TCG Lifesciences Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	59.00	CARE A- (Single A Minus)	Assigned
Long/Short-term Bank Facilities	55.00	CARE A-/CARE A2+ (Single A Minus/A Two Plus)	Assigned
Total Facilities	**114.00**		

Rating Rationale

The ratings assigned to bank facilitites of TCG Lifesciences Ltd (TCGL) draw strength from strong promoter group, skilled manpower, state of art R&D facilities, stable financial performance marked by satisfactory operating margins and capital structure, strong clientele with steady order flow and repeat orders. However, the ratings are constrained by exposure to associate companies, employee attrition risk, forex risk, , project implementation risk and regulatory guidelines.

The ability of the company to achieve growth in operations, completion of projects and deriving desired benefits thereof and maintain comfortable capital structure would remain key rating sensitives.

Background

TCG Lifesciences Ltd. (TCGL), promoted by "The Chatterjee Group" belonging to Dr. Purnendu Chatterjee (TCG Lifesciences Mauritius Limited being the holding company). TCGL was incorporated on August 03, 1998 in the name of Chembiotek Research Private Limited as a Contract Research Organization (CRO) to carry out contract scientific research on behalf of pharmaceutical and biotechnology companies in the area of "early drug discovery and development". TCGL has developed specific expertise across several therapeutic areas.

The name of the company was changed to Chembiotek Research International Private Limited in February 2002. In August 2007, the name was changed to TCG Lifesciences Private Limited and in September, 2007 the company was converted into a public limited company. In 2000, TCGL was registered as a 100% export oriented unit (EOU) with Falta Export Processing Zone in Kolkata. The company commenced operations in 2001 by setting up research facilities at Kolkata. Subsequently, in 2006, TCGL also set up a chemical research laboratory at Pune. The company is the process of expanding its capacity at Kolkata and acquiring a scale up facility for clinical supplies and other markets.

As of March 2014, TCG has two wholly-owned subsidiaries: (a) Clininvent Research Private Limited (Clininvent), providing clinical trial management, data management and other related services across therapeutic areas; and (b) Xtec International (Mauritius) Ltd, an investment holding company. During FY13, TCGL offloaded its stake in a wholly-owned subsidiary, Labvantage Solutions Inc (LSI), to its parent company TCG Lifesciences Mauritius Ltd for Rs.71.89 crore with capital gains of Rs.23.74 crore.

Credit Risk Assessment

Strong promoter

TCGL is promoted by "The Chatterjee Group" (through TCG Lifesciences Mauritius Limited), a global investment conglomerate headquartered in New York. The group was established by Dr. Purnendu Chatterjee (Chairman of TCGL) who is a renowned industrialist with over 35 years of experience. Dr. Chatterjee has made several strategic investments in India, particularly in knowledge intensive industries, such as IT, IT enabled services, Life Sciences, Real Estate, Petrochemicals etc.

TCGL is governed by a four member board of directors. The day to day operations being looked after by Shri Swapan Bhattacharya, MD, who is assisted by qualified and experienced professionals from diverse fields. The company also has an advisory board which comprises of eminent scientists and business strategists recognized internationally in their fields of expertise.
Business Risk

Skilled Man power with moderate attrition

TCGL, being a contract research organisation (CRO), is an employee driven company. TCGL' pool of 675+ scientists consists of 18% PhDs. TCGL recruits on-campus from reputed academic institutions in India & abroad as well as through lateral recruitment

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

of experienced professionals from the industry. The skills and diversity of its employees give TCGL the flexibility to best adapt to the needs of customers across a diversified portfolio. TCGL nurtures its employees by continuous up-gradation of skills & expertise through a mix of technical and behavioural training programs.

Attrition at TCGLS is controlled with less than 5% in the bracket of senior and middle management, and around 15% at the bench level.

State of art research facilities with strong IT Infrastructure for enhanced productivity and data security

TCGL's research infrastructure (> 200, 000 sq. ft) includes state of art chemistry and biology laboratories, in vitro and in vivo pharmacology, electrophysiology laboratory, BSL 2&3 laboratory, and cGMP Kilo Lab facilities at its R&D centers in Kolkata and Pune. The company also subscribes to electronic databases and has an extensive knowledge base including, journals & books. To ensure security and confidentiality of research data and client's IP/Trade secrets, the company has a strong IT infrastructure in place.

Strong customer profile

In a span of 13 years, TCGL has amassed a track record of successfully delivering 'preclinical drug molecules' to its clients. The company has developed trust based relationships with over 40+ life sciences customers across pharma/biotech, crop science, animal health, nutraceutical, cosmeceutical and fine chemical domains. TCGL's customers are top pharmaceutical companies of the world and it derives significant portion of its revenue from a limited number of clients. The company derives more than 60% of its revenue (last 3 years) from global pharmaceutical majors. The company focuses on delivering quality services in compliance with set regulations resulting in repeat orders.

Risk of competition

The pharmaceutical industry is characterized by rapid change, evolving industry standards and new service introductions. Further, pricing offered by competitors may render the company's offerings non-competitive, forcing the company to reduce prices, thereby adversely affecting margins. TCGL faces competition from both Indian and foreign players including a number of full service global drug development companies which may choose to undertake research internally. However, with skilled manpower, TCGL has been able to expand its services to address varied and expanding requirements of clients.

Project Risk

The company is expanding its capacity by 65 FTEs at Kolkata, acquiring and up-grading a scale up facility. The cost of the acquisition is around Rs.10.5 crore and Rs.18.5 crore is proposed to be incurred for up-gradation of the facility. The company is expected to incur Rs.13 crore for expansion at Kolkata. The total project cost of Rs.42crore is to be funded by availing debt of Rs.25 crore, deferred payment of Rs.5 crore and internal accruals of Rs.12 crore. Till March 2015, the company has incurred around Rs.7.0 crore in these projects funded out of internal accruals.

Financial Risk

Stable financial position marked by Satisfactory capital structure and profitability

The company's revenue showed steady growth in FY13, however profits booked in FY13 is an aberration on account of extraordinary income of Rs.23.74 crore realised by offloading its stake in a wholly-owned subsidiary, Labvantage Solutions Inc (LSI). TCGL had an investment of Rs.48.15 crore in LSI which was sold to its holding company TCG Lifesciences Mauritius Ltd for Rs.71.89 crore. The proceeds had been utilised for investment in in its group company (Rs.50.0 crore) and prepayment of loans in FY14.

However, despite increase in gross sales by 3.39%, the total operating income and PBDILT has declined in FY14 over FY13 on account of forex loss to the extent of Rs.10.48 crore. Further, the growth in revenue has remained muted on account of adverse economic scenario in USA and Europe where majority of its clients are based.

During the nine months ended Dec.31, 2014 the company achieved a PAT of Rs.8.46 crore on a total income of Rs.112.05 crore. Debt-equity has improved marginally from 0.48 as on March 31, 2013 to 0.36 as on March 31, 2014 on account of repayment of loans and plough back of profits. Overall gearing has remained comfortable at 0.64 as on March 31, 2014. The average working capital utilization in the last 12 months was around 98%.

Exposure in group companies

As on Mar.31, 2014, TGGL's exposure to subsidiary/associate companies was Rs.82.36 crore accounting for 72% of its networth (Rs.26.84 crore as on Mar.31, 2013). The company has also extended corporate guarantee amounting to Rs.31.26 crore for loans availed by group companies

Forex Risk

Being an EOU, the company exports all its services except for permitted levels of Domestic Tariff Area (DTA) sales. The company exports primarily to Europe, USA, Japan and Singapore. The company has foreign currency payments for importing raw material (chemicals and equipment), repayment of foreign currency loans and consultancy services availed. The company imported 62% of its raw material and stores requirement in FY14 (68% in FY13). The company has natural hedge to the extent of 40-45%. Unhedged foreign currency exposure as on March 31, 3014 was USD 8.16 million. The company has a policy to hedge receivables through forward contracts and principal & interest repayments on foreign currency loans through swaps. In FY14, TCGL has incurred loss of Rs.10.48 crore on hedge effective derivative contracts due to sharp depreciation in USD-INR exchange rate.

Industry risk

Favourable outlook for CRO services

The global pharma industry is stated to grow to $ 1.6 trillion by 2020 from $ 1.06 trillion in 2011 (Source: PWC, Vision to decision Pharma 2020). The global drug discovery outsourcing market is expected to be worth $16.21bn by 2015 in comparison to $8.30bn in 2010 (source: Visiongain Report). A key market driver for outsourcing is the reduced costs of performing functions such as custom synthesis, target validation and high-throughput screening. Over the past five years, there has been a trend towards outsourcing operations to Asia especially to China, India and Taiwan. Off-shoring activities are expected to continue as drug manufacturers try to reduce their operating expenditures before the patent expiries of more blockbuster drugs.

Prospects

The prospects of the company depends on its ability to grow operations by providing latest technological platforms to its clients focusing on quality of deliverables, and recruiting skilled scientists, completion of projects and deriving desired benefits thereof and compliance with all regulatory requirements for drug development.

Details of Rated Facilities

1.Long-term facilities

1.A. Secured rupee term loans

Sr. No.	Lender	Rated Amount (Rs. Cr)
1.	Exim Bank of India	4.43
2.	Exim Bank of India	3.48
3.	Exim Bank of India	22.50
4.	ICICI Bank	2.55
5.	Proposed	1.04
6.	Proposed	25.00
	Total Rupee term loans	**59.00**

Total long-term facilities - Rs.59 crore

2. Long /Short term Facilities

Sr. No.	Name of Bank	Nature of Facility	Amount (Rs. Cr)
1	Yes Bank	EPC/PCFC/PSFC/WCDL	35.00
2	Exim Bank of India	PPSC/WCTL	10.00
3	HDFC Bank	EPC/PCFC/FBD/FBP/CC/WCDL	10.00
	TOTAL		**55.00**

Total short-term/long-term facilities – Rs.55 crore

Analyst Contact
Name: Vineet Chamaria
Tel # 033-4018 1609
Mobile # 90517 30850
Email: vineet.chamaria@careratings.com

(This follows our brief rational for entity published on 22 April 2015)

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CONTACT

Head Office Mumbai

Mr. D.R. Dogra
Managing Director
Mobile: +91-98204 16002
E-mail: dr.dogra@carerating.com

Mr. Rajesh Mokashi
Dy. Managing Director
Mobile: +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi
Vice President - Bank Loan & Instrument Rating
Mobile: +91-9819009839
E-mail: meenal.sikchi@carerating.com

Mr. Ankur Sachdeva
Vice President - Bank Loan & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

Other Office:
503, Kaledonia, Sahar Road, Near Andheri Railway Station, Andheri (E), Mumbai - 400 069
Tel: +91-22-6144 3456 | Fax: +91-22-6144 3556

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Dinesh Sharma
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-99000 41975
Tel: +91-80-4115 0445, 4165 4529
E-mail: dinesh.sharma@careratings.com

CHANDIGARH
Mr. Sajan Goyal
2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Saikat Roy
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Tel: +91-40-4010 2030
E-mail: saikat.roy@careratings.com

JAIPUR
Mr. Harsh Raj Sankhla
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 94139 69100
Tel: +91-141-402 0213 / 14
E-mail: harshraj.sankhla@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Rahul Patni
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-78754 33355
Tel: +91-20- 4000 9000
E-mail:rahul.patni@careratings.com

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