July 21, 2022

Bharat Serums and Vaccines Limited: Ratings Assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund-Based facilities	207.00	[ICRA]A+ (Stable); Assigned
Short Term – Non-fund Based	28.00	[ICRA]A1; Assigned
Long Term/Short Term-Unallocated	5.00	[ICRA]A+ (Stable)/[ICRA]A1; Assigned
Total	**240.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned to the bank facilities of Bharat Serums and Vaccines Limited ('BSVL', erstwhile 'Aksipro Diagnostics Private Limited', 'ADPL') takes into account the extensive experience of the promoters and established market position of BSVL in the biopharmaceutical business, its healthy business profile marked by its presence in development, manufacture and marketing of niche biopharmaceuticals, and strong Research & Development (R&D) capabilities in US and India. The rating also factors in the above average financial profile, characterised by a strong net worth base, comfortable capital structure and sustained increase in the scale of operations (13% compounded annual growth rate in the last five years ended FY2022). Its operating income (BSVL- consolidated pre-merger; provisional) grew by 34.5% YoY to Rs. 1244.7 crore in FY 2022 with OPBDITA margins of 23.2% in FY2022. The margins expanded by ~550 bps YoY on the back of various cost rationalisation efforts undertaken in the recent years and the niche product profile resulting in better competitive position and pricing power. Going forward, the margins are expected to be supported by cost efficiencies, also supported by the recent acquisition of margin-accretive Human Pharma Division of TTK Healthcare Limited (TTK). The consideration for the said acquisition was Rs. 805 crore. The first tranche of Rs. 600.0 crore was funded through proceeds from the CCDs issued to Advent and the remaining is expected to be funded through external debt. The company is also undertaking a greenfield capacity expansion to the tune of Rs. 150.0 crore in Telangana expected to be completed by December'2024. The capex is to be funded entirely through internal accruals.

The ratings are, however, constrained by the company's moderate product concentration and high working capital intensity, owing to the elongated receivable cycle and high inventory holding period marked by high net-working capital intensity (as of March 2022). ICRA also notes the moderation in the coverage indicators compared to pre-merger levels due to the increased leverage arising from the coupon-bearing Compulsory Convertible Debentures (CCDs) issued to ultimate parent Advent International Corporation by ADPL in FY2020 and FY2021 as a part of the acquisition of BSVL from the erstwhile promoters. Moreover, the operations remain exposed to the regulatory restrictions in terms of pricing caps in domestic markets, stringent quality norms and product/facility approvals in export destinations. Also, akin to other bio-pharmaceutical industry players, BSVL is also exposed to uncertainties in approval pathway for molecules under development and consequent volatility in launch timelines.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company will benefit from the extensive experience of the company's management, the company's niche product portfolio and dominant presence in women's health and critical care therapeutic segments, which gives a better competitive position to the company. ICRA opines that the successful commercialisation of the capex and subsequent scaling up of the Human Pharma Division acquired from TTK remains critical monitorables going forward.

Key rating drivers and their description

Credit strengths

Experienced management and established market position of company – The promoters and the management are well experienced in the biopharmaceuticals space. The Daftary family, had run the business for more than three decades. With Advent International Corporation's acquisition of majority stake in the company in February 2020, a new board of directors were appointed and the operations are now being led by Mr. Sanjiv Navangul, who has an extensive experience in the pharmaceutical industry having held several leadership positions in the past. The company has an established presence in the biopharmaceutical industry and commands a healthy market share in the product segments it operates in.

Strong R&D capabilities - 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. It has integrated in-house infrastructure and capabilities in R&D, process development, clinical trial and manufacturing and marketing. The strong R&D focus has resulted in around 15 Patents being granted on drug products and process, with international patents granted in USA, Europe, Australia, South Africa, Eurasia, Japan, South Korea. Its biological API facility in Germany is approved by U.S. Food and Drug Administration (USFDA) and European Union's Good Manufacturing Practices (EUGMP) whereas the formulation & API manufacturing unit in Ambernath, India is EUGMP (Halmed) and Indian Good Manufacturing Practices (GMP) approved, in addition to approvals from several semi-regulated markets.

Robust growth reported in FY2022 supported by traction in critical care segment – The company's revenues grew by 34.5% in FY2022 to Rs. 1244.7 crore (provisional) on the back of significant traction seen in the Ampho product profile. The company is one of the largest manufacturers of anti-fungal drugs Amphotret, Amphomul, Amphonex and Ampholip. The products saw significant traction in FY2022 as they were used in the treatment of the black fungus infections amid the second wave of the Covid-19 outbreak. The sale of Ampho products rose to Rs. 256.5 crore in FY2022 constituting about 24% of the revenues from Rs. 115.0 crore in FY2021 which constituted about 12% of the revenues. Though, the growth in Ampho sales may see a moderation in the near term compared to FY2022 levels, the same is expected to be offset by the growth in other segments which will also be supplemented by addition of the TTK portfolio.

Financial risk profile characterised by strong net worth base – The net-worth base of the company (Rs. 2260.0 crore as on March 31, 2021) is strong (post the merger with ADPL) and supported by healthy annual cash accruals. However, the net worth moderates to Rs. 99.0 crore for FY2021, post adjusting the goodwill on the books to the tune of Rs. 2161 crore. The same is set to improve sharply with the buyback liability pertaining to the non-controlling interest (which stood at Rs. 809.9 crore as on March 31, 2021) being reclassified as reserves from FY2023 onwards as the same didn't crystallise on the company. The leverage on books are predominantly on account of the debt component of the CCDs to the tune of Rs. 590.5 crore as on March 31, 2021. The net worth however was also impacted in FY2021 owing to the impairment of intangible assets (patents) in FY2021 to the tune of Rs. 571.7 crore due to impact of Covid on its product profile. Any such further write offs which impacts the net-worth materially would be key monitorable.

Credit challenges

Operations exposed to regulatory restrictions - The operations remain exposed to regulatory restrictions in terms of pricing caps in domestic markets, stringent quality norms and product/facility approvals in export destinations. Also, akin to other bio-pharmaceutical industry players, BSVL is also exposed to uncertainties in approval pathway for molecules under development and consequent volatility in launch timelines. Moreover, ~40% of the portfolio is under price controls, which restricts the company to increase prices, other than mandated by government limiting the pricing flexibility.

High working capital intensity – The working capital intensity of the company is high, as reflected by NWC/OI of ~30%-35% in the last three financial years. The same is on account of elongated receivables cycle and high inventory holdings, though partially offset by high payable days. The company extends a credit period of ~60 days to its distributors. The inventory requirements is high owing to maintenance of imported raw material inventory coupled with requirement of maintenance of stock in trade inherent to the biopharma segment.

High product/therapeutic segment concentration–The company's top 10 product profile contributed to about more than ~50% of the revenues in FY2022. Moreover, majority of the company's revenues, above ~90% in FY2022 were derived from critical care and women's health segment. Albeit, comfort is taken from the niche product profile of the company and healthy market share in the aforesaid segments.

Moderation in coverage and return indicators witnessed post-merger with parent, arising out of CCD liability –The coverage indicators marked by interest coverage and TD/OPBDITA indicators moderated compared to the pre-merger levels, owing to the coupon outflow on the debt component of the CCDs issued by its holding company ADPL in FY2020 and FY2021 to Advent. The debt component of the CCDs issued stood at Rs. 590.5 crore as on March 31, 2021. The merger also resulted in the increase in capital employed owing to the goodwill on acquisition and debt component of the CCDs coming onto the books of the company thereby resulting in the moderation of RoCE.

Liquidity position: Adequate

The liquidity position is **adequate** with cash and bank balances of ~Rs. 128 crore as on March 31, 2022 and an unutilised working capital limits of ~Rs. 160 crore as at May'2022 as against long-term repayment obligations at the German subsidiary and potential repayment arising from the Rs. 200.0 crore of term debt to be drawn for funding the acquisition of remaining 26% stake held by TTK in BSV Pharma Private Limited which houses the Human Pharma Division, in the current fiscal. ICRA, also notes the sizeable coupon outflow on the outstanding CCDs issued to parent Advent in the ensuing years and the capex plans in the near to medium term, to the tune of Rs. 150.0 crore, which is expected to be funded through internal accruals.

Rating sensitivities

Positive factors: Significant growth in scale coupled with product diversification while improving profitability. Improvement in working capital cycle, which overall strengthens the financial/liquidity position on a sustained basis.

Negative factors: Significant decline in revenues or material deterioration in margins. Higher-than-anticipated capital expenditure/acquisitions, which impacts its capital structure and/or liquidity may also be negative for the rating. Any significant write offs of intangible assets leading to deterioration in the credit profile marked by TOL/TNW of above 1.3x on a sustained basis will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Pharmaceutical Industry Consolidation and Rating Approach
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has combined the business and financial risk profiles of Bharat Serums and Vaccines Limited (BSVL), its wholly owned subsidiaries – BSV Bio Science GMBH, BSV Bio Science INC, BSV Bioscience Philippines and BSV Pharma Private Limited as the entities are owned and managed by the same promoters and are involved in related lines of business. The Subsidiaries are enlisted in Annexure-2.

About the company

Bharat Serums and Vaccines Limited (BSVL) was incorporated in 1971 and is engaged in development, manufacturing and marketing of biological, biotech and pharmaceutical formulations. Its product profile comprises plasma derivatives, monoclonal, fertility hormones, antitoxins, antifungals, anesthetics, cardiovascular drugs, diagnostic products etc., with its key therapeutic segments being Women Health (WH), assisted reproductive technology (ART) and Critical Care (CC). The company is headquartered in Mumbai with its key manufacturing facility located at Ambernath and another smaller facility at Thane. It also has a horse farm in Hyderabad, an R&D unit at Navi Mumbai and four wholly-owned subsidiaries in USA, Germany, Philippines and India. While the Philippines subsidiary acts as a marketing arm, the Germany facility has API manufacturing capabilities (EUGMP and USFDA approved) and the US based subsidiary is mainly focused on R&D and clinical trials. The Indian entity does not have significant operations. The Indian entity was incorporated recently to house the Human Pharma Division acquired from TTK. The group was promoted by the Daftary family, who had run the business for more than three decades. In February 2020 Advent International Corporation acquired 74% stake in the company providing complete exit to erstwhile private equity investors, Orbimed Asia and Kotak PE and partial exit to the Daftary family. Subsequently, post Department of Pharmaceuticals (DoP) approval Advent bought the remaining 26% stake from the Daftary's in the current fiscal.

Key financial indicators (Merged financials- Audited)

Consolidated- BSVL post-merger with ADPL	FY2020^	FY2021
Operating Income (Rs. crore)	152.5	925.7
PAT (Rs. crore)	19.6	(445.1)
OPBDIT/OI (%)	21.9%	17.2%
PAT/OI (%)^	12.9%	(48.1%)
Total Outside Liabilities/Tangible Net Worth* (times)	6.1	17.8
Total Debt/OPBDIT (times)#	19.1	4.1
Interest Coverage (times)	3.3	2.4

*Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; #includes debt component of CCDs and lease liability; ^pertains to the period between February 14, 2020 (appointed date of the merger) and March 31, 2020; * Adjusted for goodwill.*

All the figures mentioned in the above table are as per ICRA's computation; ICRA has factored in the debt component and the interest expense on the CCDs for the analytical purpose.

Key financial indicators (Audited/Provisional)

Consolidated- BSVL pre-merger	FY2021	FY2022 (Provisional)
Operating Income (Rs. crore)	925.7	1244.7
PAT (Rs. crore)	100.2	211.4
OPBDIT/OI (%)	17.7%	23.2%
PAT/OI (%)^	10.8%	17.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.5
Total Debt/OPBDIT (times)#	0.4	0.4
Interest Coverage (times)	27.4	46.4

Source: Company; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; # includes lease liability; All the figures mentioned in the above table are as per ICRA's computation; FY2022 numbers mentioned in the rationale above is as per provisional financials.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					21-July-2022	28-Feb-2022	23-Dec-2020	-
1	Fund-Based-Working capital	Long Term	207.00	-	[ICRA]A+(Stable)	[ICRA]A+(Stable); Withdrawn	[ICRA]A+(Stable)	-
2	Unallocated	Long/Short Term	5.00	-	[ICRA]A+(Stable)/ [ICRA]A1	-	-	-
3	Non-fund based-Letter of Credit	Short term	28.00	-	[ICRA]A1	[ICRA]A1; Withdrawn	[ICRA]A1	-

Source: Company; Rs.crore

Complexity level of the rated instrument

Instrument	Complexity Indicator
Cash Credit	Simple
Letter of Credit	Very Simple
Unallocated	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 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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facility	-	-	-	207.00	[ICRA]A+ (Stable)
NA	Letter of Credit	-	-	-	28.00	[ICRA]A1
NA	Unallocated	-	-	-	5.00	[ICRA]A+(Stable)/[ICRA]A1

Source: *Company*

Please click here to view lender wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
BSV Bio Science GmbH	100%	Full Consolidation
BSV Bio Science INC	100%	Full Consolidation
BSV Bioscience Philippines	100%	Full Consolidation
BSV Pharma Private Limited	74%	Full Consolidation

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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.

For more information, visit www.icra.in

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