

**Sai Life Sciences Limited**

March 31, 2021

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE A+; Stable (Single A Plus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A1 (A One) and Withdrawn
<b>Total Bank Facilities</b>	-		

*Details of instruments/facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

CARE has reaffirmed and withdrawn the outstanding ratings of CARE A+; Stable/CARE A1 [Single A Plus; Outlook: Stable / A One] assigned to the bank facilities of Sai Life Sciences Limited with immediate effect.

The above action has been taken at the request of Sai Life Sciences Limited and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
***Experienced promoters and management team***

The promoters of Sai Life have been involved in the pharmaceutical industry for more than two decades. The company is headed by Dr. K. Ranga Raju, Chairman, who has a Ph.D. in Pharmacy from U.S.A, and the business operations of Sai Life have benefited from his long-established track record in the pharmaceutical industry and the vast industry network developed over the years. He is well supported by a team of qualified and experienced management team.

***Presence across CRAMS value chain with a diversified revenue base across manufacturing and development***

Sai Life is an integrated CRAMS provider offering end-to-end integrated service across pharmaceutical life cycle. Hence, the company has presence across the life cycle viz. pre-clinical drug discovery, clinical development phase, commercial manufacturing and also generic API and formulation development & supply upon the product going off-patent.

***Preferred vendor for global innovator pharmaceutical and biotechnology companies***

The categorization of preferred partners has become integral to the outsourcing process in the pharmaceutical industry. Global pharmaceutical companies usually have a formal and rigorous process for conferring preferred status on a vendor. Sai Life has been awarded 'preferred partner' status by globally established innovator pharmaceutical and biotechnology companies resulting in healthy flow of repeat business. The established relationships with major global players also act as a major risk mitigating factor due to the high commercial and regulatory costs for the clients involved in switching a supplier.

***Strong presence in Contract Research products***

Sai Life executes contract research projects for numerous global pharma companies. The company has served more than 100 clinical stage products. The company is engaged in the entire molecular process and hence, commercialization of any of the products by its client upon clearing Phase-III would provide significant manufacturing opportunities and margin upside for the company.

***Growth in total operating income and profitability margins during FY20***

There is consistent improvement in scale of operations with the total operating income increasing from Rs. 700.71 crore during FY19 to Rs. 743.20 crore during FY20 backed by increase in volumes of the commercialized products. The PBILDT margin has improved from 23% during FY19 to 25% during FY20 owing to improvement in operational efficiency along with gradual absorption of fixed cost overhead with increasing scale of operations. Furthermore, the PAT margin has remained stable at 10.78% during FY20 (10.46% during FY19) due to increase in depreciation and interest cost.

***Comfortable capital structure and debt coverage indicators***

The capital structure represented by overall gearing remained comfortable with below unity and improved as on March 31, 2020 as against March 31, 2020 due to increase in net worth levels on account of accretion of profits to reserves. Further, the debt coverage indicators viz. interest coverage and Total Debt/GCA also remained comfortable during FY20.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Stable pharma industry outlook**

India is the largest provider of generic drugs globally. Indian pharmaceutical sector supplies over 50 per cent of global demand for various vaccines, 40 per cent of generic demand in the US and 25 per cent of all medicine in the UK. Going forward, better growth in domestic sales would also depend on the ability of companies to align their product portfolio towards chronic therapies for diseases such as cardiovascular, anti-diabetes, anti-depressants and anti-cancers, which are on the rise. The Indian Government has taken many steps to reduce costs and bring down healthcare expenses. Speedy introduction of generic drugs into the market has remained in focus and is expected to benefit the Indian pharmaceutical companies.

**Key Rating Weaknesses*****Debt funded capex***

Sai Life has been strategically planning to enhance its production capabilities to provide end-to-end integrated service offerings across the pharmaceutical life cycle. The company has planned to spend Rs. 900 crore spread over 5 years till FY23. The said capex is to be funded through a mix of internal accruals, infusion of funds from PE investors and term loans.

***Foreign exchange fluctuation risk***

The company is exposed to foreign exchange fluctuation risk in view of large volume and high value transactions of export and import, a phenomenon common to the players in the industry. However, the company uses derivative instruments primarily to hedge foreign exchange. The company evaluates the impact of foreign exchange rate fluctuations by assessing its exposure to exchange rate risks. It hedges a part of these risks by using derivative financial instruments in line with its risk management policy. Sai Life usually hedges its forex exposure by entering into forward contracts, currency swaps, call-put options and interest rate swaps.

***Working capital intensive nature of business albeit improvement in operating cycle***

Sai Life operates in a working capital-intensive industry and the operating cycle remains moderate. However, the operating cycle of the company has improved and stood at 76 days in FY20 as against 102 days in FY19, at the back of improved inventory holding period and collection period. The company undertakes significant portion of its sales in the last quarter which resulted in high receivables as on March 31, 2020. Furthermore, the business operation of Sai Life involves significant exports, and in order to have long withstanding relationship with major global clients, the company continues to provide high credit period to its customers.

***Regulatory risk***

Regulatory challenges have been an integral part of the pharma industry. Over the past few years, India's drug makers have faced increased scrutiny from the USFDA. With the proportion of imports from overseas sources rising, the FDA has become more vigilant about regulatory adherences. With the Indian regulator as well as the USFDA becoming more active about quality and price controls, challenges will persist.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on Withdrawal of ratings](#)

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

[Rating Methodology- Pharmaceutical Sector](#)

[Liquidity analysis of Non-financial sector entities](#)

[Criteria for Short term Instruments](#)

**About the company**

Sai Life Sciences Limited (Sai Life), incorporated in January 1999, started with medicinal chemistry services in 1999, and later in 2002 expanded its service offerings to include process research development services. In 2005, the company entered into contract manufacturing services with the acquisition of Prasad Drugs Limited, followed by acquisition of Merrifield Pharma (US FDA approved unit) in Bidar in Karnataka in 2006 for expanding manufacturing capabilities. The company currently is an integrated CRAMS service provider, and provides drug discovery, development, and manufacturing services to leading global pharmaceutical and biotechnology companies. This apart the company is also engaged in generic API (Active Pharmaceutical Ingredients) and formulation supply upon the product going off-patent. The company has manufacturing and research & development facilities in the states of Telangana, Karnataka and Maharashtra.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total Operating Income	700.71	743.20
PBILDT	164.14	187.82
PAT	73.28	80.14
Overall Gearing (times)	0.38	0.43
Interest coverage (times)	8.41	8.84

A: Audited

**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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Mar 2025	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC	-	-	-	0.00	Withdrawn
Non-fund-based - ST-Credit Exposure Limit	-	-	-	0.00	Withdrawn

#### 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-Term Loan	LT	-	-	-	1)CARE A+; Stable (20-Feb-20)	1)CARE A+; Stable (06-Mar-19)	1)CARE A; Stable (13-Mar-18)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A+; Stable (20-Feb-20)	1)CARE A+; Stable (06-Mar-19)	1)CARE A; Stable (13-Mar-18)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A1 (20-Feb-20)	1)CARE A1 (06-Mar-19)	1)CARE A2+ (13-Mar-18)
4.	Non-fund-based - ST-Credit Exposure Limit	ST	-	-	-	1)CARE A1 (20-Feb-20)	1)CARE A1 (06-Mar-19)	1)CARE A2+ (13-Mar-18)

**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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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Email ID: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)**About CARE Ratings:**

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