



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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Analyst: Charulata Gaidhani

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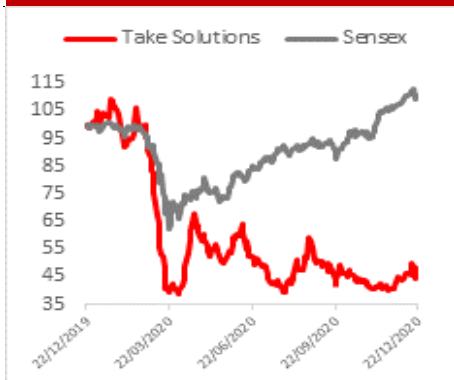
BUY

Current Price	48
Target Price	97
Upside	101%
52 Week Range	114/37

Key Share Data

Market Cap (Rs. Bn)	7
Market Cap (US\$ Million)	95
No of o/s shares (Million)	148
Face Value	1
Monthly Avg. Vol (BSE+NSE) ('000)	3861
BSE Code	532890
NSE Code	TAKE
Bloomberg	TAKE:IN

Price performance



% Shareholding	Sep-20	Jun-20
Promoters	53.41	58.65
Institutions	5.97	11.64
Others	40.62	29.72
Total	100	100

Consolidated Financials (In INR Million)

INR Mn	Net Sales	Growth (%)	EBITDA	EBITDA Margin (%)	APAT	APAT Margin (%)	EPS	Growth (%)	ROE (%)	ROCE (%)	P/E
FY18	15,872	18%	3,065	19.3%	1,599	10.1%	11.0	9%	12%	12%	4.4x
FY19	20,390	28%	3,835	18.8%	1,784	8.7%	12.2	11.4%	12%	12%	3.9x
FY20	22,129	9%	1,689	7.6%	-109	-0.5%	-0.7	NA	-1%	0%	NA
FY21e	8,916	-60%	-489	-5%	-1,892	-21%	-12.9	NA	-14%	-9%	NA
FY22e	12,523	40%	2,288	18%	706	12%	4.8	NA	5%	6%	9.9x
FY23e	15,216	22%	3,281	22%	1,572	14%	10.8	122.7%	10%	10%	4.5x

Company Background

Take Solutions (TSL) offers domain-intensive and Technology-backed Life Science services with a unique combination of Clinical, Regulatory and Safety segments. TSL's clients include large and small innovator biopharmaceutical companies (~90% of clients) as well as generics manufacturers (10%). TSL derives 50% of its revenue from Clinical and balance 50% from Regulatory (Data) and Pharmacovigilance (PV). Services are backed by some its marquee tech platforms such as OneClinical™ in Clinical and PharmReady™, SafetyReady™ and RIMReady™ in Regulatory and PV. Geography-wise, 70% of the revenue is derived from US and 30% from Asia Pacific.

Investment Rationale

All negatives factored-in and worst seems to be over:

- Liquidation of, and write-off taken in, cash guzzling step-down EU subsidiary - Navitas Life Sciences GmbH** (subsidiary of Ecron Acunova Ltd.) which was bleeding cash on the back of internal and external events arising out of COVID-19. The stepdown subsidiary was liquidated in Q1FY21 and a loss of INR 1,566.2 Mn to the extent of net assets was written-off in Q1FY21. Closure of EU business helped in conserving cash and improving liquidity as well. For example, loss in EU business was \$2.3 Mn in Q4FY20, which would have expanded to \$7-8 Mn in Q1FY21 and eventually would have turned into funding requirement in Q2FY21.
- Exited Supply Chain Management (SCM) business in Q1FY21:** TSL sold its 58% stake in its subsidiary – APA Engineering Pvt. Ltd. for INR 174 Mn in Q1FY21.
- Monetized real-estate footprint**
- Rationalization of employee costs:** Management reduced the headcount in western geographies where the wages were relatively higher for cost saving purposes. Additionally, a lot of off-shoring initiatives were also taken up as a part of cost restructuring. Therefore, while TSL was doing an Employee Cost run-rate of \$29 Mn per quarter in pre-Covid times, it has come down to \$18 Mn in Q2FY21 and will further come down to \$16 Mn per quarter by Q3FY21 (and will increase gradually as revenue expands)

Management took up all these changes as part of its cost restructuring exercise during the pandemic. **Going ahead, management has indicated that no further write-offs are expected.**

Deleveraging through corporate restructuring, cost rationalizations and asset sale to improve profitability

Management's primary agenda is to reduce debt burden (\$71.88 Mn as of 30/11/2020) and improve cash flows through the combination of liquidation of Europe business, sale of stake in SCM business, headcount reduction, off-shoring of work and office footprint reduction. Opening balance of debt in FY21 was \$76 Mn, of which the company has paid off \$4.12 Mn until 30/11/2020. Rationalizations and restructurings have already served to reduce Employee costs from \$29 Mn to \$18 Mn and SGA costs from \$24 to \$5 Mn between pre-COVID to Q2FY21. Going ahead, one can expect management to sell off non-core assets (with minimal impact on revenue) to further reduce debt burden.



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Green shoots for business recovery visible

- (i) At the peak of COVID in Q1FY21, capacity utilization had fallen to as low as 15-20% and Clinical trials had come to a complete halt as patient recruitment had fallen by 95%. However, management has indicated that Capacity utilization has now improved to 50-60% and RFP activity is now back to pre-COVID levels.
- (ii) However, rationalizations and restructurings in the business now mean that the normalized quarterly revenue run-rate has fallen to 60% of the original pre-COVID run-rate of INR 600 Cr per quarter. Therefore, at full capacity, the company will do approximately INR 360-370 Cr of revenue per quarter.
- (iii) Although book-to-bill ratio has currently deteriorated to 1.6 : 1 vis-à-vis 1.3 : 1 during pre-COVID times, this ratio will gradually improve as activity returns to normal over the next 2 – 3 quarters
- (iv) 32 active trials are going on at the moment (vis-à-vis 54 trials during pre-COVID times) – 25% in Oncology, 19% in COVID and balance in CNS and Immunology
- (v) Order book stands at \$190 Mn as of 18/11/2020 (vs. \$290 Mn in pre-COVID times) of which only \$150 Mn will be executable over the next 12 months. Given current visibility, **Management expects orderbook at \$220 Mn for Q4FY21**. Order Book Trend: \$173 Mn in Q1FY21, \$185 Mn in Q2FY21 and \$190 as of date.

Expect to turn EBITDA, PAT and Cash Flow positive from Q3FY21 onwards

Given the new normal revenue and cost run-rate coupled with better capacity utilization and improvement in book to bill ratio, management expects to turn EBITDA, PAT and Cash Flow positive from Q3FY21 onwards. Company will turn profitable and cash positive after 3 consecutive quarters of loss and negative cash flow. Furthermore, with management focus on de-leveraging the business, one can conservatively expect debt to reduce gradually (from \$71.88 Mn) and thus improve PAT margins.

Valuation & Outlook

TSL is currently trading at 9.9x / 4.5x FY22e / FY23e EPS. We believe that the worst seems to be over and the company is at rock-bottom or bottom of the barrel with no direction to go but upwards. Management has acted prudently in liquidating European subsidiary, selling-off SCM business and rationalizing costs (through headcount reduction and offshoring work) in order to reduce debt burden and improve cash flows. Receding lockdowns, management's business continuity plans and standard operating procedures (such as compulsory COVID tests, maximum possible virtualization of tests in Clinical segment and remote working in Regulatory & PV), RFP activity at pre-COVID levels and improving order-book offer green shoots for revenue recovery and visibility in Clinical segment (which was mainly impacted in the early stages of the pandemic). With deleveraging and cash flow improvement as management's prime agenda, we believe that Take Solutions is a solid turn around story. **We believe that the fair value of the stock lies at a target multiple of 9x FY23e EPS - on a conservative basis and therefore recommend a BUY on the stock with a target price of INR 97.**



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	P&L Statement (Consol)					
	FY18	FY19	FY20	FY21e	FY22e	FY23e
Revenue (INR Mn)	15872	20390	22129	8916	12523	15216
% YoY	18%	28%	9%	-60%	40%	22%
Employee Cost	4,467	5,916	7,186	5,089	5,328	5,754
Cost of Revenue	4,567	5,740	6,616	2,408	3,131	4,108
Other Expenses	3,773	4,899	6,638	1,908	1,776	2,072
Total Operating Costs	12,808	16,555	20,440	9,405	10,235	11,934
EBITDA	3065	3835	1689	-489	2288	3281
% YoY	17%	25%	-56%	NA	NA	43%
Depreciation	1,041	1,535	1,669	1,145	1,200	1,200
Interest Cost	208	250	413	295	363	339
Other Income	64	107	264	104	125	152
PBT	1,880	2,157	-129	-1,824	851	1,894
Tax Expense	281	373	-20	68	145	322
PAT	1599	1784	-109	-1892	706	1572
% YoY	9%	12%	NA	NA	NA	123%
EPS	11.0	12.2	-0.7	-12.9	4.8	10.8
No. of Shares	146	146	146	146	146	146

Particulars	Balance Sheet (Consol)						
	FY18	FY19	FY20	FY21e	FY22e	FY23e	
EQUITY							
Equity Share Capital		146	146	146	146	146	
Other Equity	13137	15036	15607	13715	14275	15657	
Equity attributable to Shareholders	13283	15182	15753	13861	14421	15803	
Total Equity	13367	15274	15854	13962	14521	15904	
LIABILITIES							
Non-current Liabilities							
<i>Financial Liabilities</i>							
Borrowings		545	389	1735	1430	1130	
Lease Liability		0	0	392	392	392	
Total non-current liabilities		922	828	2381	2023	1730	
Current Liabilities							
<i>Financial Liabilities</i>							
Borrowings		2534	4163	3406	3406	3406	
Trade Payables		493	143	609	342	480	
Other Financial Liabilities		459	1987	1397	1397	1397	
Lease Liability		0	0	106	106	106	
Total current liabilities		4147	7237	6597	5695	6132	
TOTAL EQUITY & LIABILITIES		18436	23339	24833	21679	23471	
ASSETS							
Non Current Assets							
Gross Block		2818	3983	5184	5434	6434	
Less: Depreciation		691	1345	2289	3433	4633	
Net Block		2128	2638	2896	2001	1801	
Right of Use Assets		0	0	487	487	487	
Goodwill		2396	2315	2384	2320	2320	
<i>Other Intangible Assets</i>							
Goodwill on Business Acquisition		764	3063	3283	2649	2649	
Other Intangible Assets		599	2898	3286	2988	2988	
Total non-current assets		6659	11620	12844	10977	10515	
Current Assets							
Inventories		167	176	34	75	106	
<i>Financial Assets</i>							
Trade Receivables		4692	5254	7008	4031	4117	
Unbilled Receivables		629	1779	1123	2443	2813	
Cash & Cash Equivalents		3171	468	451	786	1078	
Total current assets		11777	11719	11989	10702	12956	
TOTAL ASSETS		18436	23339	24833	21679	23471	

YE March	Cash Flow Statement (Consol)					
	FY18	FY19	FY20	FY21e	FY22e	FY23e
APAT	1599	1784	-109	-1892	706	1572
Less: Non Operating Income	-64	-107	-264	-104	-125	-152
Add: Depreciation	1041	1535	1669	1,145	1,200	1,200
Add: Interest Paid	208	250	413	295	363	339
Operating Profit before WC Changes	2784	3462	1709	-557	2144	2959
(Inc)/Dec in Current Assets	-1685	-2647	-652	1658	-457	-1073
Inc/(Dec) in Current Liabilities	792	3090	-640	-903	250	187
Changes in Inventory	7	-8	141	-41	-30	-23
Net Cash Generated From Operations	1897	3897	558	158	1906	2050
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	-1545	-2045	-2414	-250	-1000	-1000
(Inc)/Dec in Investment (Strategic)	0	-4	-51	47	0	0
Add: Non Operating Income	64	107	264	104	125	152
Net Cash Flow from Investing Activities	-1701	-6388	-2630	827	-813	-848
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	58	-157	1346	-305	-300	-300
Dividend Paid	-131	-234	-58	0	-146	-190
Less: Interest Paid	-208	-250	-413	-295	-363	-339
Net Cash Flow from Financing Activities	2111	-221	1830	-653	-802	-824
Net Inc/Dec in cash equivalents	2308	-2712	-241	331	292	379
Opening Balance	1101	3409	696	455	786	1078
Closing Cash and Cash Equivalents	3409	696	455	786	1078	1456
Free Cash Flow (FCFF)	1248	2933	-287	152	1208	1331

	Key Ratios					
	FY18	FY19	FY20	FY21e	FY22e	FY23e
Profitability Ratios						
EBIDTA Margin (%)	19.3%	18.8%	7.6%	-5%	18%	22%
PAT Margin (%)	10.1%	8.7%	-0.5%	-21%	12%	14%
ROE (%)	12%	12%	-1%	-14%	5%	10%
ROCE (%)	12%	12%	0%	-9%	6%	10%
Valuation Ratios						
P/E	4.4x	3.9x	-64.1x	-3.7x	9.9x	4.5x
BVPS	91.1	103.9	107.7	94.8	98.6	108.1
P/BV	0.5	0.5	0.4	0.5	0.5	0.4
EV	6673	10871	12203	11567	10975	10296
EV/EBITDA	2.2	2.8	7.2	-23.7	4.8	3.1
Leverage Ratios						
Debt to Equity	0.2x	0.3x	0.4x	0.4x	0.3x	0.3x
Interest Coverage Ratio	14.8x	15.3x	4.1x	-1.7x	6.3x	9.7x
Net Debt (INR Mn)	-330	3856	4687	4051	3459	2780
Dividend Ratios						
Dividend Payout (%)	8%	16%	NA	NA	21%	12%
Dividend Yield (%)	2%	3%	1%	0%	2%	3%



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