

India Ratings Maintains Claris Injectables on RWE

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India Ratings and Research (Ind-Ra) has maintained Claris Injectables Limited's (CIL) Long-Term Issuer Rating of 'IND A' on Rating Watch Evolving (RWE). The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
Term loans	-	Libor+3%-12%	March 2023	INR3,621.1 (reduced from INR4,175.6)	IND A/RWE	Maintained on RWE
Fund-based cash credit limits	-	-	-	INR900.0	IND A/RWE	Maintained on RWE
Non-fund-based limits	-	-	-	INR440.0	IND A1/RWE	Maintained on RWE
Fund-based limits	-	-	-	INR100.0	IND A1/RWE	Maintained on RWE

Ind-Ra continues to take a consolidated view of CIL and its parent Claris Lifesciences Limited (CLL; 'IND A/RWE') along with the latter's other subsidiaries, collectively referred to as CLL, considering the strong linkages among them.

KEY RATING DRIVERS

Ind-Ra has maintained the ratings on RWE because of US-based Baxter International Inc.'s (Baxter) pending acquisition of CLL's injectable business and consequently the assessment of the impact on CLL's credit profile. The two companies entered into a definitive agreement in December 2016 for a purchase consideration of USD625 million (INR42.3 billion). In the management's assessment, the closure of the deal is likely in 3Q17 with most regulatory approvals already in place. The impact on CLL's consolidated credit profile due to the divestiture will be clear once the deal is completed.

In Ind-Ra's assessment, after the divestiture, the credit profile of CIL would largely mimic/depend on the credit quality and holding structure of Baxter and the financing of the acquisition by the prospective buyer. Baxter's management has indicated that it is likely to fund the deal through cash, debt or a combination of both.

Generic injectables are relatively insulated from pricing pressure/erosion and lower commoditised compared with oral

counterparts on account of the complexity associated with manufacturing (sterile conditions). The manufacturing of injectables warrants high capital and operational and compliance costs, enabling the company to earn higher margins.

On a consolidated basis, CLL posted revenue growth of 14.2% yoy to INR8,352.9 million in FY17 and EBITDA margin of 27.7% (FY16: 12.1%). The improvement in the revenue and margins is attributed to a higher contribution from the US (high-margin geography) and better product mix. For FY17, US, other regulated markets (excluding the US) and emerging markets accounted for 57.9%, 9.6% and 29.4%, respectively, of CLL's consolidated revenues.

The RWE could be resolved on the completion of the divestiture or in the next three months, whichever is earlier. The RWE indicates the possibility of CLL's and CIL's ratings being upgraded, downgraded or affirmed.

COMPANY PROFILE

On 31 October 2014, CLL hived off its injectable business (all related assets and liabilities) to CIL. CIL provides injectables for anaesthesia and anti-infective and renal therapies. CIL has 16 approved abbreviated new drug applications and a pipeline of 24 more applications awaiting approval. According to Baxter, the joint portfolio post-merger is likely to witness over 100 launches over FY17-FY21. In August 2016, the USFDA issued five observations to CIL for its manufacturing facility in Ahmedabad, Gujarat. The company has filed responses to these observations and the same are under process. In May 2017, a pharmacovigilance system audit was conducted on CIL's facilities by USFDA and was concluded without any observations.

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook	
	Rating Type	Rated Limits(million)	Rating	21 December 2016	20 March 2015
Issuer rating	Long-term	-	IND A/RWE	IND A/RWE	IND A/Stable
Term loans	Long-term	INR3,621.1	IND A/RWE	IND A/RWE	IND A/Stable
Fund-based cash credit limits	Long-term	INR900.0	IND A/RWE	IND A/RWE	IND A/Stable
Non-fund-based limits	Short-term	INR440.0	IND A1/RWE	IND A1/RWE	IND A1
Fund-based limits	Short-term	INR100.0	IND A1/RWE	IND A1/RWE	IND A1

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

Corporate Rating Methodology

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