

August 30, 2022

Biological E. Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	\$ 120 million	\$ 84.7 million	[ICRA]AA- (Stable); Upgraded from [ICRA]A+(Stable)
Long-term- Fund-based Facilities	Rs. 100.00 crore	Rs. 100.00 crore	[ICRA]AA- (Stable); Upgraded from [ICRA]A+(Stable)
Long-term- Non-fund Based Facilities	Rs. 134.00 crore	--	--
Short-term- Non-fund Based Facilities	Rs. 140.00 crore	Rs. 140.00 crore	[ICRA]A1+; Upgraded from [ICRA]A1
Long-term / Short-term – fund-based/ non-fund-based Facilities	Rs. 178.00 crore	Rs. 178.00 crore	[ICRA]AA-(Stable)/[ICRA]A1+; Upgraded from [ICRA]A+(Stable)/[ICRA]A1
Long-term / Short-term- Unallocated Facilities	Rs. 134.00 crore	Rs. 546.87 crore	
Total	\$ 120 million Rs. 686.0 crore	\$ 84.7 million Rs. 964.87 crore	

*Instrument details are provided in Annexure I

Rationale

The ratings upgrade considers the robust revenue growth of Biological E. Limited (BEL/the company) in FY2022 with healthy margins, and the expected uptick in the vaccine and pharmaceutical segments, going forward. The company witnessed 72% YoY revenue growth in FY2022 backed by Covid vaccine revenues and improved traction in the existing business segments¹, led by an uptick in the newly launched vaccines/products and healthy order flow for key vaccines like typhoid conjugate vaccine (TCV), measles and rubella (MR) and liquid pentavalent vaccine (LPV). The operating margins remained healthy at 24.5% in FY2022 (24.8% in FY2021), aided by margin-accretive Covid revenues and improving scale of the existing business.

Further, BEL developed India's first indigenous RBD² protein subunit Covid-19 vaccine, CORBEVAX and received DCGI³ approval for emergency use authorisation during December 2021-April 2022 including all age group above 5 years. As per the Government purchase orders, the company supplied around five crore doses in February-March 2022 and an additional ~five crore doses in April 2022. Further, in June 2022, DCGI also approved CORBEVAX as a heterologous booster dose for adults aged 18 years and above. The balance supply of 20 crore doses (as per the purchase commitment) to the GoI⁴ is expected in the near term. The company has a minimum revenue offtake from Johnson and Johnson's (J&J) Covid-19 vaccine contract manufacturing arrangement spread over two fiscals (FY2023-FY2024). ICRA notes that there has been deferral in the commencement of supplies to J&J due to delay in regulatory approvals. However, the contractual revenue commitment offsets the risk to a large extent. Further, continued demand for Covid vaccines depends on the domestic and global immunisation schedules. The ratings continue to favourably factor in BEL's strong competitive position in the global vaccines industry, evident from its status as a WHO-prequalified supplier of LPV, JEEV (japanese encephalitis vaccine), MR, TCV and other vaccines. The existing vaccine business revenues are expected to improve in the near term, backed by a healthy order book (over USD 170 million during CY2022-CY2024 as of June 1, 2022) and new product launches like pneumococcal conjugate vaccine (PCV) and novel oral polio vaccine (nOPV). Also, the pharmaceutical business is likely to witness growth with new launches and in-licencing arrangements in speciality generic injectables.

¹ Vaccine and Pharmaceuticals (excluding Covid vaccine)

² Receptor Binding Domain – This is a part of the spike protein of SARS-CoV-2 virus

³ Drugs Controller General of India

⁴ Government of India

The ratings, however, also consider BEL's elevated working capital intensity (net working capital/ operating income (NWC/OI) of 56% in FY2022) due to high inventory levels along with increased receivables as of March 31, 2022. The inventory levels increased on account of manufacture of CORBEVAX vaccines (along with stock of raw materials, adjuvants, etc.) during Q4 FY2022 for ensuring supplies to the GoI. The same is expected to be liquidated in the near term. As the first batch of CORBEVAX doses was supplied in February-March 2022, the debtor levels increased by ~Rs. 510 crore (whilst the company has advances of ~Rs. 1,250 crore from the GoI as of March 31, 2022). While J&J-related inventory was also manufactured in FY2022, the same was funded through receipt of advances from J&J. The working capital funding for CORBEVAX inventory led to higher short-term borrowings of Rs. 900.4 crore as of March 31, 2022. Against this, the net debt/OPBDITA moderated to 2.6 times as of March 31, 2022, from 1.8 times as of March 31, 2021. The company's debt metrics are expected to improve with the liquidation of CORBEVAX inventory and receipt of payments from the GoI against the same. However, the timelines for the same will remain monitorables. The ratings also factor in BEL's high revenue dependence on the institutional segment (UNICEF⁵, GoI), with LPV accounting for ~40% of vaccine sales in FY2022 (reduced from ~55% in FY2021). The revenue concentration from the LPV vaccine is however, expected to further reduce with commercialisation of new vaccines. The profitability of the company remains vulnerable to foreign exchange fluctuations, due to its foreign operations and foreign currency borrowings.

Key rating drivers and their description

Credit strengths

Established player in global vaccines segment with strong development capabilities - BEL has WHO pre-qualification for vaccines, key products being LPV, MR, JE (Japanese encephalitis vaccine) and TCV. BEL is among the five global pre-qualified suppliers of LPV, the two global pre-qualified suppliers of JE to the UNICEF and one of the pre-qualified suppliers for the MR vaccine. Further, the company has a strong history of supplying vaccines to the UNICEF, the PAHO⁶ 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. During FY2022, BEL developed India's first indigenous RBD protein subunit Covid-19 vaccine, indicating its development capabilities. The company received grants of Rs. 105-110 crore and Rs. 275-280 crore in FY2021 and FY2022, respectively. 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, coupled with launch of Covid-19 vaccine, provide revenue visibility – The outstanding order book for BEL stood at ~USD 175 million as on June 01, 2022, of which ~USD 108 million order value is to be executed in CY2022. Incremental orders for LPV have also been received during August 2022 (to be executed in a span of five years). The immunisation programmes of various countries augur well for BEL's strong growth prospects. BEL received WHO pre-qualification for TCV in Q3 FY2021 and commenced its supplies to the export markets from FY2022. Further, the outstanding order book of 20 crore doses of CORBEVAX provides revenue visibility in the near term. The minimum revenue offtake arrangement with J&J, with an upside potential will also support the scale of operations. BEL's revenue prospects are further bolstered by the expected launch of PCV and nOPV in FY2024, however, timelines for approval remain key monitorables. Post the regulatory approvals, PCV vaccine will be supplied to the domestic markets, and subsequently to the export markets. Other vaccines in the pipeline which are proposed to be commercialised over the medium term include IPV (integrated polio vaccine), Hexa (liquid hexavalent vaccine) and PCV-next gen vaccine. BEL also proposes to launch four to five branded formulations and generic injectables in the domestic and export pharmaceutical markets.

Financial profile characterised by healthy margins and improving scale of operations – BEL reported robust revenue growth in FY2022, backed by traction in the existing vaccine and pharma segment, coupled with the launch of the CORBEVAX vaccine.

⁵ United Nations Children's Emergency Fund

⁶ PAHO- Pan American Health Organization

The operating margins also remained healthy at 24.5% in FY2022. ICRA expects the company to witness strong growth led by a healthy vaccine order book (including Covid vaccines), new vaccine launches and pharmaceutical product launches in the domestic and export markets. The operating margins are also expected to remain healthy and expand with margin-accretive Covid revenues, supported by backward integration in the speciality generic business over the medium term.

Credit challenges

High working capital intensity of operations – The company witnessed increase in the working capital borrowings as of March 31, 2022, due to increase in inventory (~725 days) and receivables (~115 days), mainly pertaining to the CORBEVAX segment. The inventory levels increased on account of manufacture of CORBEVAX vaccines (along with stock of raw materials, adjuvants, etc.) during Q4 FY2022 for ensuring supplies to the GoI. The same is expected to be liquidated in the near term. As the first batch of CORBEVAX doses was supplied in February-March 2022, the debtor levels increased by ~Rs 511 crore. Owing to this, the working capital intensity remained high with the NWC/OI of 56% in FY2022 (32% in FY2021). While the entire J&J business was funded through its advances, partial requirements for the CORBEVAX business were funded through advances from the GoI (total advances of ~Rs 1,500 crore). Going forward, while there is purchase commitment from the GoI, timely and adequate ramp-up in supplies of Covid vaccines will remain a key monitorable to reduce its working capital intensity.

High revenue dependence on institutional segment - BEL has a high dependence on the institutional segment (GoI/UNICEF), which accounted for more than 85% of its consolidated vaccines segment revenues in FY2022. 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. Further, while the vaccine revenue concentration of LPV reduced to 39.7% in FY2022 from 54.9% in FY2021 (backed by ramp-up in the MR and TCV vaccines), LPV remains BEL's key revenue contributor. The revenue concentration from the LPV vaccine is expected to further reduce, going forward, with commercialisation of other vaccines.

Exposure to foreign exchange and regulatory risks - The profitability of the company remains vulnerable to foreign exchange fluctuations on account of its foreign currency operations and foreign currency borrowings. While there exists natural hedge and forward contracts are also entered to certain extent, the company's profitability is exposed to foreign exchange fluctuation risk to the extent of unhedged exposures. 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 liquid investments of ~Rs. 100-120 crore and unutilised bank lines of ~Rs. 830.0 crore as on June 30, 2022. The company received sizeable advances in FY2021 and FY2022 from J&J towards earmarking the manufacturing facilities of BEL for Covid-19 vaccine and ramping up the associated capacity. Further, BEL also received advances from the GoI against its COBBEVAX orders. The company was also awarded grants of Rs. 275-280 crore in FY2022, to fund the development of its pipeline vaccines. The entity has debt repayments of ~Rs. 231 crore in FY2023 and ~Rs. 255 crore in FY2024. BEL expects to incur capex of ~Rs. 200-250 crore p.a. for the next three years towards setting up capacities for new vaccines, in addition to expanding capacities of its existing products in the vaccines and pharma segments. Further, development cost of ~Rs. 50-100 crore p.a. is expected to be incurred for launching new products. BEL has a sanctioned but pending drawdown of USD 40-million term loan as of July 31, 2022, which is expected to be utilised for funding the capex.

Rating sensitivities

Positive factors –The ratings can be upgraded if BEL demonstrates significant deleveraging, in addition to improvement in liquidity position, while maintaining its profit margins.

Negative factors – The ratings may be downgraded, if the company's revenues and profitability weaken, leading to pressure on cash flows, thereby leading to increase in debt levels. Further, increase in the company's working capital intensity of

operations, may also lead to pressure on the ratings. Specific metric which could also trigger a rating downgrade would be interest coverage ratio lower than 7.0 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry
Parent/Group Support	NA
Consolidation/Standalone	ICRA has considered the consolidated financials of BEL

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 the 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 the regulated markets with complex generics and injectables portfolio.

Over the 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

BEL consolidated	FY2020	FY2021	FY2022
Operating income (Rs. crore)	1092.1	1483.3	2556.8
PAT (Rs. crore)	60.5	182.6	337.2
OPBDIT/OI (%)	18.5%	24.8%	24.5%
PAT/OI (%)	5.5%	12.3%	13.2%
Total outside liabilities/Tangible net worth (times)	0.8	1.0	2.6
Total debt/OPBDIT (times)	4.4	2.4	2.8
Interest coverage (times)	4.6	7.6	9.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA – Not available

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 of Mar 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Aug 30, 2022	May 27, 2021	Aug 11, 2020	Jun 20, 2019
1	Term loans*	Long-term	\$ 84.7 million	\$84.7 million	[ICRA]AA-(Stable)	[ICRA]A+ (Stable)	[ICRA] A (Negative)	[ICRA] AA-(Negative)
2	Fund-based Limits	Long-term	Rs. 100.00 crore	--	[ICRA]AA-(Stable)	[ICRA]A+ (Stable)	[ICRA] A (Negative)	[ICRA] AA-(Negative)
3	Non-fund Based Limits	Long-term	--	--	--	[ICRA]A+ (Stable)	[ICRA] A (Negative)	[ICRA] AA-(Negative)
4	Non-fund Based Limits	Short term	Rs. 140.00 crore	--	[ICRA]A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1+
5	Fund-based/ Non-fund Based Limits	Long Term/ Short term	Rs. 178.00 crore	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA] A1	[ICRA] A (Negative)/ [ICRA] A1	[ICRA] AA-(Negative)/ [ICRA] A1+
6	Unallocated	Long Term/ Short term	Rs. 546.87 crore	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA] A1	[ICRA] A (Negative)/ [ICRA] A1	[ICRA] AA-(Negative)/ [ICRA] A1+

Amount in Rs. Crore; * includes External Commercial Borrowings of \$46.7 million

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Loans	Simple
Long-term- Fund-based Facilities	Simple
Short-term- Non-fund Based Facilities	Very Simple
Long-term / Short-term – fund-based/ non-fund-based Facilities	Simple/Very Simple
Long-term / Short-term- Unallocated Facilities	NA

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 are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan - 1	Apr-17	LIBOR+3.25%	July 2024	\$38.0 million	[ICRA]AA- (Stable)
NA	Term Loan - 2	Apr-17	LIBOR+3.25%	Dec 2025	\$46.7 million	[ICRA]AA- (Stable)
NA	Long-term-Fund-based Facilities	NA	NA	NA	Rs. 100.00 crore	[ICRA]AA- (Stable)
NA	Short-term-Non-fund Based Facilities	NA	NA	NA	Rs. 140.00 crore	[ICRA]A1+
NA	Long-term / Short-term – fund-based/ non-fund-based Facilities	NA	NA	NA	Rs. 178.00 crore	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Long-term / Short-term-Unallocated Facilities	NA	NA	NA	Rs. 546.87 crore	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company; Note: Amounts in Rs. crore

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Subsidiaries		
BE Vaccine PTE Limited	100.0%	Full Consolidation
BE Pharmaceuticals AG	100.0%	Full Consolidation
Biotech Medical Private Limited	100.0%	Full Consolidation
BE Investments 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	100.0%	Full Consolidation
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 Life sciences Inc.	100.0%	Full Consolidation
BE Pharmaceuticals Inc.	100.0%	Full Consolidation
BE Pharma BV	100.0%	Full Consolidation
BE Immuno Sciences Inc.	100.0%	Full Consolidation
Joint Venture of BE Vaccine PTE Limited		
Oualivax PTE Limited	50%	Equity Method

Source: Company's Auditor report FY2022

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