

TAKE Solutions Limited

November 21, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer Rating	-	CARE AA- (Is); Stable [Double A Minus (Issuer Rating); Outlook: Stable]	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the experienced promoter and management team of TAKE Solutions Limited (TAKE), TAKE's long track record of operations, its domain expertise in Life science(LS) segment & growth prospects in the LS segment, comfortable financial risk profile characterized by low leverage levels and comfortable profitability.

The rating is, however, constrained by TAKE's high dependence on the US market with majority of revenues from single vertical (LS) and fortunes of TAKE closely linked with changing dynamics of global pharma industry and TAKE's relatively small size of operations in a highly competitive IT industry.

Going forward ability of the company to improve scale of operations amidst a competitive environment and any major debt funded acquisition impacting the financial risk profile would be the key rating sensitivities.

The Issuer rating is subject to the company maintaining overall gearing not exceeding 0.50x (expected level as on March 31, 2019).

In view of the company operating and generating majority of its revenue through various subsidiaries, the ratings are based on TAKE's group operations as a whole and on the financial position of the company on a consolidated basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with long track record of operations

One of the founders of TAKE, Mr. Srinivasan H.R. is the Vice Chairman and Managing Director of the company and Mr. Ram Yeleswarapu is the executive director & CEO of the group. Mr. Ram is an alumnus of IIT, Madras and has vast experience of working with major pharma companies. Ms. Subhashri Sriram is the CFO. The company also has a strong 12 member board including 6 independent directors and long track record of operations of over 16 years. TAKE grew its business through organic and inorganic ways. Since its inception, the company has made several acquisitions which helped it acquire and enhance the domain expertise, enter new geographies, acquire new clients and augment its product and service offerings.

Financial risk profile marked by healthy profitability and comfortable capital structure and liquidity

During FY18, TAKE (Consolidated) has achieved a growth of 18% in TOI on y-o-y basis. The increase in revenues was mainly contributed by 25% growth in Life Science (LS) segment to Rs.1,398 crore. The growth was aided by higher volumes of repeat business from existing clients and addition of new clients. Within the LS segment, income from clinical operations grew by 37%, income from regulatory & safety grew by 21% and income from consulting grew by 21% in FY18. PBILDT margin remained comfortable at 19.46% in FY18. The debt position continues to remain comfortable and with infusion of equity of Rs.250 cr in Q4FY18, the debt equity ratio improved to 0.06x as on March 31, 2018 from 0.09x as on March 31, 2017 and overall gearing improved to 0.29x as on March 31, 2018 from 0.33x as on March 31, 2017. The total debt is majorly in the form of working capital borrowings (79% of the total debt) which are used to fund the operations of the subsidiaries. The total liquid investment and cash & bank balance stood at Rs.367 crore as on March 31, 2018 and Rs.376 cr as on September 30, 2018. The coverage indicators remained comfortable with interest coverage at 9.89 times in FY18 and total debt to GCA at 1.18x as on March 31, 2018.

Growth opportunities in Life sciences segment

The demand for formulations/innovations is expected to grow steadily backed by growth in presence of chronic diseases, increasing per capita income, improvement in access to healthcare facilities and penetration of health insurance. Also growth in the generic industry backed by branded drugs going off patent during the next few years will create opportunities for companies like TAKE especially in the Bioequivalence/Biosimilars space.

The Pharmaceutical market is also experiencing a significant and an intense push by global regulators demanding extra compliance, extra transparency. With long track record and experience in pre-approval and the post approval phases of drug development, TAKE would benefit from this.

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

There are number of initiatives by regulators of many countries to make pharma/biotech companies more compliant. To comply with stringent regulations requires huge investments by pharma companies. This provides opportunity to TAKE with its experience and track record, to fill the gap by providing services to pharma companies.

Key Rating Weaknesses

Significant dependence on US market, however established clientele

Revenue from US region grew by 19% in FY18 as compared to the previous year on the back of higher orders from the region. TAKE's key acquisitions in the past are in US which has led to concentration of revenues in this market. While US contributed to about 80% of the total revenues in FY18, Asia-Pac's share remained at 13% (PY: 13%) and share of Europe remained at around 8% of total revenues in FY18.

Going forward, the company plans to focus on LS segment in the near-term and hence dependence on US market is expected to remain as US continues to be the largest market for pharma companies.

With long track record, TAKE has established relationship with reputed clients both in LS and SCM vertical. Take's customer base in LS includes leading global pharma companies.

This apart the company is also focusing on cross selling activities for maximum penetration into existing client base. Top 10 customers contributed to 26% of the total revenue in FY18. The same has improved from 31% in FY17.

Limited diversification in revenue stream with increasing focus on LS business segment

LS segment contributed around 88% of the revenues in FY18 as against 83% in FY17. TAKE had initially started in both LS and SCM space providing opportunities for the company to grow and establish itself. However, in the past four to five years, TAKE has been focusing more on LS segment. Revenues from LS segment witnessed growth of 25% in FY18 on y-o-y basis, however the SCM segment witnessed de-growth of 17% in FY18.

TAKE acquired a Clinical Research Organisation- Ecron Acunova (Ecron) in FY16, which is into conducting of clinical trials. This has increased the presence of TAKE in LS space and is a step by TAKE towards backward integrating into the value chain of pharma industry.

The company is looking at increasing its presence in the LS business on account of its expertise and better margins yielded by this segment and plan to curtail operations in SCM slowly.

Take's fortunes closely linked with evolving dynamics of global pharma industry

Pharmaceutical industry is tightly regulated all over the world with stringent norms and regulations. Structural reforms by governments, stringent regulation both in regulated and semi regulated market, intensification of competition has led to pricing pressure impacting the profitability of the industry players.

Competition and increased pricing pressure on pharma companies has resulted in cost cutting measures adopted by them to remain competitive, resulting in reduced business for the companies operating in the pharma/drug market value chain including IT service providers. This has resulted in vendor consolidation approach adopted by pharma companies forcing tier-I/tier-II companies/service providers in the industry to move up the value chain. Pure play clinical research organisations (CRO) have also started providing IT services.

In order to have presence at the early stage of pharma product development lifecycle and to expand its service offering to remain competitive TAKE has ventured into CRO through acquisition of a clinical research organization with the acquisition of Ecron Acunova in FY16. Further the company also has plans for acquisition in the near future in the life science space.

Relatively small player operating in competitive environment and risks associated with consolidation of acquired business

TAKE has relatively small scale of operations operating in the global market. Presence of number of mid-sized global companies having functional domain experts makes it a fragmented and competitive industry. Also, many large pharma companies have their own in-house IT teams with strong domain expertise resulting in reduced outsourced activities. TAKE follows the approach of acquiring companies and increase/strengthen its presence in the value chain. The ability of the company to successfully integrate the operations, manage overlapping customer profiles and monetise the integrated domain and technical expertise for long term benefits is critical for its prospects. Being a mature market, competition in SCM space is also intense where TAKE's presence is marginal.

Analytical approach: Considering the significant financial as well as operational linkages of TAKE with its subsidiaries, the consolidated financials of TAKE (together with its subsidiaries) have been considered for analysis. The companies which have been consolidated with TAKE for analysis purpose is attached as Appendix.

Applicable Criteria

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

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

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology - Service Sector Companies](#)

Financial ratios – Non-Financial Sector

About the Company

TAKE is Information Technology solutions and services company with focus across two principle business areas, Life Sciences (LS) and Supply Chain Management (SCM). TAKE was incorporated as a private limited company in December 2000 by professionals Mr H R Srinivasan and Mr D V Ravi. TAKE Solutions Pte Limited (TSPL), Singapore holds 57.83% stake in TAKE as on September 30, 2018 and acts as the holding company. Total promoter holding is 67%. The remaining stake of 33% is held by public and institutional investors. TSL's global headquarters is in Chennai, India.

Over the years, the company has grown both inorganically and organically and has expanded its operations across various geographies including North America, Middle East and Asia Pacific.

As on March 31, 2018, TAKE had 5 subsidiaries and 27 step down subsidiaries. The day-to-day operations of the company is looked after by Mr H. R. Srinivasan, Vice Chairman & Managing Director.

Consolidated Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1351	1590
PBILDT	268	309
PAT	146	160
Overall gearing (times)	0.33	0.29
Interest coverage (times)	11.87	14.91

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE AA- (Is); Stable

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 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.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (20-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (11-Apr-17)	1)CARE A+ (15-Apr-16)	1)CARE A+ (20-Apr-15)
3.	Commercial Paper	ST	-	-	1)Withdrawn (14-Nov-18)	1)CARE A1+ (08-Dec-17) 2)CARE A1+ (21-Sep-17)	-	-
4.	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AA- (Is); Stable	-	1)CARE AA- (Is); Stable (08-Dec-17) 2)CARE AA- (Is); Stable (21-Sep-17)	-	-

Appendix

Subsidiaries of TAKE	% Holding
APA Engineering Private Limited, India	58%
Ecron Acunova Limited, India	100%
Navitas LLP	100%
TAKE Solutions Global Holdings Pte Ltd, Singapore	100%
TAKE Solutions Limited ESOP Trust, India	100%
Step-down Subsidiaries of TAKE	
APA Engineering Pte Ltd, Singapore	58%
APA Engineering Inc., USA	100%
Towell TAKE Investments LLC, Muscat (ceased w.e.f March 28, 2018)	51%
Towell TAKE Solutions LLC, Muscat (ceased w.e.f March 28, 2018)	100%
TAKE Solutions MEA Limited, Dubai (ceased w.e.f March 28, 2018)	100%
Mirnah Technology Systems Limited, Saudi Arabia (ceased w.e.f March 28, 2018)	100%
TAKE Enterprise Services Inc., USA	100%
TAKE Solutions Information Systems Pte Ltd, Singapore	100%
Navitas, Inc., USA	100%
Navitas Lifesciences S.A.S., Colombia	100%
TAKE Supply Chain De Mexico S De RI Cv, Mexico	100%
Navitas Life Sciences Holdings Limited, UK	100%
Navitas Life Sciences Limited, UK	100%
Navitas Life Sciences, Inc., USA	100%
TAKE Synergies Inc., USA	100%
TAKE Dataworks Inc., USA	100%
Intelent Inc., USA	100%
Astus Technologies Inc., USA	100%
Million Star Technologies Limited, Mauritius	100%
TAKE Innovations Inc., USA	100%
Acunova Life Science Inc., USA	100%
Acunova Life Sciences Limited, UK	100%
Navitas Life Sciences GmbH, Germany	100%
Ecron Acunova Sdn. Bhd., Malaysia	100%
Navitas Life Sciences Company Limited, Thailand	82%
Ecron Acunova Sp.Z.O.O.Poland	100%
Ecron Acunova Limited, UK	100%
Ecron LLC, Ukraine	51%
Ecron Acunova LLC, Russia	100%
Navitas Life Sciences A/S, Denmark	100%
Navitas Life Sciences Pte Ltd, Singapore	100%

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