Fitch ups India's Claris Lifesciences to A-(ind); Otlk stbl

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Fitch Ratings has today upgraded India-based Claris Lifesciences Ltd's (Claris) National Long-term rating to 'A-(ind)' from 'BBB+(ind)'. The Outlook is 'Stable'. The agency has also upgraded Claris' INR1.52bn long-term loans (enhanced from INR1.49bn) and its INR1.81bn fund-based cash credit limits to 'A-(ind)' from 'BBB+(ind)'. Fitch has simultaneously affirmed Claris' INR175m fund-based limits and INR640m non-fund based limits at 'F2+(ind)'.

The upgrades reflect Claris' strong revenue and profitability visibility in high-margin regulated markets as well as its comfortable credit metrics and established domestic and emerging market businesses. The ratings continue to factor in the company's strong focus on the pharma injectable business.

During CY09, despite the decline in domestic and emerging market sales, the decline in Claris' overall revenues was capped by increased sales to the regulated markets. Owing to discontinuance in sales of a few low-margin products and a change in its business model in the emerging markets, Claris reported a decline in sales in the domestic and emerging markets by 10.2% and 22.8%, respectively. However, regulated market sales on the back of commercialization of four Abbreviated New Drug Applications (ANDA) , the company's business agreement with Pfizer Inc (PFE.N) ('AA-'/Stable/'F1+') and additional product registrations in Europe grew to INR1410m in CY09 (CY08: INR328m). This along with a reduction in certain costs translated into an increase in operating profitability margins. Claris' net profit increased to INR1.25bn in CY09 (CY08: INR1.08bn). Fitch expects strong revenue and profitability growth from sales to regulated markets through its arrangement with Pfizer Inc., and from its own sales to the regulated markets. This is expected to come from increased registrations of ANDAs, registrations in the European Union, getting into newer technologies/therapies like oncology, pre filled syringes and lyophilizations, The agency further expects Claris' emerging market business to benefit from the approvals for certain products as well as entrance into new countries.

Fitch notes that during CY09, Claris reported an improvement in its liquidity position, with the cash conversion cycle improving to 114 days from 135 days (CY08). This was a result of the licensing income received as part of its agreement with Pfizer Inc, along with the measures undertaken to improve its working capital. Fitch expects Claris' liquidity to continue to remain comfortable and to further strengthen by the successful completion of Claris's INR3000m IPO, expected during CY10-CY11. The IPO money would be utilised for funding Claris' capex plans and the retirement of certain debt.

Positive rating triggers for the company's short term rating include a successful completion of the company's IPO, which would result in a further improvement in its credit metrics and overall credit profile. Negative rating triggers include a debt/EBITDA exceeding 2.0x on a consistent basis going forward, lower-than-expected growth in Claris' revenues and profitability from significant competition in the regulated markets, a delay in attaining product approvals and a lower-than-anticipated offtake from Claris' business arrangements.

Claris develops, manufactures and markets injectable drugs. During CY09, the company's revenues declined to INR7.4bn (CY08: INR7.5bn), although its EBITDA expanded from INR2.1bn to INR2.3bn. Overall debt levels declined to INR3.1bn from INR3.3bn in CY08, with an improvement in debt/EBITDA to 1.3x from 1.6x.

Applicable Criteria available on Fitch's website at www.fitchratings.com: "Corporate Rating Methodology," dated 24 November 2009.