

September 11, 2023

Bharat Serums and Vaccines Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	207.00	217.00	[ICRA]A+ (Stable); Reaffirmed
Short-term – Non-fund Based	28.00	18.00	[ICRA]A1; Reaffirmed
Long-term/ Short-term – Unallocated	5.00	5.00	[ICRA]A+(Stable)/[ICRA]A1; Reaffirmed
Total	240.00	240.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of the bank facilities of Bharat Serums and Vaccines Limited ('BSVL'; erstwhile 'Aksipro Diagnostics Private Limited', or 'ADPL') takes into account the professional and experienced management set up of the company and its established market position in the biopharmaceutical business. ICRA notes its healthy business profile, marked by its presence in development, manufacturing and marketing of niche biopharmaceuticals, and strong research and development (R&D) capabilities in the US and India. The rating also factors in BSVL's above average financial profile, characterised by a strong net worth base, comfortable capital structure and sustained increase in the scale of operations (14% compounded annual growth rate in the last five years ended FY2023, on a consolidated basis). The revenues grew by 15.3% in FY2023 to Rs. 1,435.4 crore from Rs. 1,245.3 crore in FY2022. However, the margins moderated to 17.9% in FY2023 from 20.8% in FY2022, due to decline in high margin Ampho products, which had received a boost during Covid-19 sales and certain one-time expenses related to acquisition of the human pharma division from TTK Healthcare Limited (TTK) and ESOP expenses. Going forward, the margins are expected to improve, supported by cost efficiencies, and focus on high margin export portfolio. The acquisition of the human pharma division was funded by incremental Compulsory Convertible Debentures (CCDs) of Rs. 600.0 crore from Advent and the rest through a term loan of ~Rs. 175-crore.

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 2023). ICRA also notes the moderation in the coverage indicators in FY2023, driven by incremental infusion of CCDs and term debt to fund the TTK division acquisition. This in turn led to sharp rise in interest cost, given the CCDs remained coupon-bearing. Comfort, however, is drawn from the fact that the CCDs are subscribed by the ultimate parent, Advent International Corporation, and remains subordinate to senior debt. The rating also remains constrained by BSVL's exposure to the regulatory restrictions in terms of pricing caps in the domestic market, stringent quality norms and product/facility approvals in export destinations. Also, akin to other biopharmaceutical players, BSVL is exposed to uncertainties in the 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 its management, its niche product portfolio and dominant presence in women's health and critical care therapeutic segments, which gives it a better competitive position.

Key rating drivers and their description

Credit strengths

Experienced management and established market position – BSVL’s promoters and the management are well experienced in the biopharmaceutical 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, with operations now led by Mr. Sanjiv Navangul. He 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), Government of India, and is 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, and South Korea. Its biological API facility in Germany is approved by the US Food and Drug Administration (USFDA) and the European Union’s Good Manufacturing Practices (EUGMP) while the formulation and API manufacturing unit in Ambarnath, India, is EUGMP (Halmed) and Indian Good Manufacturing Practices (GMP) approved, in addition to approvals from several semi-regulated markets.

Robust growth reported in FY2023 – The company’s consolidated revenues grew by 15% in FY2023 to Rs. 1,435.4 crore (provisional) on the back of significant traction in the women health and assisted reproductive segments. The revenue from women health and assisted reproductive technology grew by 42% and 230%, respectively, in FY2023. The company is one of the largest manufacturers of the anti-fungal drugs, Amphoret, 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 pandemic; although the revenues moderated in FY2023 as Covid subsided, resulting in moderation of revenues by 23%. Though the growth in Ampho sales may see a moderation in the near term over FY2022 levels, it is expected to be offset by the growth in other segments, which will also be supplemented by the addition of the TTK portfolio.

Financial risk profile characterised by strong net worth base – The net worth base of the company (Rs. 3,643.2 crore as on March 31, 2023) is strong and supported by healthy annual cash accruals. The net worth moderates to Rs. 1,370.0 crore for FY2022; albeit remaining comfortable after adjusting the goodwill on the books, to the tune of Rs. 2,161 crore. The net worth improved 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 FY2022 onwards, as the same did not crystallise on the company. The leverage on the books is predominantly on account of the debt component of the CCDs to the tune of Rs. 829.7 crore, as on March 31, 2023. There were no material impairments on the goodwill/intangible assets (patents) in FY2023; however, any such write-offs impacting the net worth materially would be a key monitorable.

Credit challenges

Operations exposed to regulatory restrictions – The operations remain exposed to regulatory restrictions in terms of pricing caps in the domestic market, stringent quality norms and product/facility approvals in export destinations. Also, akin to other bio-pharmaceutical players, BSVL is exposed to uncertainties in the approval pathway for molecules under development and consequent volatility in launch timelines. Moreover, ~40% of the portfolio is under price control, which restricts BSVL from increasing prices, other than that mandated by the Government; hence, limiting its 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 an 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 are 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 about more than ~90% of revenues in FY2023. Moreover, majority of the company’s revenues, above ~80% in FY2023 were derived from the 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 moderated in FY2023 owing to sharp rise in interest cost due to incremental CCDs and term debt taken to fund the acquisition of human pharma division of TTK in FY2023. The operating profit margin at consolidated level also took a hit due to lower off take of high margin Ampho products and few one-time expenses related to acquisition. The coverage indicators is expected to improve going forward in near to medium, given lack of any debt funded capex and improvement in margins expected due to better cost efficiencies and higher focus on better margin export portfolio. Going, forward improvement in margins, which in turn improves the debt protection on an aggregate level will remain a key rating monitorable.

Liquidity position: Adequate

The liquidity position is **adequate** with cash and bank balances of ~Rs. 67 crore as on March 31, 2023 and an unutilised working capital limits of ~Rs. 100 crore as at April 2023 against external long-term repayment obligations of ~Rs. 3.0 in FY2024 and Rs. 46 crore each in FY2025 and FY2026. The company does not have any sizeable capex plans for FY2024 and FY2025; however, it may look for a greenfield project for capacity expansion in FY2026 at a capex of around Rs. 150 crore, funded largely 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, its wholly-owned subsidiaries—BSV Bio Science GMBH, BSV Bio Science INC, BSV Bioscience Philippines, Firstline Pharmaceutical Sdn Bhd, Genomicks Sdn Bhd and BSV Pharma Private Limited—as the entities are owned and managed by the same promoters and are involved in related business sectors. The subsidiaries are enlisted in Annexure-II.

About the company

Bharat Serums and Vaccines Limited was incorporated in 1971 and is engaged in the development, manufacturing and marketing of biological, biotech and pharmaceutical formulations. Its product profile comprises plasma derivatives, monoclonal, fertility hormones, antitoxins, antifungals, anaesthetics, cardiovascular drugs, diagnostic products, etc, with its key therapeutic segments being WH, ART and CC. The company is headquartered in Mumbai with its key manufacturing facility at Ambarnath 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 the US, Germany, the Philippines and India. While the Philippines subsidiary acts as a marketing arm, the German 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 acquired 74% stake in the company providing complete exit to the erstwhile private equity investors, Orbimed Asia and Kotak PE, and partial exit to the Daftary family. Subsequently, following approval from the Department of Pharmaceuticals (DoP), Advent bought the remaining 26% stake from the Daftary family in the current fiscal.

Key financial indicators (audited)

Consolidated- BSVL	FY2022	FY2023
Operating income	1,245.3	1,435.4
PAT	3.3	47.7
OPBDIT/OI	20.8%	17.9%
PAT/OI	0.3%	3.3%
Total outside liabilities/Tangible net worth (times)*	1.0	1.1
Total debt/OPBDIT (times)	2.7	4.6
Interest coverage (times)	4.5	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, All ratios as per ICRA's calculations; * 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.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				11-Sep-2023	21-July-2022	28-Feb-2022	23-Dec-2020
1 Fund-Based-Facilities	Long Term	217.00	-	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable); Withdrawn	[ICRA]A+(Stable)
2 Unallocated	Long/Short Term	5.00	-	[ICRA]A+(Stable)/ [ICRA]A1	[ICRA]A+(Stable)/ [ICRA]A1	-	-
3 Non-fund based- Letter of Credit	Short term	18.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1; Withdrawn	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-Based Facilities	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-Based-Facilities	-	-	-	217.00	[ICRA]A+ (Stable)
NA	Letter of Credit	-	-	-	18.00	[ICRA]A1
NA	Unallocated	-	-	-	5.00	[ICRA]A+(Stable)/[ICRA]A1

Source: Company

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Annexure II: 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	100%	Full Consolidation
Firstline Pharmaceuticals Sdn Bhd	100%	Full Consolidation
Genomicks Sdn Bhd	100%	Full Consolidation

Source: Company

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