done at arm's length basis, remained high. In FY24, the exposure in the form of investments and loans and advances have remained at ~₹360 crore with an expected increase to ~₹520 crore in FY25. The surge in the exposure to group companies was mainly considering a one-off transaction (with back-to-back repayment arrangement) which is expected to be closed by March 2026 bringing down the exposure of ACL towards the group companies. CARE Ratings expects that going forward, exposure to group companies in the form of loans and advances is expected to be ~₹350 crore.

Comfortable capital structure; expected to moderate

As on March 31, 2024, the company's capital structure remained comfortable. Overall gearing of the company improved from 0.96x as on March 31, 2023, to 0.47x as on March 31, 2024. The adjusted overall gearing (net worth adjusted for investments and loans & advances extended to group companies) as on March 31, 2024, has also improved moderately from 2.33x as on March 31, 2023 to 1.92x as on March 31, 2024. Other credit metrics such as total debt to gross cash accruals (GCA) and interest coverage deteriorated in FY24 and stood at 4.19x (FY22: 4.00x) and 2.15x (PY: 5.11x), respectively. In FY25, the company has availed debt to the tune of ₹205 crore for extending it to group companies which is expected to moderate its overall capital structure. Per CARE Ratings' estimates, overall gearing of the company in FY25 will moderate to 0.73x (PY: 0.47x) with adjusted overall gearing at 2.76x (PY: 1.92x). Other credit metrics such as total debt/GCA and total debt/PBILDT are expected to be at 4.65x (PY: 4.19x) and 3.74x (PY: 2.50x) in FY25.

Deviation between provisional and audited financials for FY24

There is deviation in the provisional financials provided by the company earlier and the audited financials for FY24. While the deviation in total income was not significant (Provisional: ~₹410 crore against Audited: ~₹372 crore); however, at PAT level, the deviation was over 80% (Provisional: ~₹57 crore against Audited: ~₹10 crore). The deviation was primarily considering losses reported in the US subsidiary and the exceptional loss of ~₹14 crore, which the company created a provision for.

Increasing competition in the CRO industry and challenging environment

The growth of the Indian CRO industry would be driven by increased outsourcing from international pharmaceutical companies. Cost pressures faced by international companies are creating the need for pharmaceutical companies to implement cost cutting measures across operations, including drug development costs. However, considering the recent regulations on patient compensation and delay in approvals, pharmaceutical companies might shift their Phase-I research out of India, particularly to the regions such as United Kingdom, Netherlands, and Malaysia, where it is easier to conduct clinical research which could mean a potential loss of business for domestic CROs. The growth in outsourcing clinical trials will be closely paralleled with the growth in R&D spending of pharmaceutical companies in regulated markets. Moreover, large pharmaceutical players have their own CROs, further intensifying the competition.

Liquidity: Adequate

The liquidity position of the company is adequate. Historically company has been generating cash accruals in the range of ₹100 crore - ₹130 crore against the debt repayment obligation of ~₹27 crore to ~₹35 crore. However, in FY24 considering dip in India business company generated cash accruals of ~₹50 crore against the repayment obligation of ~₹80 crore. The short fall was met through the available cash and bank balance. The average working capital utilisation of the company for the last 12 months ending in January 2025 stood at ~37% providing cushion to the liquidity position. As on March 31, 2024, company has cash and liquid investments to the tune of ~₹14 crore. CARE Ratings expects that going forward, the company will be generating cash accruals in the range of ₹80-₹100 crore every year against the debt repayment obligation of ~₹68 crore in FY25 and ~₹75 crore in FY26. Till January 2025, the company has paid ₹54.75 crore of its total debt obligation for FY25.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Withdrawal Policy
Consolidation & combined approach

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & biotechnology	Pharmaceuticals

Incorporated in 2007, ACL is a contract research organisation headquartered in Hyderabad. ACL is a full service clinical/ biopharmaceutical development provider with a team of over 700 professionals. It provides services in PKPD studies, clinical research, clinical data management, biostatistics, and medical writing. ACL belongs to the RPR Group. APL is the group's flagship company, which is engaged in manufacturing pharmaceutical formulations and active pharmaceutical ingredients.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25 (UA)
Total operating income	438.10	371.82	248.49
PBILDT	138.81	85.43	51.45
PAT	60.40	9.62	11.14
Overall gearing (times)	0.96	0.47	-
Interest coverage (times)	5.11	2.15	1.52

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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 and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT-External Commercial Borrowings	-	-	-	24/06/2024*	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	31/03/2029	276.12	CARE BBB+; Stable

*Pre-payment

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	-	-	1)CARE A-; Stable (11-Jun-24)	-	-	-
2	Fund-based - LT-Term Loan	LT	276.12	CARE BBB+; Stable	1)CARE A-; Stable (11-Jun-24)	-	-	-
3	Fund-based - LT-External Commercial Borrowings	LT	-	-	1)CARE A-; Stable (11-Jun-24)	-	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-External Commercial Borrowings	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Axis Clinical Latina SA DE CV	Full	Subsidiary
2	Steps Therapeutics Co. Ltd	Full	Subsidiary
3	Axis Clinicals LLC, USA	Full	Subsidiary
4	Sanhoc labs Limited	Full	Subsidiary
5	Auryun Labs	Moderate	Associate

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

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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