Veeda Clinical Research Private Limited

March 26, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term Bank Facilities	0.02 (reduced from Rs.0.92 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long term/ Short term Bank Facilities	20.00 (enhanced from Rs.17.00 crore)	**CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)**	**Reaffirmed**
Total facilities	**20.02 (Rupees Twenty Crore and Two Lakh Only)**		

Note: CARE has also withdrawn the rating assigned to the term loan facilities of the company since the company has completely repaid the rated term loans and there are not outstanding as on date.
Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Veeda Clinical Research Private Limited (Veeda) continue to derive strength from experience of promoters supported by well qualified management team, Veeda's established track record of operation in Clinical Research domain backed by well-equipped facilities providing full range of services from Bio-Availability (BA)/ Bio-Equivalence (BE) studies to clinical trials and its reputed & diversified customer base. Moreover, the ratings also favorably take into account strong growth in the total operating income (TOI) during FY18 (A) and 9MFY19 (UA) with significant improvement in the profitability margins and comfortable capital structure and debt coverage indicators. The ratings also take note of change in shareholding of the company wherein a private equity firm has acquired majority stake in the company from the existing promoter group in December 2018.

The ratings however continue to be constrained on account of concentrated revenue streams i.e. BA/ BE studies, high contingent liabilities which has increased over last year due to one large compensation claim lodged by its customer, regulatory risk associated with clinical research industry and susceptibility of its profitability to volatile forex rates. The ratings also factor in repayment of compulsory convertible cumulative preference share capital of Rs.17.04 crore along with cumulative dividend of Rs.33.17 crore (including dividend distribution tax of Rs.7.78 crore) during 9MFY19 out of the accumulated reserve.

The ability of Veeda to diversify its services offering leading to growth in total operating income while maintain its healthy profitability and comfortable capital structure are the key rating sensitivities. Further, any outgo on account of crystallization of any contingent liability and its impact on company's liquidity also remains to be crucial from credit perspective.

Detailed description of the key rating drivers

Key Rating Strengths

Experience promoter group supported by well qualified senior management team: Veeda has more than two decades of experience in clinical research domain with highly experienced Board of Directors and senior management team. Veeda is promoted by Mr. Apurva Shah and Mr. Binoy Gardi acting as Group Managing Director. Moreover, the company has well qualified senior management team who has vast experienced in pharmaceuticals and clinical research. Further, CX Partners, a private equity firm has acquired majority equity stake i.e. 70% in Veeda from the existing promoter group in December 2018. CX Partners is a private equity group launched in 2009 by Ajay Relan, former India head of Citi Venture Capital International. The current investment of private equity firm in India includes Natco Pharma Limited, Barbeque Nation Hospitality Ltd, Ujjivan Financial Services Ltd, South Indian Bank Ltd, Karur Vysya Bank Ltd, Thyrocare Technologies Ltd, Security and Intelligence Services Limited, and KPIT Technologies Limited among others.

Established track record of operation in clinical research domain: Veeda is a full service Indian Clinical Research Organization (CRO) specializing in clinical trials. With Good Laboratory Practices (GLP) accredited Laboratories, Veeda has an established Biometrics team located in Ahmedabad, India. Its facilities have been inspected by regulatory authorities like USFDA, UK-MHRA, WHO, ANVISA, MCC, ANSM-France so far. The revenue profile of Veeda is also fairly diversified geographically with exports revenue contributing nearly 40% of TOI of the company. Considering the growing TOI, Veeda is developing a new facility at Mehsana, Gujarat with 160 beds which would increase the total capacity of Veeda to 512 beds as against 352 beds as on December 31, 2018. The capacity expansion project is undertaken with approximate cost of Rs.11 crore which is being funded entirely through internal accruals.

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

Established & diversified clientele: Veeda has a long standing relationship with its clients and has large number of clientele base in India, USA, UK and Belgium among others. Further, the company has diversified clientele profile with top 10 customer contributed around 38% of its total operating income during FY18 and 9MFY19.

Healthy growth in total operating income with improved profitability margin: Total operating income of Veeda, which registered a healthy Compounded Annual Growth Rate (CAGR) of 42% during past three years ended FY18, grew by nearly 35% during FY18 on account of increasing number of BA/ BE studies received from existing clients as well as addition of new clients. The growth in revenue was also supported by the increase in capacity of number of beds over the years. Moreover, Veeda benefitted from the economies of scale along with implementation of Goods and Services Tax (GST) which led to significant improvement in the PBILDT margin by 1261 bps during FY18. Moreover, PAT margin also improved significantly in line with PBILDT margin.

Comfortable capital structure & debt coverage indicators: Capital structure of the company continued to remain comfortable marked by overall gearing ratio of 0.18 times as on March 31, 2018 backed by accretion of healthy profit to reserve and low debt level. Despite the cash outgo in the form of payment of preference share capital along with cumulative preference dividend, the reliance on external debt continued to remain low at Rs.11 crore as on December 31, 2018 indicating strong cash accruals from operation. Debt coverage indicators like interest coverage and total debt to GCA remained very comfortable in FY18 and 9MFY19 due to continued low debt level.

Liquidity Analysis: Veeda's liquidity remained comfortable marked by healthy cash accruals along with negligible fund based working capital utilization during past 12 months ended December 2018. Moreover, operating cycle of the company remained stable at around 47 days during FY18. Further, the company had unencumbered cash and bank balance of Rs.6 crore. Furthermore, in absence of any major term debt repayment obligation and strong cash accruals, the liquidity of the company is expected to remain healthy.

Key Rating Weaknesses

Exposure to high regulatory risk: The CRO industry is exposed to reputation risk wherein the primary responsibility of CRO is to ensure safety of its subjects. The Ministry of Health and Family Welfare, has a pre-defined patient compensation guidelines in case of clinical trials along with compensation for any injury or death during the trails conducted in India. Any adverse impact on the subject's health during the trials could discredit the CRO and may lead to investigation and subsequent action from the regulatory authorities. Furthermore, CROs require various approvals, licenses, registrations and permissions for their routine business activities. The approval process is also complex, lengthy and expensive. The time taken to obtain approval varies from country to country and it ranges from one month to year. Any delay or failure in getting approval could adversely affect the business prospects of the company.

Competitive Indian CRO industry: The growth of the Indian CRO industry would be driven by increased outsourcing from international pharmaceutical companies. Cost pressures faced by international companies are creating the need for the pharmaceutical companies to implement cost cutting measures across operations, including drug development costs. The growth in outsourcing clinical trials will be closely paralleled with the growth in R&D spending of pharmaceutical companies in regulated markets. Further, the large pharmaceutical players have their own CROs which further intensify the competition. Veeda earns majority of its revenue from BA/ BE studies which limits its growth and puts pressure on profitability in light of increasing competition. Also, the company has only operations in India which exposes it to country risk.

Modest net worth base: Veeda had modest tangible networth base of Rs.84.60 crore including cumulative convertible preference shares of Rs.17.04 crore as on March 31, 2018. However, company has completely repaid the preference shares along with the cumulative dividend thereon during 9MFY19 out of the accumulated reserve. Hence, with these payments, the tangible net worth base of the company is expected to reduce to that extent.

High contingent liability: The contingent liabilities of Veeda remained high and increased further to Rs.124.44 crore as on March 31, 2018 (excluding cumulative preference dividend). It mainly includes a compensation claim of Rs.101.89 crore lodged by one of the customer w.r.t. clinical trials conducted by Veeda. The other contingent liabilities of Veeda include disputed service tax and income tax dues arising out of normal course of business. Any outgo on account of crystallization of these liabilities and its impact on company's liquidity would be crucial from the credit perspective.

Profitability susceptible to volatility associated with forex rates: Veeda derives nearly 40-45% of its revenue from export which exposes it to foreign exchange fluctuation risk in absence of any active hedging policy. However, forex risk is partially mitigated through natural hedge as the company imports some machinery required for clinical analysis. However, the timing difference between the import and export may impact the realizable value which in turn impacts the profitability.

Analytical Approach: Standalone

Applicable Criteria:
[Criteria on assigning Outlook to Credit Ratings]
[Criteria for Short Term Instruments]
[CARE's Policy on Default Recognition]
[Financial ratios – Non-Financial Sector]
[CARE's methodology for Service Sector companies]
[CARE's methodology for Pharmaceutical Sector]
[Policy on Withdrawal of ratings]

About the Company
Veeda originally incorporated in April 2004 under the name of Clinsearch Labs Private Limited, is a full service global Clinical Research Organization (CRO) specializing in the early clinical development of drugs by conducting early phase clinical trials on healthy volunteers and patients. There are 2 state-of-the-art clinical units in Ahmedabad - Shivalik and Vedant established in 2004 and 2015 respectively in compliance with Global Regulatory Standards. It delivers cost effective research solutions to the pharmaceutical and biotechnology industries worldwide; providing the full range of services: BA/BE, phase-I and II clinical research and data management services. The clinical trial facilities of Veeda in India are inspected by the USFDA (US), MHRA (UK), WHO and ANVISA (Brazil).

(Rs. Crore)

Brief Financials of Veeda	FY17 (A)	FY18 (A)
Total Operating Income	136.16	183.23
PBILDT	28.22	61.07
PAT	9.96	30.91
Overall Gearing (times)	0.38	0.18
PBILDT Interest Coverage (times)	10.70	22.65

A: Audited

As per the provisional result for 9MFY19, Veeda earned total operating income of Rs.158 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (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/ ST-CC/PC/Bill Discounting	-	-	-	20.00	CARE BBB+; Stable / CARE A3+
Non-fund-based - LT-Bank Guarantees	-	-	-	0.02	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn

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/ ST-CC/PC/Bill Discounting	LT/ST	20.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB+; Stable / CARE A3+ (05-Apr-18)	1)CARE BBB+; Stable / CARE A3+ (02-May-17)	1)CARE BBB+ / CARE A3+ (26-Apr-16)	1)CARE BBB+ / CARE A3+ (08-Apr-15)
2.	Non-fund-based - LT-Bank Guarantees	LT	0.02	CARE BBB+; Stable	1)CARE BBB+; Stable (05-Apr-18)	1)CARE BBB+; Stable (02-May-17)	1)CARE BBB+ (26-Apr-16)	1)CARE BBB+ (08-Apr-15)
3.	Fund-based - LT-Term Loan	LT	-	Withdrawn	1)CARE BBB+; Stable (05-Apr-18)	1)CARE BBB+; Stable (02-May-17)	1)CARE BBB+ (26-Apr-16)	1)CARE BBB+ (08-Apr-15)
4.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (26-Apr-16)	1)CARE BBB+ (08-Apr-15)

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