

Ind-Ra Upgrades Claris Lifesciences to 'IND A', Resolves RWP

Ind-Ra-Mumbai-22 August 2013: India Ratings & Research (Ind-Ra) has upgraded Claris Lifesciences Limited's (Claris) Long-Term Issuer Rating to 'IND A' from 'IND A-' after resolving the Rating Watch Positive (RWP). The Outlook is Stable. A full list of rating actions is at the end of this commentary.

KEY RATING DRIVERS

The resolution of RWP follows the completion of the transfer of Claris' infusion business to its JV company Claris-Otsuka. The upgrade reflects the improvement in Claris' credit profile following the receipt of transaction proceeds amounting to INR10.5bn and the consequent prepayment of debt obligations. As at end-July 2013, debt was INR2.56bn, down from INR5.4bn in December 2012.

Net financial leverage (adjusted debt net of cash/EBITDAR) for 2013 will improve and is estimated by the agency to be negative (2013: negative 1.2x, 2012: 1.7x). Post 2013, Ind-Ra expects the net leverage to remain comfortable and below 1.5x as growth will be funded through a mix of internal accruals, debt and cash. In the long term, the agency is positive about Claris' prospects of the residual business – namely export-focused specialty injectables. This is despite the sale of its core business, which contributed around 55% to its total revenue and profitability.

Claris has started generating revenue from the US market with the re-instatement of the USFDA approval on the plant - Clarion 1 - in August 2012. Its product pipeline is being built. Claris has filed for 31 abbreviated new drug applications (ANDAs) and has 11 ANDAs approved in its name. New product development is in full speed, the company has identified several drugs, and some of these products are likely to have favourable prospects considering limited competition. For the half year ended June 2013 (which includes the infusion business), revenue were INR3.8bn (H112: INR3.7bn), EBITDA was INR1.1bn (INR1.2bn) and EBITDA margins were 29% (33%).

For Claris' European business, growth is likely to come from the sale of the drug propofol where in the company has limited competition and also from the approval of its iron sucrose variant in 2014-2015. Claris is also looking at creating a strong product pipeline wherein it expects to triple its filings in the next three years.

For the emerging markets, the company plans to increase filings by 150-200 over the next three years.

RATING SENSITIVITIES

Negative: Any unexpected debt-led capex and/or decline in financial performance resulting in net leverage sustained above 1.5x could result in a negative rating action.

Positive: Growth in the scale of specialty injectable business coupled with operating margins and credit profile being maintained could result in a positive rating action.

Claris' ratings:

- Long-Term Issuer Rating upgraded to 'IND A' from 'IND A-'; off RWP; Outlook Stable
- INR1.91bn term loans (reduced from INR3.4bn): upgraded to Long-Term 'IND A' from 'IND A-'; off RWP
- INR825m fund-based cash credit limits (reduced from INR1.8bn): upgraded to Long-Term 'IND A' from 'IND A-'; off RWP
- INR440m non-fund-based limits (reduced from INR705m): affirmed at Short-Term 'IND A1'
- INR175m fund-based limits: affirmed at Short-Term 'IND A1'

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