

## India Ratings Affirms Claris Lifesciences at 'IND A'/Stable

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By Janhavi Prabhu

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India Ratings and Research (Ind-Ra) has affirmed Claris Lifesciences Limited's (CLL) Long-Term Issuer Rating at 'IND A'. The Outlook is Stable.

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### KEY RATING DRIVERS

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**Linkages between CLL and Claris Injectables Limited (CIL):** Ind-Ra continues to take a consolidated view of CLL and its subsidiaries (together referred to as the company) including its wholly owned subsidiary CIL ('IND A'/Stable) considering the strong linkages among them. CLL has guaranteed CIL's loans and facilities and the latter's injectable sales and profitability account for a significant portion of the company's turnover and profitability. Also, CLL will extend tangible financial support to CIL if required, indicating the strong strategic linkages between the two entities.

Both the entities share certain common directors and part of CIL's injectable business routes through CLL. However, post the transfer of a majority of licences to CIL, this quantum has reduced.

The company has changed its financial year end from December to March in 2015. Thus, FY15 was a 15-month period.

**Healthy Revenue Growth:** Ind-Ra expects the company's consolidated top line to grow at a CAGR of 13%-15% over FY16-FY19, driven by revenue growth in the US (14%-15%) and EU and other regulated markets (15%-16%). In the US, the company already has 13 approved abbreviated new drug applications and 26 are in the pipeline (estimated market size according to management of USD1.5bn). Ind-Ra has not assumed any new product launches for the ratings, and according to the management revenue growth would be driven by the existing products. The company is planning to add new distributors (10-15 over the next three to four years) in the existing therapies (anaesthesia, anti-infective and other critical care products) in the EU and other regulated markets and emerging markets.

In FY16, the company's revenue grew 17.5%yoy to INR7.5bn whereas the EBITDA margins contracted 125bp yoy to 19.3%. The 56.8% yoy revenue growth in the core injectable business to INR6.2bn in FY16 was offset by the lower growth in the standalone business on account phasing-out of infusion sales for Claris Otsuka Private Limited (Claris Otsuka) for the emerging geographies.

**EBITDA Margin Contraction:**The EBITDA margins contracted in FY16, despite the improvements brought by the increase in the proportion of the high-margin injectable business, because of the scaling-up of costs especially on account of expanding its US presence and higher R&D expenses. The agency expects EBITDA margins to register an

improvement from FY18.

**Strong Credit Profile:** CLL's consolidated credit profile is strong. For FY16, the company reported net leverage (adjusted net debt/EBITDA) of 1.9x (2014: 1.8x) and net interest coverage (EBITDA/net interest) of 5.1x (20.2x). The agency expects the credit profile for FY17 to remain closer to the FY16 levels and register an improvement which would be in line with the existing rating levels.

**Comfortable Liquidity:** Though CIL's average working capital utilisation for the 12 months ended May 2016 was around 84%, the agency derives comfort from the company's cash and cash equivalents (including investments) of INR3.3bn at FYE16. Thus, the operating cash flows and closing cash balances at FYE16 would be sufficient to service repayments to the tune of INR2.1bn over FY17-FY19.

**Regulatory Risk:** For FY16, CIL derived around 84% of its turnover from the regulated markets which entail high entry barriers and increased risk of compliance with the current good manufacturing practices. On 11 May 2015, US Food and Drug Administration had visited CIL's Clarion I plant and had raised observations under Section 483. However, this did not impact the product sales to the US. On 31 May 2016, the company received an establishment inspection report indicating the facility was found in compliance with the issues raised and is now again qualified to receive product approvals from the facility in the US.

**Therapy Concentration:** CIL faces product concentration on account of its dependence on select brands. Moreover, the company has limited diversification and growth plans for the fast-growing lifestyle and critical products.

## RATING SENSITIVITIES

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**Negative:** Any material weakening in CIL's overall linkages with CLL and or any significant debt-led capex leading to the adjusted net debt/EBITDA being sustained above 3x could lead to a negative rating action.

**Positive:** Strengthening of the overall business profile through product diversification and US Food and Drug Administration approval for Clarion II plant leading to substantial scaling of revenue while maintaining profitability, and net leverage being sustained below 1.5x will be positive for the rating.

## COMPANY PROFILE

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Incorporated in 1994, CLL earlier operated in two product segments - injectable and infusion. The infusion business for the domestic and emerging markets was transferred to Claris Otsuka in August 2013. Claris Otsuka is a joint venture set up by CLL, Otsuka Pharmaceutical Factory Inc, Japan and Mitsui & Co. Ltd, Japan, to manage CLL's infusion business in India and emerging markets. The injectable business, along with the related assets and liabilities, was transferred to CIL on 31 October 2014.

## SOLICITATION DISCLOSURES

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Additional information is available at [www.indiaratings.co.in](http://www.indiaratings.co.in). The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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## Rating Outstanding

(As on 15/Jun/2016)

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Long Term Issuer Rating	IND A / Stable	
Cash Credit	IND WD	INR 825 m
Fund Based Working Capital Limit	IND WD	INR 175 m
Fund/Non-Fund Based Working Capital Limit	IND WD	INR 440 m
Other	IND WD	INR 1910 m

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## Applicable Criteria

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### Corporate Rating Methodology

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## Analyst Names

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### Primary Analyst

**Janhavi Prabhu**

### Senior Analyst

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block.  
Bandra Kurla Complex Bandra (East), Mumbai 400051  
+91 22 40001754

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### Secondary Analyst

**Purvi Shenvi**

Analyst

+91 22 40356131

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Committee Chairperson

**Sudarshan Shreenivas**

Director

+91 22 40001783

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Media Relation

**Mihir Mukherjee**

Manager Corporate Communications and Investor Relations

+91 22 40356121

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