

November 26, 2024

## Natural Biogenex Private Limited: Ratings downgraded to [ICRA]BB+ (Stable)/[ICRA]A4+

### Summary of rating action

Instrument <sup>^</sup>	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Term Loan	48.00	48.00	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB- (Stable)
Long Term - Fund Based – Cash Credit	16.00	16.00	[ICRA]BB+ (Stable); downgraded from [ICRA]BBB- (Stable)
Short Term – Non-Fund Based	6.00	6.00	[ICRA] A4+; downgraded from [ICRA]A3
<b>Total</b>	<b>70.00</b>	<b>70.00</b>	

<sup>^</sup> Instrument details are provided in Annexure-I

### Rationale

The downgrade of ratings of Natural Biogenex Private Limited (NBPL) factors in the delay in the commencement of operations of its manufacturing facility owing to pending approval and the resultant exposure to project execution risks. While the facility was earlier expected to commence operations from August 2023, the same is now likely from Q3 FY2025 as clearance from the Pollution Control Board is yet to be received. This has also resulted in cost overruns, which are being funded through additional fund infusion from Natural Capsules Limited (NCL). Owing to the complex nature of manufacturing steroidal APIs, the ability of NBPL to profitably ramp up the capacities is yet to be seen. Further, in the initial phase, NBPL will manufacture APIs from advanced intermediates, which will be imported, exposing NBPL to raw material price volatility as well as foreign exchange (forex) fluctuation risk. ICRA also notes the weakened financial performance of the parent company owing to the decline in realisations for gelatin capsules and delay in commissioning of the new hydroxypropyl methylcellulose (HPMC) lines.

The ratings, however, take comfort from NCL's established presence in the empty hard gelatin capsule (EHGC) manufacturing industry, its promoters' extensive experience in the pharmaceutical industry and the company's diversified client profile. Moreover, NBPL has received funding from private equity (PE) investor, Somerset Indus Healthcare, as well as HNIs apart from bank debt, resulting in low funding risk for its greenfield active pharmaceutical ingredients (API) project. There is a healthy demand for steroidal APIs in the domestic market with limited local production, thus supporting prospects for NBPL. Also, NBPL has been selected for the Government's Production Linked Incentives (PLI) scheme for bulk drugs, although this is subject to its ability to ramp up.

The Stable outlook on the rating reflects ICRA's opinion that the company will benefit from the promoters' relationships with prospective clients and the favourable demand outlook for pharmaceutical products in the medium-to-long term.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoters in the pharmaceutical space; strengths as part of NCL Group** – NBPL was set up as a wholly-owned subsidiary of NCL for manufacturing APIs. NBPL subsequently raised funds from a PE investor, Somerset Indus Healthcare, and high net worth individuals (HNIs) for its greenfield project, diluting NCL's stake to 69.23% in NBPL. NCL is a leading player in the empty capsule segment in India, with a diversified and reputed client profile. NCL is owned and managed by the Mundra family, who have extensive experience of three decades in the pharmaceutical industry. There are strong managerial and financial linkages between NBPL and NCL.

**Favourable demand outlook for steroidal APIs** – Steroidal APIs, primarily used for anti-inflammatory and anti-infective formulations, are a leading pharmaceutical segment in India. However, most steroidal APIs are directly imported, primarily from China. NBPL was one of the companies selected under the Government’s PLI scheme for manufacturing steroidal APIs—mainly betamethasone, dexamethasone and prednisolone—for the FY2024-FY2029 period. Favourable demand for these APIs and limited competition from domestic players will support NBPL’s business prospects.

**Low project funding risks** – The cost of NBPL’s greenfield API facility project was revised to ~Rs. 189 crore from the erstwhile estimated Rs. 160 crore because of delays in the project as well as change in scope. Despite the cost overrun, NBPL has been able to secure funding for the major part of the capital expenditure (capex) outlay with Rs. 75 crore from the PE fund, Somerset Indus Healthcare, Rs. 25 crore from HNI investors, Rs. 47 crore of fund infusion from NCL in the form of equity investment and additional fund infusion via unsecured loans, and Rs. 48 crore of term loans. Further, it plans to raise incremental term debt of Rs. 10-12 crore in FY2025.

### Credit challenges

**Delay in commencement of operations** – The API facility was earlier expected to commence operations from August 2023. However, the facility is yet to commence operations and is yet to receive approval from the Pollution Control Board. This has also resulted in cost overruns, which are being funded via additional fund infusion from NCL. Also, API manufacturing is a complex process, and the ability to ramp up API production in a timely and profitable manner is yet to be seen.

**Weak credit metrics in near to medium term, pending ramp up of cash flows** – As the company is currently in the project phase, it will take time to realise returns. NBPL has availed Rs. 48 crore of term loans on its books for which the repayments have commenced from H2 FY2024. NBPL is also expected to incur losses in the initial year, which will necessitate additional funding requirements, though the same is expected to improve from FY2026 with the ramp-up of operations. ICRA expects NCL to support the funding requirements of NBPL. ICRA also notes the weakened financial performance of the parent company owing to the decline in realisations for gelatin capsules and delay in commissioning of the new HPMC lines. Improvement in the same will be a key monitorable.

**Exposure to raw material price volatility and forex fluctuations** – In the pilot phase, NBPL will manufacture APIs from the advanced intermediates, which would be imported, exposing NBPL to raw material price volatility as well as forex fluctuation risk. NBPL is expected to backward integrate across the complete value chain of steroidal API manufacturing, which will help reduce these risks in the medium term.

### Liquidity position: Stretched

NBPL’s liquidity position remains stretched as the company is currently in the project phase and is dependent on its parent, NCL, for debt servicing pending the ramp-up of its own cash flows. Post commencement of operations, there will be initial cash losses, which will require funding support from the parent. The funding for the Phase-2 fermenter involves capex of Rs. 10-12 crore, to be incurred in H2 FY2025, which is expected to be funded through incremental term debt (proposed). NBPL has debt repayment obligation of Rs. 4.75 crore per annum in FY2025 and FY2026.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if the company is able to demonstrate a sustained and healthy scale up in the revenues and profitability post commencement of API facility. Improvement in credit profile of parent will also be considered favorably.

**Negative factors** – Negative pressure on the ratings could arise if higher-than-anticipated capex and/or material project delays resulting in substantial weakening of the company’s liquidity position and credit metrics. The ratings could also move downwards in case of weakening of NBPL’s linkages with the parent or weakening of parent’s credit profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology - Pharmaceuticals</a>
Parent/Group support	ICRA expects Natural Capsules Limited, which holds a 69.23% in NBPL, to provide need-based funding support to NBPL
Consolidation/Standalone	Standalone

## About the company

NBPL was incorporated on August 23, 2020 as a wholly-owned subsidiary of NCL with the specific intention of entering steroidal API manufacturing business. NBPL subsequently raised funds from a PE investor, Somerset Indus Healthcare and high net worth individuals (HNIs) for its greenfield project, diluting NCL's stake to 69.23% in NBPL.

NBPL has set up a greenfield API facility in Tumkur (Karnataka) and will manufacture steroidal APIs namely prednisolone, betamethasone, dexamethasone and hydrocortisone. NBPL has been selected for Production Linked Incentive scheme for bulk drugs and can avail PLI incentives over FY2024-FY2029. The production committed by NBPL under PLI scheme is 15 MT of prednisolone, 12 MT of betamethasone and 10 MT of dexamethasone.

**Key financial indicators:** Not applicable as it is a project company and is yet to commence operations

**Status of non-cooperation with previous CRA:** Not applicable

### Any other information:

ICRA has analysed the bank statements of NCL and NBPL for the period March 2024 till August 2024. ICRA noticed few instances of discrepancies such as "Irregular amount recovery" in the bank statements of NCL and NBPL. However, ICRA understands that the same pertain to technical issues and has received clean written feedback from the said bankers stating that there have not been irregularities in debt servicing by NCL and NBPL.

## Rating history for past three years

Instrument	Type	Current year (FY2025)		Chronology of rating history for the past 3 years						
		Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based-Term loans	Long-term	48.00	26-Nov-2024	[ICRA]BB+ (Stable)	22-Aug-2023	[ICRA]BBB- (Stable)	-	-	-	-
Fund Based-Cash Credit	Long-term	16.00	26-Nov-2024	[ICRA]BB+ (Stable)	22-Aug-2023	[ICRA]BBB- (Stable)	-	-	-	-
Non-fund based – Working capital facilities	Short term	6.00	26-Nov-2024	[ICRA] A4+	22-Aug-2023	[ICRA]A3	-	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Term Loan	Simple

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<b>Long Term - Fund Based – Cash Credit</b>	Simple
<b>Short Term – Non-Fund Based</b>	Very Simple

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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	Term loans	FY2022	9.0-9.5%	FY2032	48.00	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	9.0-9.5%	NA	16.00	[ICRA]BB+ (Stable)
NA	Non-Fund Based working capital facilities	NA	NA	NA	6.00	[ICRA] A4+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis – Not Applicable**

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