

October 15, 2020

TAKE/BSE/2020-21

The Manager
Dept. of Corporate Services-Listing
Bombay Stock Exchange Limited,
P. J. Towers, Dalal Street,
Mumbai - 400001
Scrip Code: 532890

TAKE/NSE/2020-21

The Manager-Listing Department
National Stock Exchange of India Limited
Exchange Plaza,
Bandra - Kurla Complex, Bandra (East),
Mumbai - 400051
Scrip Code: TAKE

Dear Sir/Madam,

Sub: Revision in Credit Rating

Kindly note that the Credit Rating of the Company has been revised by India Ratings & Research as below:

Facilities	Rating	Action
Long term Issuer Rating	Revised from "IND A – "to IND "BBB –"	Revised

The Company has also withdrawn the rating, since no specific debt was issued against the rating.

A copy of Credit Rating Report has been attached herewith for your reference.

Please take note of the same.

Thanking you.

Yours faithfully,
For TAKE Solutions Limited


Avaneesh Singh
Company Secretary

Encl: As above

TAKE SOLUTIONS LIMITED

Registered & Corporate Office : No: 27, Tank Bund Road, Nungambakkam, Chennai - 600 034
CIN: L63090TN2000PLC046338; GSTIN: 33AABCT3684M1Z0
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India Ratings & Research

A Fitch Group Company

India Ratings Downgrades Take Solutions to 'IND BBB-'/Negative; Off RWN; Withdraws Rating

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OCT 2020

By Priyanka Bansal

India Ratings and Research (Ind-Ra) has downgraded Take Solutions Limited's (TSL) Long-Term Issuer Rating to 'IND BBB-' from 'IND A-' with a Negative Outlook while resolving the Rating Watch Negative (RWN). The agency has simultaneously withdrawn the rating.

Analytical Approach: Ind-Ra had taken a consolidated view of TSL, which is a holding company, and its subsidiaries, to arrive at the rating.

The downgrade reflects the continued deterioration in TSL's liquidity position amidst weak profitability and a declining cash balance. Ind-Ra believes TSL's cash flows would be insufficient to service its debt obligations over the next six months. The company aims to shore-up its near-term liquidity through equity infusions and the restructuring of existing loans. The Negative Outlook reflects the continued lack of visibility over recovery in operating cash flows, and the likely delay in equity infusions and/or additional funding from banks.

Ind-Ra has received a request from TSL to withdraw the rating, since no specific debt was issued against the rating. Therefore, Ind-Ra is no longer required to maintain the rating.

KEY RATING DRIVERS

Liquidity Indicator — Poor: Ind-Ra believes TSL's liquidity situation is weak, given the subdued cash flows, the moderate cash balance and limited undrawn bank lines. At end-FY20, TSL had cash and equivalents of about INR510 million against the current maturities of long-term debt of INR391 million and short-term borrowings of about INR3,400 million. A part of the short-term borrowings is revolving in nature, and TSL had availed the moratorium for some portion of the loans and has requested restructuring for another portion of the loan, as allowed by the Reserve Bank of India for the entities impacted by the COVID-19-led disruptions. However, the agency believes TSL would still require additional funding, either in the form of additional loans and/or equity infusions, over the next three-to-six months to service the debt obligations.

Weak Financial Performance since 4QFY20: TSL's financial performance deteriorated materially since 4QFY20, owing to a steep reduction in clinical trials due to the outbreak of COVID-19 pandemic. The revenue plummeted 43% qoq to INR3,707 million (3QFY20: INR6,511 million; 4QFY19: INR5,339 million), offsetting the 22% yoy revenue growth in 9MFY20, resulting in a reduced growth rate of 8.5% yoy to INR22,129 million in FY20. TSL also reported an EBITDA margin loss of 42% in 4QFY20 against an EBITDA margin of 18% generated in 9MFY20 (9MFY19: 19%), since a large

part of the expenses, such as employee expense and license cost, could not be reduced significantly in line with the reduction in revenue. This led to a decline in the EBITDA margin to 7.6% in FY20 (FY19: 18.8%). The financial performance continued to be weak in 1QFY21.

Ind-Ra believes TSL's overall revenue will be materially impacted in FY21, since the new clinical trials have been put on hold post the outbreak of COVID-19. Ind-Ra expects the company's FY21 revenue growth to be muted from the already-in-process clinical trials and from the regulatory submissions. The agency also believes that in the absence of significant cost-cutting initiatives, the margins will remain stressed over the near term. Although the execution of certain newly-won contracts related to COVID-19 trials could support the revenue marginally, the agency believes the extent of revenue likely to be generated from such contracts and its margins profile remain to be seen. The agency is of the view that the financial profile of the company will be determined by the evolution of the pandemic over the coming few months and the company's ability to change its business profile, in line with these evolving needs.

Lack of Visibility Over Managerial and Promoter Continuity: TSL has witnessed resignations by its co-founder and non-executive director; executive director, president and chief executive officer and chief financial officer. Furthermore, the promoters sold about 13% stake in the company and have made a reclassification request from being a promoter group to public shareholding for about 5% of the shareholders since June 2020. Ind-Ra believes the departures of the key managerial personnel along with the stake sale by promoters may impact business continuity or decision making amid the challenging business situation, owing to the COVID-19 pandemic.

Low Revenue Visibility: TSL's order book declined to USD187 million at end-FY20 (end-FY19: USD252 million). Also, Ind-Ra believes that due to the halts/stoppage of the trials, several pharma companies might suspend/defer and/or cancel few orders. This is because any trials where face-to-face interaction is required have been adversely impacted owing to the COVID-19 outbreak. TSL might win few COVID-19 related orders, but the agency believes the extent and timeline of such orders are uncertain at this point.

Deterioration in Credit Metrics in FY20: TSL's net adjusted leverage (net adjusted debt/operating EBITDAR) deteriorated to 3.3x at end-FY20 (end-FY19: 1.5x) and gross interest coverage (operating EBITDA/Gross Interest Expense) fell to 4.1x (15.3x), owing to a reduction in the absolute EBITDA to INR1,689 million (INR3,835 million). The credit metrics are expected to remain weak over the next six to nine months owing to the weak financial performance of the company.

Limited Revenue Diversification: TSL derived 85% of its FY20 revenue from the US, followed by Asia-Pacific (13%) and Europe (2%); the high revenue share of the US is because of higher orders and key acquisitions in the past. Ind-Ra expects the geographical diversification to remain low in the medium term with revenue from the US continue to contribute more than 80% of the revenue. Segment wise revenue diversification also remains low, since life sciences contributed about 94% to the revenue in FY20 (FY19: 92%); and the remaining 6% contributed by the supply chain management segment, whose share is expected to reduce further over the years.

Regulatory Risks: TSL's business remains prone to regulatory actions, given almost 87% of its revenue originates from highly-regulated markets (Europe and the US); the revenue contribution of the US has increased over the years. Although TSL plans to further expand its business in the US, Ind-Ra expects its overall revenue to remain concentrated and exposed significantly to the local market regulator (US Food and Drug Administration) risks. The company is exposed to regulatory risks in different jurisdictions worldwide.

High Competitive Intensity: TSL faces competition from large and mid-sized technology companies that offer technology solutions to various pharmaceutical companies for regulatory submissions and safety. Also, there are several contract research organisations that undertake clinical trials for pharmaceutical companies. However, TSL has the advantage of being a domain-focussed technology service provider with presence in clinical trials and operations, where most other players are not present.

Niche Business Segment; Long Track Record: TSL is a full service provider focused on life sciences research and development cycle. The company caters to biopharmaceutical companies and is one of the few players with presence across the three key segments of the life sciences industry: clinical trials and operations, regulatory compliance and safety (pharmacovigilance). TSL has over 15 years of relevant industry experience, along with over 120,000 successful regulatory submissions. The company has developed a strong portfolio of intellectual property-based software and solutions in both life sciences and supply chain verticals to cater to customers in clinical data aggregation and management, document management, regulatory filing, clinical data analysis, drug safety and others.

Marquee Clients: TSL had about 400 active clients as of end-FY20. TSL's clientele include reputed domestic and international pharmaceutical companies. Its clientele includes companies such as Pfizer Inc., Celgene Corporation, Mylan N.V, Dr Reddy's Laboratories, etc. This aids the company in securing repeat orders and more than 90% of the revenues are from repeat business. As confirmed by the management, about 70% of the new orders related to COVID-19 trials are received from the existing clients.

Customer concentration risk remains low, with the top 10 customers contributing 24% to overall revenue in FY20 and the top five customers contributing 17%. However, despite having such reputed clients on board, the short-term nature of contracts, and non-availability of any minimum billing clause with such clients, led to the decline in revenue after the outbreak of COVID-19.

Standalone Performance TSL's standalone revenue declined to INR25 million in FY20 (FY19: INR220 million) and EBITDA losses widened to INR170 million (INR140 million). The standalone operations continued to be debt free with cash and equivalents at INR7 million at end-FY20.

COMPANY PROFILE

Chennai-headquartered TSL offers technology-led solutions in two verticals: supply chain management and life sciences. The company has presence in North America, Asia-Pacific and Europe. Singapore-based TAKE Solutions Pte Limited holds a 52.9% stake in TSL and acts as the holding company.

FINANCIAL SUMMARY

Particulars	FY20	FY19
Revenue (INR million)	22,129	20,390
EBITDA (INR million)	1,689	3,835
EBITDA margin (%)	7.6	18.8
Cash and equivalents (INR million)	509	458
Adjusted debt (INR million)	6,030	6,372
EBITDA interest coverage (x)	4.1	15.3
Net leverage (x)	3.3	1.5
Source: TSL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	21 July 2020	9 May 2019	12 January 2018
Issuer rating	Long-term	-	WD	IND A-/RWN	IND AA-/Stable	IND AA-/Stable

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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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Priyanka Bansal

Senior Analyst

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