September 13, 2022

M J Biopharm Private Limited: Long-term rating reaffirmed, rated amount enhanced; short-term rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. Crore)	Rating action
Long Term - Fund based – TL	130.00	130.00	[ICRA]BBB- (Stable); Reaffirmed
Long Term - Fund based – Working Capital Facility	--	21.00	[ICRA]BBB- (Stable); Reaffirmed/Assigned
Short Term - Fund based – Working Capital Facility	20.00	--	Short term rating of [ICRA]A3 withdrawn
Total	**150.00**	**151.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation favourably factor in the extensive experience of M J Biopharm Pvt Ltd's (MJBPL / the company) promoters in the pharmaceutical industry in India and its well-established product profile in the anti-diabetic space. ICRA notes that the operations of the company are backward integrated with capacities to manufacture APIs for its anti-diabetic formulations. While there were operating losses witnessed in FY2019 due to regulatory restrictions leading to shutdown of operations, healthy recovery was witnessed from FY2020 (operating margins over 25% for FY2021 and FY2022). This is primarily backed by the backward integration through usage of in-house APIs for formulation manufacturing leading to commencement of supplies to government for anti-diabetic drugs. The backward integration in API (for human insulin) supports its market position to a certain extent. Further, ICRA notes that the company has also entered into licencing arrangement with Epygen Biotech Pvt Ltd, which will support expansion in scale of operations over the near term.

ICRA notes that the financial risk profile of the company remains healthy on the back of improved operating margins, low debt levels leading to a comfortable capital structure and strong coverage indicators in FY2021 and FY2022. However, the same is expected to moderate in FY2023 owing to the sizeable debt-funded capital expenditure being undertaken by the company. The rating also considers the adequate liquidity position of the company supported by sufficient cash balances (including the investments in corporate FDs) and undrawn working capital limits.

The ratings, however, remains constrained by the moderate scale of operations and high therapeutic segment concentration with over 75% of the company's revenues being derived from anti-diabetic segment; however, the risk is mitigated to a certain extent with rising incidence of diabetes. Further, MJBPL also in the process of developing API for insulin Glargine and Liraglutide, which is expected to diversify its product concentration to a certain extent and expand its customer base. ICRA notes that the revenues and margins of the company remain exposed to regulatory restrictions in terms of pricing caps in the domestic market. The customer concentration of the company remains moderate with top 3 customers contributing 39.2% and 53.6% of total revenue in FY2022 and FY2021, respectively. Given that the company is undertaking a sizeable debt funded capital expenditure in FY2023, the rating also factors in the project risks associated with the same, such as cost/time overrun risks. Timely project completion without material cost overruns will be a key rating monitorable for the company. ICRA notes that company has an outstanding interest accrued on Compulsorily Convertible Debentures (CCDs) issued to Anglo Gulf FCZO and the company has been unable to remit the same owing to technical difficulties in processing the payment.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from its product profile in the anti-diabetic segment given the favourable demand outlook for the same.

ICRA has withdrawn the short-term rating outstanding, at the request of the company and in line with its policy on withdrawal of credit ratings.

Key rating drivers and their description

Credit strengths

Established track record of promoters in pharmaceuticals industry - MJBPL's operations is led by the promoters and a team of qualified professionals, who have more than three decades of experience in the pharmaceutical industry. This supports the company to manage its business risks effectively.

Backward-integrated nature of operations supports operating margins - The company has its own API facility in Pune to manufacture Recombinant Human Insulin (Rh Insulin) API which is further used in manufacturing the company's anti-diabetic formulations. This backward-integrated nature of operations (which commenced from FY2019) supported the expansion in company's operating margins. Going forward, efficiency in production processes backed by economies of scale to support the profit margins of the company.

Healthy financial risk profile – The company's financial risk profile is characterised by comfortable capital structure (with gearing of 0.1 times as on March 31, 2022), and strong coverage indicators as indicated by TD/OPBIDTA of 0.3 times and 0.1 times in FY2022 and FY2021, respectively, on the back of low debt levels. However, the same is expected to moderate in FY2023 owing to sizeable debt funded capital expenditure being undertaken by the company in FY2023.

Credit challenges

Moderate scale of operations with high therapeutic segment concentration; however, the same is mitigated to a certain extent given the increasing incidence of diabetes – The company's scale of operations remains moderate with revenues of Rs. 191.6 crore in FY2022. Further, therapeutic segment concentration remains high with over 75% of revenues being derived from anti-diabetic products. However, the rising number of diabetic patients in India mitigates this risk to a certain extent.

Project risks associated with ongoing expansion plans – The company is in the process of building a product development lab, fill finish facility, facility to manufacture Insulin Glargine API, and enhancing its cartridge facility. While the total outlay towards the said capex is expected to be ~Rs. 221.0 crore, the company has already incurred a capex of ~Rs. 84.0 crore till June 2022 been funded through internal accruals (~Rs 61 crore) and rest by BIRAC[1] grants received by the company. The company is expected to incur capex of ~Rs. 135.0 crore in FY2023. This is expected to be primarily funded through a term loan of Rs. 130.0 crore. While the company is expected to draw down portion of the term loan for funding the project, given that the company is undertaking sizeable debt-funded capital expenditure in FY2023, the company is exposed to project risks associated with the large capital expenditure undertakings such as cost/time overrun risks. While the company has incurred ~38% of the total capex and contracts for the majority of the balance capex is already finalised, timely project completion and subsequent successful ramping of operations will be a key rating monitorable for the company.

[1] Biotechnology Industry Research Assistance Council

Moderate customer concentration - The customer concentration of the company remains moderate with top 3 customers contributing 39.2% and 53.6% of total revenue in FY2022 and FY2021, respectively. While the company endeavours to further diversify its customer profile over the next few years by catering to various export markets, the same remains to be seen.

Operations exposed to regulatory risks - The operations remain exposed to regulatory risks related to pricing caps in the domestic market with some of the company's major products being covered under the Drug Price Control Order.

Liquidity position: Adequate

MJBPL's liquidity position remains adequate with cash and liquid investments of Rs 30.4 crore (excluding investment in non-convertible debentures of Rs 37.4 crore) and undrawn working capital limits of ~Rs. 17.0 crore as on June 30, 2022. The working capital utilisation stood at an average of 33.3% against sanctioned limits of Rs. 17.0 crore for the 12-month period ending March 2022. The company has repayment obligation of Rs. 0.1 crore in FY2023 and Rs. 3.9 crore in FY2024 which is expected to be met through the company's internal accruals. The capex for the company is expected to be over ~Rs 135 crore which is largely being funded by internal accruals, term loan and grants.

Rating sensitivities

Positive factors – ICRA may upgrade MJBPL's ratings if the entity demonstrates a significant improvement in its scale of operations while maintaining its profit margins and improving its working capital intensity on a sustained basis.

Negative factors – Any sustained pressure on revenue and profit margins or an increase in the working capital cycle will impact the liquidity and may trigger a downgrade. Further if there is any significant delay in the capacity expansion or material cost overrun leading to deterioration or weakening in credit profile of the company on a sustained basis may lead to a downgrade. Specific credit metric leading to downgrade is Net Debt/OPBIDTA greater than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Pharmaceutical Industry Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MJBPL

About the company

Incorporated in 1999, M.J. Biopharm Private Limited ("MJBPL/Company"), manufactures and markets medical formulations for mainly Diabetes, Cardiovascular, NSAIDS and Antibiotics. It is also backward integrated to produce API called Recombinant Human Insulin (Rh Insulin) used to treat type 1 and type 2 diabetes patients. The company has two manufacturing plants, one in Taloja-Mumbai, to produce formulation and has WHO – GMP certifications complying with the PIC standards. The other faciality is in Pune which is used to manufacture the APIs and is built according to the standards set by European Medicines Evaluation Agency (EMEA) and US FDA. The company has capacities to manufacture Cartridges, Vials, Dry Powder Injectables (DPI), Ampoule and Tablets. Facility is equipped for microbial products with fermentation section (inoculum area, fermentation and recovery area) and matching downstream section (buffer preparation area, initial purification and final purification area).

Key financial indicators (audited)

MJBPL (Consolidated)	FY2020	FY2021	FY2022*
Operating Income (Rs. crore)	131.3	168.3	191.6
PAT (Rs. crore)	-0.4	37.8	43.4
OPBDIT/OI (%)	8.4%	26.3%	26.0%
PAT/OI (%)	-0.3%	22.4%	22.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2	0.2
Total Debt/OPBDIT (times)	2.2	0.1	0.3
Interest Coverage (times)	3.5	30.8	51.3
DSCR (times)	1.6	2.8	14.9

**Provisional: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
			Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Sep 13, 2022	Sep 02, 2022	-	-	-
1	Term Loan	Long Term	130.00	0.0	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	-	-	-
2	Fund based working capital	Long Term	21.00	--	[ICRA]BBB- (Stable)	-	-	-	-
3	Fund based working capital	Short Term	--	--	[ICRA]A3; withdrawn	[ICRA]A3	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund based – TL	Simple
Long Term - Fund based – Working Capital Facility	Simple
Short Term - Fund based – Working Capital Facility	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	O/s Rating and Outlook
NA	Long Term - Fund based – TL	March 2022	8.0%	FY2031	130.00	[ICRA]BBB-(Stable)
NA	Long Term - Fund based – Working Capital Facility	March 2022	8.0%	-	21.00	[ICRA]BBB-(Stable)
NA	Short Term - Fund based – Working Capital Facility	NA	NA	NA	-	[ICRA]A3; withdrawn

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Marvel Lifesciences*	100.0%	Full Consolidation

**Striked off from ROC due to no operations during March 2022*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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