Sai Life Sciences Limited

January 27, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	339.12 (enhanced from 256.48)	**CARE A; Stable (Single A; Outlook :Stable)**	Revised from CARE A-; (Single A Minus)
Short-term Bank Facilities	75.00 (enhanced from 45.00)	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**414.12 (Rupees Four Hundred Fourteen crore and Twelve lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the rating assigned to the long-term bank facilities of Sai Life Sciences Limited (Sai Life) is on account of improvement in the financial performance of the company supported by growth in total operating income, improved profitability margins, improved capital structure and debt coverage indicators during FY16 (refers to the period April 1 to March 31). The rating revision also takes into account induction of Private Equity (PE) investor in the company, The ratings continue to derive strength from the established track record of the company in the Contract Research and Manufacturing Services (CRAMS) industry, extensive experience of the promoters in the life sciences industry, presence in the entire CRAMS value chain, preferred vendor status awarded to Sai Life by globally established innovator pharmaceutical and biotechnology companies resulting in healthy flow of repeat business and strong presence of the company in products in phase II and phase III stages indicating high revenue potential upon commercialisation of the same. The ratings, however, are constrained by company's ongoing debt-funded capex which is expected to result in leveraging of capital structure, elongated operating cycle, exposure to foreign exchange fluctuation risk and regulatory risks associated with the pharmaceutical industry.

The ability of the company to derive benefit from the capex undertaken with subsequent expansion in scale of operation while maintaining the profit margins and ability to maintain a comfortable capital structure are the key rating sensitivities.

Detailed description of the key rating drivers

The total operating income (TOI) increased during FY16 to Rs.428.24 crore on account of the ability of the company to bag and execute repeated orders from existing customers. The profit margins also improved during the year. The capital structure also improved during the year.

Private Equity Investors acquired significant minority stake share capital of Sai Life Sciences Limited from the existing shareholders during FY16.

Sai Life was promoted by Dr Kanumuri Ranga Raju and Dr Raju Penmesta in 1999. Dr K. Ranga Raju, the Chairman of Sai Life is a Ph.D in Pharmacy from U.S.A. Mr Krishnam Raju, the current Managing Director of the company, joined Sai Life in 2004 as Vice President of business development and was actively involved in the operations of the company since then.

Sai Life has a total of five manufacturing and R&D units in Hyderabad, Pune and Bidar. The company is an integrated CRAMS provider and hence, has a presence in pre-clinical drug discovery, clinical development phase, followed by commercial manufacturing and finally generic API and formulation supply upon the product going off-patent.

The company is a preferred vendor for global innovator pharmaceutical and biotech companies.

The company is currently undertaking debt funded capex at its unit in Bidar, nearly doubling the capacity at its manufacturing capacity at the said unit.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The company has an elongated operating cycle account of high collection and inventory holding period. It is exposed to forex risk on account of forex loans and trade receivables from overseas clients and is also exposed to regulatory risks associated with the pharma industry. In last one year the Company successfully cleared four USFDA audits and one Japanese PMDA audit.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology- Pharmaceutical Sector

About the Company
Sai Life, formerly known as Sai Advantium Pharma Limited, was incorporated in January 1999 by Dr Kanumuri Ranga Raju, Dr Raju Penmesta, Mr Ravi Nandyala, and their family members. The company is an integrated CRAMS provider, and provides drug discovery, development, and manufacturing services to pharmaceutical and biotechnology companies, with manufacturing and research & development facilities in the states of Telangana, Karnataka and Maharashtra.

During FY16 (refers to the period April 1 to March 31), Sai Life has reported a PAT of Rs.34.39 crore on a total operating income of Rs.425.13 crore as against a PAT of Rs.22.99 crore on a total operating income of Rs. 340.17 crore in FY15.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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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	-	-	Dec 2023	114.12	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	225.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A2+

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	114.12	CARE A; Stable	-	1)CARE A- (18-Feb-16) 2)CARE A- (04-May-15) 3)CARE A- (09-Apr-15)	-	-
2.	Fund-based - LT-Cash Credit	LT	225.00	CARE A; Stable	-	1)CARE A- (18-Feb-16) 2)CARE A- (04-May-15) 3)CARE A- (09-Apr-15)	-	-
3.	Non-fund-based - ST-BG/LC	ST	75.00	CARE A2+	-	1)CARE A2+ (18-Feb-16) 2)CARE A2+ (04-May-15) 3)CARE A2+ (09-Apr-15)	-	-

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