Sai Life Sciences Limited

March 13, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	315.76 (reduced from 339.12)	**CARE A; Stable (Single A; Outlook : Stable)**	Reaffirmed
Short-term Bank Facilities	80.60 (enhanced from 75.00)	**CARE A2+ (A Two Plus)**	Reaffirmed
Total Facilities	**396.36 (Rupees Three Hundred and Ninety Six Crore and Thirty Six Lakh only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale

The reaffirmation in the ratings assigned to the bank facilities of Sai Life Sciences Limited (Sai Life) continues to derive strength from extensive experience of the promoters in the life sciences industry, presence of Tata Capital as an PE investor, established track record of the company in the Contract Research and Manufacturing Services (CRAMS) industry, healthy flow of repeat business at the back of being a preferred vendor and strong presence of the company in products in phase II and phase III stages indicating high revenue potential upon commercialization of the same. The ratings also take into account improvement in the financial performance of the company supported by growth in total operating income, profits and accruals with satisfactory profitability margins during FY17 (refers to the period April 1 to March 31), satisfactory capital structure and debt coverage indicators and successful completion of capex albeit marginal cost overrun. The ratings, however, are constrained by company's newly proposed debt-funded capex, elongated operating cycle, exposure to foreign exchange fluctuation risk and regulatory risks associated with the pharmaceutical industry. The ratings also take into account decline in operating margin in 9MFY18 (Provisional).

The ability of the company to provide timely exit to the PE investor, 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

Key Rating Strengths

Highly experienced promoters and directors with strong track record in the pharmaceutical industry : Sai Life was promoted by Dr. KanumuriRangaRaju and Dr. RajuPenmesta in 1999. Dr. K.RangaRaju, the Chairman of Sai Life is a Ph.D in Pharmacy from U.S.A. Dr. RangaRaju co-founded Sai Life in 1999 by the name 'SaiDruSyn Laboratories Limited' and lead the company through a period of fast paced change through expansion, acquisition and mergers to emerge as one of the leading contract research and manufacturing company in India. Mr. KrishnamRaju, 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.

Tata Capital as a PE Investor: Tata Capital acquired 46.60% stake in the equity share capital of Sai Life Sciences Limited from the existing shareholders including MPM Investments Mauritius and Sequoia Capital Investments –III through its five funds during FY16 [Alpha FDI Holdings PTE Limited (19.43%), Tata Capital Healthcare Fund I (14.90%) and HBM Private Equity India (6.47%), Tata Capital Growth Fund 1 (3.28%) and Beta TC Holdings Pte Limited (2.52%)]. Exit is due in April /May and is envisaged to be in the form of secondary share transfer with no new primary infusion.

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

Presence across CRAMS value chain with a diversified revenue base across manufacturing and development: Sai Life 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.

Preferred vendor for global innovator pharmaceutical and biotech companies resulting in satisfactory order book position: The categorisation of preferred partners has become integral to the outsourcing process in the pharma industry. Sai Life has been awarded 'preferred vendor' status by globally established innovator pharma and biotechnology companies resulting in healthy flow of repeat business.

Strong presence in Contract Research products in Phase II and III of clinical trials : The company executes contract research projects for numerous global pharma majors such as AbbVie, Pfizer, Bayer, Novartis, FaesFarma and Roche, Allergan etc. The company is engaged in the entire molecular process with the aforementioned clients. Hence, commercialization of any of the products upon clearing phase-III provides significant manufacturing opportunities and margin upside for the company.

USFDA approved research and manufacturing facilities: Sai Life has a total of five manufacturing and R&D units in Hyderabad, Pune and Bidar, all of which are USFDA approved. Majority of the manufacturing is undertaken in the Bollaram (Hyderabad) unit and Bidar (Karnataka) unit. The units can support the manufacturing of clinical trial materials and commercial products from a few kilograms up to multi ton level.

Growth in total operating income, profits and accruals with improvement in profitability margins during FY17; however the margins declined in 9MFY18: The total operating income (TOI) of the company increased by 7.27% during FY17 to Rs. 459.36 crore from Rs. 428.24 crore in FY16. The increase was majorly on account of the ability of the company to bag and execute repeat orders and also add new clientele. The PBILDT margin witnessed improvement of 140bps to 20.62% from 19.22% in FY16. PAT margin also improved by 231bps to 10.34 from 8.03% in FY16. Further, during 9MFY18 (Prov.) the total operating income was Rs. 322.60 crore. PBILDT margin however declined to 11.19% as Production Block 7 started commercial operations in the 3rd quarter due to delay in completion of inspection formalities. The fixed cost was high during this period with less than corresponding increase in sales which led to decline in margin.

Satisfactory capital structure and improved debt coverage indicators : The capital structure of the company and other debt coverage indicators were at satisfactory levels during FY17. The overall gearing level (including creditors backed by LC) of the company remained stable at 0.70x as on March 31, 2017 as against 0.69x as on March 31, 2016 despite increase in debt levels.

Stable Industry prospects: The outlook of the pharma industry is stable in light of healthy prospects for the domestic as well as the export markets. Exports to regulated markets along with emerging markets would drive the growth for Indian Pharmaceutical Industry (IPI) on the back of patent expiries and increasing government emphasis on generics in these markets.

Key Rating Weaknesses :

Proposed debt funded capex to meet increasing demand: The company has successfully completed planned capex to add an additional 93.5 KL capacity at its unit in Bidar, nearly doubling the capacity at its manufacturing plant at the said unit. However, there was a marginal cost overrun which was funded by way of internal accrual. The company has planned an additional capex of Rs. 200 crore for FY19-FY20 which is proposed to be funded by way of debt (Rs. 100 crore)and balance by internal accruals.

Exposure to foreign currency fluctuation risk: Sai Life has exposure to forex risk on account of forex loans (external commercial borrowings) and trade receivables from overseas clients. About 91.53% in FY17 (92.40% in FY16) of the revenues are from exports, valued at Rs. 403.09 crore in FY17 (Rs. 392.82 crore in FY16).

Regulatory risks: 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, which is the pharma regulator in the USA. The USA imports around 40% of the finished drugs and 80% of the API it needs. 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
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 SaiAdvantiumPharma Limited, was incorporated in January 1999 by DrKanumuriRangaRaju, DrRajuPenmesta, 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. The company has five units for research and manufacturing which are located in and around Hyderabad, Bidar and Pune. Tata Capital had infused equity amounting to Rs. 19.62 crore (net of share issue expenses) during FY16. The promoter equity in the company had increased from 34.42% as of March 31, 2015 to 40.35% as on November 30, 2016. The exit for the Tata Capital Group is envisaged during March 1, 2018 to April 30, 2018. The company is currently doing due diligence for potential investors. Exit is envisaged to be in the form of secondary share transfer and no new primary infusion is envisaged.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	428.24	459.36
PBILDT	82.30	94.71
PAT	34.39	47.51
Overall gearing (times)	0.69	0.70
PBILDT Interest coverage (times)	6.13	8.03

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

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	-	-	March 2025	121.76	CARE A; Stable
Fund-based - LT-Cash Credit	-	-	-	194.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	75.00	CARE A2+
Non-fund-based - ST-Credit Exposure Limit	-	-	-	5.60	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	121.76	CARE A; Stable	-	1)CARE A; Stable (27-Jan-17)	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	194.00	CARE A; Stable	-	1)CARE A; Stable (27-Jan-17)	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+ (27-Jan-17)	1)CARE A2+ (18-Feb-16) 2)CARE A2+ (04-May-15) 3)CARE A2+ (09-Apr-15)	-
4.	Non-fund-based - ST-Credit Exposure Limit	ST	5.60	CARE A2+	-	-	-	-

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