May 27, 2021

Biological E. Limited: Long-term ratings upgraded to [ICRA]A+(Stable) from [ICRA]A(Negative); short-term ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term Loans	$120 million	US$ 120 million	[ICRA]A+ (Stable); upgraded from [ICRA]A (Negative)
Long-term, Fund-based Facilities	Rs. 100.0 crore	Rs. 100.0 crore	[ICRA]A+ (Stable); upgraded from [ICRA]A (Negative)
Long-term, Non-fund Based Facilities	Rs. 134.0 crore	Rs. 134.0 crore	[ICRA]A+ (Stable); upgraded from [ICRA]A (Negative)
Short-term, Non-fund Based Facilities	Rs. 180.0 crore	Rs. 140.0 crore	[ICRA]A1; reaffirmed
Long-term / Short-term, Fund-based/ Non-fund Based Facilities	Rs. 178.0 crore	Rs. 178.0 crore	[ICRA]A+ (Stable); upgraded from [ICRA]A (Negative); [ICRA]A1; reaffirmed
Long-term / Short-term Unallocated Facilities	Rs. 94.0 crore	Rs. 134.0 crore	[ICRA]A+ (Stable); upgraded from [ICRA]A (Negative); [ICRA]A1; reaffirmed
Total	**$120 million and Rs. 686.0 crore**	**$120 million and Rs. 686.0 crore**	

**Instrument details are provided in Annexure-1*

Though a part of the long-term loans of BEL are denominated in foreign currency, ICRA's ratings for the same are on national rating scale, as distinct from an international rating scale

Rationale

The upgrade in ratings for Biological E. Limited (BEL) factors in its improved revenue visibility in the vaccine segment led by uptick in orders for existing as well as new vaccines, including Covid vaccines. In addition, the launch of Typhoid Conjugate Vaccine (TCV) and Pneumococcal Conjugate Vaccine (PCV), coupled with the proposed product launches in the pharmaceutical segment, is expected to lead to a healthy scale-up in revenues and profit margins as well as improvement in BEL's financial profile over the near to medium term.

BEL reported a YoY growth of around 42.0% in the vaccine segment in FY2021[1] driven by increased order execution of key vaccines, including the Liquified Pentavalent Vaccine (LPV), the measles and rubella vaccine (MR) and Japanese encephalitis (JEEV). BEL has a healthy outstanding order book of above $150 million as on April 1, 2021 for the vaccine segment, additionally bolstered by the expected launch of TCV (in global markets in FY2022) and PCV (in domestic markets in FY2022). The pricing pressures on LPV have also stabilised in FY2021, with prices expected to increase by ~7-8% YoY for supplies to be made in FY2022. The pharmaceutical segment also witnessed YoY revenue growth of around 18.0% in FY2021, driven by healthy orders in the domestic and export markets, partly offset by lower product launches in regulated markets amid the pandemic. Led by uptick in revenues and benefits of operating leverage, the operating profit margin (OPM) improved to 23.0% in 9M FY2021 vis-à-vis 18.6% in FY2020 (standalone audited).

BEL is also in the midst of launching Covid-19 vaccines and has signed a technology transfer agreement for undertaking contract manufacturing of Johnson and Johnson's (J&J) COVID -19 vaccine in India. The scheduled supplies for the same are slated to commence from July-August 2021. BEL is also conducting phase-III trials for its Covid-19 vaccine and proposes to roll-out the

[1] *All 9M FY2021 and FY2021 related data are as per provisional standalone estimates*

same by Q3 FY2021 in India, followed by a global launch. The large and immediate demand to vaccinate the world population augurs well for the continued demand for these vaccines. ICRA also notes the improved OPM associated with the J&J order, which coupled with a healthy order book in the vaccine segment and new product launches in the pharma segment is expected to lead to improved OPMs over the near to medium term.

The liquidity position of BEL is adequate, supported by unencumbered cash and bank balances, and liquid investments of Rs. 247.8 crore (at consolidated level and unutilised bank lines of Rs. 394.2 crore as on March 31, 2021. The ratings continue to favourably factor in BEL's strong competitive position in the global vaccines industry as evinced by its status as a WHO pre-qualified supplier of LPV, JEV, MR and other vaccines.

BEL proposes to incur a significant capital expenditure (capex) of ~Rs. 900–1,000 crore over FY2022-FY2023 (~Rs. 694 crore in FY2022) towards setting up new capacities for Covid vaccines and expanding capacities of its existing products, which will be partly funded by debt. ICRA also notes BEL's high debt repayment obligations over FY2022-FY2024. Timely and adequate ramp-up in supplies of Covid and other vaccines will be a key determinant of the financial profile. The working capital intensity of operations of BEL remains elevated due to its high inventory holding period, though the same moderated in FY2021 primarily due to incremental cash generation from business. Further, receipt of sizable advances from J&J towards ramp-up of the capacity for contract manufacturing also led to an improvement in the working capital. The ratings also factor in BEL's high revenue dependence on the institutional segment (UNICEF[2], GoI[3]), with LPV accounting for 50.9% of sales in 9M FY2021. The revenue concentration from the LPV vaccine is however, expected to reduce with commercialisation of new vaccines. The profitability of the company remains vulnerable to foreign exchange fluctuations on account of its foreign operations as well as foreign currency borrowings.

The Stable outlook on the rating reflects ICRA's opinion that BEL will continue to benefit from its strong market position as well as favourable demand outlook for its vaccines (existing as well as those in the pipeline) and pharmaceutical products.

Key rating drivers and their description

Credit strengths

Established player in global vaccines segment with strong development capabilities - The company has received WHO pre-qualification for vaccines, the key ones being LPV, MR, JE and TCV (new launch). BEL is among the five global pre-qualified suppliers of LPV, the two global pre-qualified suppliers of JEEV to the UNICEF and one of the pre-qualified suppliers for the MR vaccine. Furthermore, BEL has a strong history of supplying vaccines to UNICEF, PAHO[4] and the GoI, among others. These two factors combined present a formidable entry barrier for this business segment. BEL also has strong development capabilities as witnessed in its proposed new product launches and collaborations with reputed national and international organisations, providing support in the form of grants and advances. It ranks among the three global LPV suppliers that are fully backward integrated to all antigens. This has not only enabled BEL to ensure the quality of antigens, but also facilitated cost competitiveness on the back of large-scale manufacturing for the LPV vaccine.

Healthy order book and strong product pipeline; imminent launch of Covid-19 vaccines –The outstanding order book for BEL stood above $150 million as on April 01, 2021, of which ~$100.0 million order value is to be executed in FY2022. The immunisation programmes of various countries augur well for BEL's strong growth prospects. The company also has confirmed orders for supplies in the pharma segment over the near term that lend additional revenue visibility. BEL's revenue prospects are bolstered by expected launch of TCV and PCV in FY2022. BEL had recorded domestic sales for TCV in FY2021. It received WHO prequalification in Q3 FY2021 and intends to supply to export markets in FY2022. The PCV vaccine, currently under

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[2] *United Nations Children's Emergency Fund*

[3] *Government of India*

[4] *Pan American Health Organization*

clinical trials, is expected to be supplied to the domestic markets in FY2022 and subsequently to export markets, post regulatory approvals. BEL is also in the midst of launching Covid-19 vaccines and has signed a technology transfer agreement for undertaking contract manufacturing of J&J's COVID-19 vaccine in India. The scheduled supplies for the same are slated to commence from July-August 2021. BEL is also conducting phase-III trials for its Covid-19 vaccine and proposes to roll-out the same by Q3 FY2021 in India, followed by a global launch. The large and immediate demand to vaccinate the world population augurs well for the continued demand for these vaccines. Other vaccines in the pipeline that are proposed to be commercialised over the medium term include the integrated polio vaccine (IPV), Hepatitis A and HV (liquid hexavalent vaccine). BEL also proposes to launch four to five branded formulations and complex injectables in the domestic and export pharmaceutical markets respectively.

Healthy scale up in revenues and OPM over the medium term – BEL reported YoY growth of around 42.0% in the vaccine segment and around 18.0% in the pharma segment in FY2021. Led by uptick in revenues and benefits of operating leverage, the OPM improved to 23.0% in 9M FY2021 over 18.6% in FY2020. A robust outstanding vaccine order book, new vaccine launches, including roll-out of Covid vaccines in FY2022, and pharmaceutical product launches in the domestic and export markets provide a robust revenue outlook for BEL. ICRA also notes the improved OPM associated with the J&J order, which coupled with improved revenue traction in existing product segments is expected to lead to uptick in profit margins as well as improvement in its financial profile over the near to medium term.

Credit challenges

Significant capex over FY2022-FY2023; high working capital intensity of operations - The company proposes to incur capex of ~Rs. 900–1,000 crore over FY2022-FY2023 towards setting up new capacities for Covid vaccines as well as expanding capacities of its existing products in vaccines and pharma segments, which will be partly funded by debt. The company has high debt repayments over FY2022-FY2024, that comprise foreign currency repayments of $17.6 million in FY2022, $29.3 million in FY2023 and $32.3 million in FY2024. The rupee loan from Technology Development Board was prepaid by the company in Q1 FY2022. The company is also in discussion with other banks and financial institutions to draw-down additional debt for its capex requirements in FY2022, though the same is yet to be finalised (sanctioned limits of $38 million pending to be drawn-down as on April 01, 2021).The working capital intensity of operations of BEL remains elevated due to high inventory holding period, though the same moderated in FY2021 following incremental cash generation from the business and receipt of sizable advances from J&J towards ramp-up of the capacity for contract manufacturing. Timely and adequate ramp-up in supplies of Covid and other vaccines will be a key determinant of the financial profile.

High revenue dependence on institutional segment - BEL has a high dependence on the institutional segment (GoI, UNICEF), which accounted for more than 85%-90% of its consolidated vaccines segment revenues in FY2020. This exposes the company's revenues and earnings to fluctuations in the quantum of orders, with the tender-based Government business resulting in limited pricing flexibility. BEL also derived 50.9% of its revenues from the sale of LPV in 9M FY2021. The revenue concentration from the LPV vaccine is expected to reduce with the commercialisation of other vaccines and timely roll-out of Covid vaccines.

Exposure to foreign exchange and regulatory risks – The profitability of the company remains vulnerable to forex fluctuations on account of its foreign operations as well as foreign currency borrowings, which are largely unhedged at present. The company remains exposed to regulatory risks in developed markets, related to product launches and approvals for manufacturing facilities.

Liquidity position: Adequate

The liquidity position of BEL is **adequate**, supported by unencumbered cash and bank balances, and liquid investments of Rs. 247.80 crore (at the consolidated level) and unutilized bank lines of Rs. 394.2 crore as on March 31, 2021. The company also received sizable advances in FY2021 and YTD FY2022 from J&J towards earmarking the manufacturing facilities of BEL for Covid-19 vaccine as well as ramping up of its capacity. The company was also awarded grants of over Rs.100 crore in FY2021 to fund the development of its pipeline vaccines and expects to receive additional grants in FY2022, especially towards the research and development (R&D) of its own Covid-19 vaccine. The entity has high debt repayments from FY22022 onwards amounting to $17.6 million in FY2022 and expects to incur a capex of Rs. 694 crore in FY2022 towards setting up new capacities for Covid vaccines as well as expanding capacities of its existing products in vaccines and pharma segments. BEL also has sanctioned, but pending drawdown of $38 million term loans, which will be utilised partly for funding the capex. BEL is also in discussion with other bankers and financial institutions to sanction additional debt-funded capex in FY2022.

Rating sensitivities

Positive factors – The ratings can be upgraded if the company is able to achieve an adequate and timely ramp up in revenues of Covid-19 vaccines as envisaged as well as diversification through timely launch of new products in its existing business leading to an improvement in its profit margins and thus credit metrics. In addition, improvement in working capital intensity of operations would be a positive factor.

Negative factors – The ratings may be downgraded if the company witnesses weakening in the revenues and profitability, leading to pressure on cash flows. In addition, any major deterioration in the credit profile due to an increase in scope or cost overruns in the project capex, or an increase in its working capital intensity of operations, will be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Pharmaceuticals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of BEL. As on March 31, 2021, the company had six subsidiaries, five step-down subsidiaries and one joint venture, which are enlisted in Annexure-2.

About the company

Incorporated as Biological Products Private Limited in 1953, BEL is among the first private sector companies in India to manufacture biological products. The company was founded by Late Dr. D.V.K. Raju, along with Dr. G.A.N. Raju. BEL is a privately-held company, with the promoters and their associate firms holding a 100% stake in the company.

The company derives revenues from two business segments—vaccines and pharmaceuticals (comprising formulations). Its vaccines segment derives most of its revenues from the exports market, with supplies primarily to the institutional segment. Its pharma division, meanwhile, has mature yet strong brands in the domestic cough and cold, anti-coagulants, anti-venom, and gastro-intestinal segments, and has also forayed into regulated markets with complex generics and injectables portfolio.

Over 67 years of its operations, the company has gained several credentials, including being the first company in India to manufacture certain critical vaccines (such as anti-tuberculosis and Heparin), the largest manufacturer of the TT vaccine with over 80% market share globally, a leader in snake anti-venom in India, and the leading LPV supplier in the world.

Key financial indicators (audited)

BEL Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	983.4	1095.4
PAT (Rs. crore)	94.5	60.5
OPBDIT/OI (%)	16.09%	18.58%
PAT/OI (%)	9.61%	5.52%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.8
Total Debt/OPBDIT (times)	3.8	4.4
Interest Coverage (times)	6.8	4.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2021	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					May 27, 2021	Aug 11, 2020	Jun 20, 2019	Jun 05, 2018	May 30, 2018
1	Term Loan	Long-term	$ 60 million	$ 48 million	**[ICRA]A+ (Stable)**	[ICRA] A (Negative)	[ICRA] AA- (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
2	External Commercial Borrowings	Long-term	$ 60 million	$ 60 million	**[ICRA]A+ (Stable)**	[ICRA] A (Negative)	[ICRA] AA- (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
3	Fund-based Limits	Long-term	100.0	-	**[ICRA]A+ (Stable)**	[ICRA] A (Negative)	[ICRA] AA- (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
4	Non-fund Based Limits	Long-term	134.0	-	**[ICRA]A+ (Stable)**	[ICRA] A (Negative)	[ICRA] AA- (Negative)	[ICRA] AA (Stable)	[ICRA] AA (Stable)
5	Non-fund Based Limits	Short term	140.0	-	**[ICRA] A1**	[ICRA] A1	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
6	Fund-based/ Non-fund Based Limits	Long Term/ Short term	178.0	-	**[ICRA]A+ (Stable)/ [ICRA] A1**	[ICRA] A (Negative)/ [ICRA] A1	[ICRA] AA- (Negative)/ [ICRA] A1+	[ICRA] AA (Stable)/ [ICRA] A1+	[ICRA] AA (Stable)/ [ICRA] A1+
7	Unallocated	Long Term/ Short term	134.0	-	**[ICRA]A+ (Stable)/ [ICRA] A1**	[ICRA] A (Negative)/ [ICRA] A1	[ICRA] AA- (Negative)/ [ICRA] A1+	[ICRA] AA (Stable)/ [ICRA] A1+	[ICRA] AA (Stable)/ [ICRA] A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Loans	Simple
Long-term - Fund-based Facilities	Simple
Long-term - Non-fund Based Facilities	Very Simple
Short-term -Non-fund Based Facilities	Very Simple
Long-term / Short-term- Fund-based/ Non-fund Based Facilities	Simple
Long-term / Short-term Unallocated Facilities	Not Applicable

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 analyzing 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan-I	Apr-2017	LIBOR+3.25%	July 2024	US$ 60 million	[ICRA]A+ (Stable)
NA	Term Loan-II	Apr-2017	LIBOR+3.25%	Dec-2025	US$ 60 million	[ICRA]A+ (Stable)
NA	Fund-based Facilities	NA	NA	NA	100.0	[ICRA]A+ (Stable)
NA	Non-fund Based Facilities	NA	NA	NA	134.0	[ICRA]A+ (Stable)
NA	Non-fund Based Facilities	NA	NA	NA	140.0	[ICRA] A1
NA	Fund-based/ Non-fund Based Facilities	NA	NA	NA	178.0	[ICRA]A+ (Stable)/ [ICRA] A1
NA	Unallocated Facilities	NA	NA	NA	134.0	[ICRA]A+ (Stable)/ [ICRA] A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	BEL Ownership	Consolidation Approach
Subsidiaries		
BE Vaccine PTE Limited	100.0%	Full Consolidation
BE Pharmaceuticals AG	100.0%	Full Consolidation
Biotech Medicals Private Limited	100.0%	Full Consolidation
BE Investment and Finance Private Limited	100.0%	Full Consolidation
Vaxenic India Private Limited	100.0%	Full Consolidation
BE Pharmaceuticals Private Limited	100.0%	Full Consolidation
Step-down Subsidiaries		
BE Life Sciences AG	100.0%	Full Consolidation
BE Life Sciences Inc.	100.0%	Full Consolidation
Bio E Holdings Inc.	100.0%	Full Consolidation
BE Pharmaceuticals Inc.	100.0%	Full Consolidation
BE Pharma BV	100.0%	Full Consolidation
Joint Venture of BE Vaccine PTE Limited		
Oualivax PTE Limited	50%	Equity Method

Source: *Company, As on March 31, 2021*

Note: *ICRA has taken a consolidated view of the parent and, its subsidiaries while assigning the ratings.*

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