Lambda Therapeutic Research Limited

February 07, 2019

Credit Update on Material Event

Lambda Therapeutic Research Ltd (LTRL), a clinical research organisation (CRO), has acquired Novum Pharmaceutical Research Services (NPRS; a US based CRO) for a total consideration of around USD 20 million effective from January 25, 2019. As per written submission by LTRL's management, the entire purchase consideration mentioned above has been paid out of the free cash balance available with LTRL without availing any external debt (LTRL had free cash and liquid balance of Rs.108.65 crore and receivables of Rs.149.98 crore on a consolidated level as on March 31, 2018, which were partly liquidated during the current financial year).

NPRS is a CRO with its facilities located at Pittsburgh, Las Vegas, and Fargo in USA with an aggregate bed capacity of 340 beds. The acquisition is expected to further extend LTRL's global reach in serving customers through NPRS and simultaneously increase its scale of operations.

As submitted by the management there is no external debt in the above acquired entity and no incremental fund infusion would be required into NPRS since the existing operations are at a break-even level, except for around USD 1-2 million to be infused during FY19. Furthermore, LTRL still has unencumbered liquid balance of Rs.25 crore post payout for the acquisition which is expected to support the liquidity of the company.

CARE Ratings will continue to monitor the developments with regard to integration of the operations of the acquired entity with LTRL to see if it happens in line with the stated stance of the company management especially with respect to impact on the consolidated debt, leverage and debt coverage indicators. Any major challenges in the integration of the operations of NPRS resulting in significant deterioration in LTRL's hitherto comfortable profitability, debt coverage indicators and capital structure at consolidated level would be the key credit monitorables.

Analytical approach: Consolidated

LTRL and its following subsidiaries as per its audited annual report for FY18 viz. Lambda Therapeutic Research Sp. Z.o.o (Poland; 99.86% subsidiary of LTRL), Jina Pharmaceuticals Inc. (USA, 80.00% subsidiary of LTRL), Lambda Therapeutic Ltd (UK, 100.00% subsidiary of LTRL), Lambda Therapeutic Research Inc. (Canada, 100.00% subsidiary of LTRL), Lambda Therapeutic Research Inc. (USA, 100.00% subsidiary of LTRL) and Lambda Clinical Service Ltd (India, 100.00% subsidiary of LTRL) are in the same line of business and all these subsidiaries are an extension of LTRL in different geographies. They also have cash flow fungibility amongst them and operate on a common management platform. Hence, a consolidated analytical approach has been taken for assessing LTRL. Going forward, Novum Pharmaceutical Research Services (NPRS) would also be consolidated in LTRL and since NPRS is in same line of business as LTRL, the analytical approach would continue to be on a consolidated basis including NPRS.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology - Service Sector Companies
Financial ratios – Non-Financial Sector

About the Company

Incorporated in 1998, LTRL (CIN no. U24236GJ1998PLC034883) is a full service clinical research organization (CRO), promoted by the Chudgar family of Ahmedabad. LTRL has operational facilities located at Ahmedabad, Mehsana and Mumbai, which have been approved by regulatory agencies like U. S. Food and Drug Administration (USFDA), ANVISA (National Sanitary Surveillance Agency, Brazil) and World Health Organization (WHO). It has also expanded to countries like USA, UK, Canada & Poland through its subsidiaries. It provides a full array of services including BA/BE studies, Phase-I clinical trials, late phase clinical studies (Phase II & III), pharmaco-vigilance, clinical data management studies & statistical services. Prior to acquisition of NPRS, the total bed capacity of LTRL on consolidated level was 700.

Brief Financials - Consolidated (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	270.75	298.40
PBILDT	71.32	88.99
PAT	40.06	70.54
Overall gearing (times)	0.06	0.01
Interest coverage (times)	257.95	565.74

A: Audited

As per 8MFY19 provisional results, LTRL reported total operating income of Rs.234.22 crore with PAT of Rs.63.18 crore on a consolidated basis as against total operating income of Rs.170.0 crore and PAT of Rs.42.50 crore during 8MFY18.

For previous press release of LTRL please refer www.careratings.com

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-1

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based - ST-Bank Guarantees	ST	2.00	CARE A1+	CARE A1+ (20-Dec-18)	1)CARE A1+ (06-Dec-17)	1)CARE A1+ (11-Jan-17)	1)CARE A1+ (11-Dec-15)
2.	Fund-based - LT/ ST-CC/Packing Credit	LT/ST	30.00	CARE AA-; Stable / CARE A1+	CARE AA-; Stable / CARE A1+ (20-Dec-18)	1)CARE AA-; Stable / CARE A1+ (06-Dec-17)	1)CARE AA-; Stable / CARE A1+ (11-Jan-17)	1)CARE AA- / CARE A1+ (11-Dec-15)
3.	Non-fund-based - LT-Standby Letter of Credit	LT	16.00	CARE AA-; Stable	CARE AA-; Stable (20-Dec-18)	1)CARE AA-; Stable (06-Dec-17)	1)CARE AA-; Stable (11-Jan-17)	1)CARE AA- (11-Dec-15)

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