Concord Biotech Limited

March 01, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based Term Loan (Proposed)	75.00	100.00	[ICRA]AA- (Stable); assigned /outstanding
Long-term fund-based Cash Credit	0.00	20.00	[ICRA]AA- (Stable); assigned
Short-term non-fund based Letter of Credit	0.00	6.00	[ICRA]A1+; assigned
Total	**75.00**	**126.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating takes into account the extensive experience of the promoters and the established track record of the company in the fermentation and semi-synthetic biopharmaceutical (API) business, spanning around two decades; strong financial profile of the company, characterised by healthy profitability levels, strong debt protection indicators and robust liquidity. The ratings also factor in the company's key market player position in the global immunosuppressant therapeutic API segment, its strong R&D capabilities with adequate regulatory approvals and its reputed clientele with strong inflow of repeat business.

The ratings are, however, constrained by the company's moderate scale of current operations, its high product & client concentration and high working capital intensity, owing to the elongated receivable cycle and high inventory holding period. Although the company remains one of the key players in the API segment, entry into formulation segment entails high level of competitive pressures and successful scale up of formulation business remains to be seen. ICRA also notes that the company is in the midst of a large debt funded capex for increase in API capacity, at a total cost ~Rs. 224.75 crore spread over the next two fiscals and achieving healthy capacity utilisation levels would remain critical from a credit perspective.

Outlook: Stable

ICRA believes Concord Biotech Limited will continue to benefit from the extensive experience of its promoters in the biopharmaceutical industry and is likely to witness revenue growth in the near term, backed by stable demand conditions and healthy order flow for the API segment and new business garnered from the formulation segment. The outlook may be revised to Positive if healthy scaling up of operations, whilst maintaining/improving the profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to a Negative if cash accrual is lower than expected, if there is any material deterioration in profit margins or if any major debt-funded capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Experienced management and established track record of company – The promoters and management are well experienced, having run the business for two decades and are well-established in the fermentation and semi-synthetic biopharmaceutical (API) business.

Key market player in a niche product segment - The company's key products – Tacrolimus and Mycophenolate (Mofetil and Sodium) are low volume but high value-added niche products catering to the immunosuppressants therapeutic segment. These are complex molecules which are exposed to limited competition and garner healthy margins. Although the molecules cumulatively contribute to ~60% of the revenues of the company, the company is one of the key players in the industry for these products commanding a healthy market share. The molecules have shown volume growth YoY, despite being off-patent and have supported the revenues of the company. Going forward, further growth is projected for these APIs given the company's ongoing production capacity expansion plans because of the growing demand from its customers.

Strong R&D capabilities and adequate regulatory approvals - The R&D centre of the company is recognised by the Department of Scientific and Industrial Research (DSIR), India and backed by a strong team of technocrats. Its API facility is approved by U.S. Food and Drug Administration (USFDA), European Union's Good Manufacturing Practices (EUGMP), Japanese Foreign Manufacturer Registration (FMR) , Korea Ministry of Food and Drug Safety, Indian Good Manufacturing Practices (GMP) whereas the formulation facility is GMP and USFDA approved.

Reputed customer base - The customer base of the company comprises of reputed formulation players such as - Intas Pharmaceuticals Limited, Mylan Inc., Alkem Laboratories Limited, Glenmark Pharmaceuticals, which results in limited counter party credit risk.

Strong financial risk profile - The profit margins of the company remained robust with operating margin in the range of 42-52% and net margin in the range of 26-34% over the last few years. Net-worth base (Rs. 594.36 crore as on March 31, 2018)) remained strong supported by healthy cash accruals and equity infusion of Rs. 76.30 crore in FY2017. This coupled with low dependence on external borrowings has resulted in comfortable capital structure with a gearing of 0.04 times and TOL/ TNW of 0.16 times as on March 31, 2018 and an overall negative net debt position. Owing to low debt level and healthy profitability, debt protection metrics has remained robust- with the interest coverage of 125.85 times and Total Debt/ OPBDITA of 0.15 times in FY2018. DSCR also stood comfortable at 12.05 times in FY2018. The liquidity position also remains robust as evidenced by low working capital limit utilization and healthy cash and liquid investments (Rs. 153.44 crore as on March 31, 2018).

Credit challenges

Moderate scale of operations with high concentration risk - The company's scale of operations remains moderate with the operating income of Rs. 337.99 crore in FY2018. Also, the company is exposed to high product concentration risk with its top 3 products contributing to ~60% of total revenue. However, the scale and product diversification is expected to improve from FY2019 onwards with the gradual increase in sales from the formulation segment and stabilisation of new API unit. Its top two customers- Intas Pharmaceuticals Limited and Mylan Inc. contribute to ~40% of its revenues reflecting a concentration risk. However, the company's dominant position in the immunosuppressant API business and repeat orders from its customers reflect a preferred supplier status for the company limiting the risk to an extent.

High working capital intensity - The company normally provides a credit period of ~90-120 days to its key customers and has to maintain high inventory of various cultures (raw material) to produce different APIs. Also, the WIP inventory remains high as it does not complete last stage (~1-5% of production process) until it receives the order since the shelf life of the product starts after the completion of entire process. Hence, elongated receivables cycle and high inventory holding requirements has resulted in high working capital intensity of operations in the past. Fiscal end intensity stood at 72% and 77% in FY2017 and FY2018, respectively, due to high sales and purchase concentration in Q4. However, average working capital intensity during the past two fiscals stood at ~50-55%.

Risks associated with the large on-going capex - The company is exposed to the risks associated with the timely completion and stabilisation of the expansion project without any significant cost and time overruns. The company is in the process to set up a new unit for the manufacturing of API at a total cost of Rs. 224.75 crore. The new unit is expected to be operational by FY2021. The proposed funding of the capex is through a mix of term loan and internal accruals, with debt to equity ratio of 0.50 times. Moreover, the increase in debt exposure will result in some moderation in capital structure and debt coverage indicators in the near term, although the same is expected to remain healthy.

Successful scale up of formulation segment to achieve desired level of profitability: The formulation unit of the company started commercial operations from March 2017 and is yet to stabilise with operating loss of Rs. 23.47 crore and net loss of Rs. 29.54 crore reported in FY2018. Although the company remains one of the key players in the API segment, in the product categories it operates in, for the formulation business the competitive pressures remain high with the presence of multiple large organised players. The company's ability to garner market share in a highly competitive environment, scale up its operations and achieve breakeven remains to be seen. The formulation operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets and product/facility approvals in export destinations. ICRA notes that timely product and facility approval/renewal, in various regulated and semi-regulated markets, remains critical for the growth of the formulation unit.

Liquidity Position

Cash flows of the company have remained healthy over the past years supported by healthy profitability and low cash outlays towards interest expenses and debt repayments due to low dependence on external borrowings. Supported by healthy profitability and cash accruals, the liquidity position of the company remains robust as evidenced by low working capital limit utilization, with average utilization of ~2% (undrawn line of credit of Rs. 20.00 crore as on November 30, 2018) for the last 12-month period from December 2017 to November 2018, and strong free cash and liquid investments (Rs. 153.44 crore as on March 31, 2018 and Rs. 203.49 crore as on November 30, 2018).

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for entities in the pharmaceutical industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company

Concord Biotech Limited, incorporated in November 1984, was taken over by the current promoter – Mr. Sudhir Vaid in the year 2000. Mr. Sudhir Vaid is technocrat having over four decades of experience in the field of biotechnology, which includes eight years as a director- Fermentation at Ranbaxy Laboratories Limited and thereafter as a consultant to various leading pharmaceutical companies. The company also has a robust investor profile with Mr. Rakesh Jhunjhunwala and group holding ~24% and Helix Investment Holdings Pte Limited holding 20% stake in the company.

Helix Investment Holdings Pte Limited is an SPV floated by Quadria Capital, which has invested in 18 healthcare chains across the Asia-pacific region

Concord Biotech Limited was initially set up with one manufacturing block for production of Amidase Enzyme. Capacities were subsequently added with the current facilities comprising of 22 API manufacturing blocks. The company is engaged in manufacture of fermentation and semi-synthetic biopharmaceutical active pharmaceutical ingredients with immunosuppressants as its key therapeutic segment. As a means of forward integration, it set up a formulation unit which commenced commercial production from March 2017. It is currently under the process of setting up a new API unit which is expected to commence commercial production from June 2020.

In FY2018, the company reported a net profit of Rs. 100.49 crore on an OI of Rs. 337.99 crore, compared to a net profit of Rs. 108.82 crore on an OI of Rs. 321.71 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	321.71	337.99
PAT (Rs. crore)	108.82	100.49
OPBDIT/ OI (%)	51.46%	42.97%
RoCE (%)	36.41%	25.02%
Total Debt/ TNW (times)	0.05	0.04
Total Debt/ OPBDIT (times)	0.17	0.15
Interest Coverage (times)	156.71	125.85

Source: CBL's financials and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2019 January 2019	Date & Rating in FY2018 -	Date & Rating in FY2017 -
1	Term Loan (Proposed)	Long Term	100.00	**NA**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**-**	**-**
2	Cash Credit	Long Term	20.00	**NA**	**[ICRA]AA- (Stable)**	**-**	**-**	**-**
3	Letter of Credit	Short Term	6.00	**NA**	**[ICRA]A1+**	**-**	**-**	**-**

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan (Proposed)	NA	NA	NA	100.00	[ICRA]AA- (Stable)
NA	Cash Credit	NA	NA	NA	20.00	[ICRA]AA- (Stable)
NA	Letter of Credit	NA	NA	NA	6.00	[ICRA]A1+

Source: Concord Biotech Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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