

December 23, 2020

Bharat Serums and Vaccines Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	20.00	[ICRA]A+ (Stable); assigned
Fund-based Working Capital Facilities	202.00	[ICRA]A+ (Stable); assigned
Non-fund based Letter of Credit	18.00	[ICRA]A1; assigned
Total	240.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings reflect the company's strong financial profile, characterised by strong net worth base, comfortable capital structure, healthy debt protection indicators and healthy return indicators. The ratings also factor in the extensive experience of the promoters and the company's established market position in the biopharmaceutical business. ICRA notes that the company is present in development, manufacture and marketing of niche biopharmaceuticals or NDDS-based generic pharmaceuticals, which are complex to manufacture, thereby resulting in limited competitive pressures. The company has strong R&D capabilities with adequate regulatory approvals.

The ratings are, however, constrained by the company's relatively moderate scale of current operations, its high product concentration and high working capital intensity, owing to the elongated receivable cycle and the high inventory holding period. Moreover, 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.

ICRA also notes that the company has reported an annualised 12% decline in its H1FY2021 revenue (as compared to FY2020 revenues) owing to the outbreak of the Covid-19 pandemic and the resultant closure of IVF clinics; the revenues have since recovered and the company is expected to report moderate growth in the current fiscal. Nonetheless, ICRA will continue to monitor the impact of the Covid-19 pandemic and other aligned regulatory restrictions on the company's operations in case of prolongation of existing conditions.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that the company will benefit from the extensive experience of new board members who are pharmaceutical industry veterans, and the company's presence in women's health and critical care therapeutic segments, which have a healthy growth outlook. ICRA notes that the company has molecules under development/products in clinical trials, successful commercialisation and scaling up of which may lead to an improvement in scale in profitability. However, the same remains to be seen.

Key rating drivers and their description

Credit strengths

Experienced management and established market position of company – The promoters and the management are well experienced. The Daftary family has run the business for more than three decades. After Advent International Corporation's acquired a majority stake in the company in February 2020, a new board of directors were appointed which comprised industry veterans. The operations are now being led by Mr. Sanjiv Navangul, who has extensive experience in the pharmaceutical industry having held several leadership positions in the past. The Daftary family

continues to be a part of the board as non-executive directors. 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 an 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 on drug products and process, with international patents in the US, Europe, Australia, South Africa, Eurasia, Japan and 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 Ambarnath, India is EUGMP (Halmed) and Indian Good Manufacturing Practices (GMP) approved. It also has approvals from several semi-regulated markets.

Healthy financial risk profile – The net-worth base (Rs. 527.93 crore as on March 31, 2020) remained strong, supported by healthy annual cash accruals. This coupled with low dependence on external borrowings has resulted in a comfortable capital structure, with a gearing of 0.10 times and TOL/ TNW of 0.41 times as on March 31, 2020 and an overall negative net debt position. Owing to low debt level and healthy annual accruals, debt protection metrics have remained strong— with the interest coverage of 13.28 times and Total Debt/ OPBDITA of 0.43 times in FY2020 as compared to 194.16 times and 0.05 times, respectively, in FY2019. The return indicators of the company remained healthy, with a return on capital employed (RoCE) at 26.97% in FY2018 and 32.67% in FY2019. The same fell to 15.24% in FY2020 and 17.78% in H1FY2021 owing to a moderation in the operating profitability levels, from 17%-20% in the past to 13%-15%. The moderation in profitability in FY2020 was due to a one-time legal costs, and the profitability is anticipated to improve, going forward.

Credit challenges

Moderate scale of operations with high concentration risk - The company's scale of operations witnessed a modest y-o-y growth of 2% to Rs. 896.59 crore in FY2020 from Rs. 878.67 crore in FY2019. Further, in H1FY2021, it reported an annualised decline of 12% to Rs. 396.22 crore as the operations were impacted in the first quarter by the Covid-19 pandemic. Though the revenues have picked up since then and the company is anticipated to report a modest growth in FY2021, its scale of operations have remained relatively moderate in the pharmaceutical formulation industry. Moreover, the company remains exposed to high product and therapeutic concentration risk, with its top-five products having contributed 41% to FY2020 revenues. Majority of the company's revenues, ~92% in FY2020 and ~97% in H1FY2021, are derived from the critical care and the women's health segments.

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.

High working capital intensity – The working capital intensity of the company remains high, as reflected by NWC/OI of 30% in FY2019 and 35% in FY2020, because of elongated receivables cycle and high inventory holdings, though it is partially offset by high payable days. The company extends a credit period of ~60 days to its distributors. The inventory requirements remain high owing to maintenance of imported raw material inventory and stock in trade.

Liquidity position: Strong

The liquidity position of the company remains strong with limited term debt repayment of Rs. 10.60 crore in FY2021 and Rs. 9.16 crore in FY2022, free cash/liquid investments of Rs.145.48 crore on September 30, 2020 and undrawn working capital limits. The estimated cash flows are anticipated to remain strong to meet the incremental working capital and capex requirements.

Rating sensitivities

Positive triggers –

- Significant growth in scale while improving profitability
- Improvement in liquidity position on a sustained basis

Negative triggers –

- Significant decline in revenues or material deterioration in margins.
- Higher-than-anticipated capital expenditure, which impacts its capital structure and/or liquidity.

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	Consolidation 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 Life Private Limited— as the entities are owned and managed by the same promoters and are involved in related lines of business.

About the company

Bharat Serums and Vaccines Limited (BSVL) was incorporated in 1971 and is involved in developing, 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 and its key manufacturing facility is located 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 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 Group was promoted by the Daftary family, who have run the business for more than three decades. In February 2020, Advent International Corporation acquired a majority stake in the company, providing complete exit to erstwhile private equity investors, Orbimed Asia and Kotak PE and partial exit to the Daftary family.

Key financial indicators (audited)

	FY2019	FY2020	FY2019	FY2020
	Consolidated		Standalone	
Operating Income (Rs. crore)	878.67	896.59	787.63	799.67
PAT (Rs. crore)	103.76	51.64	96.71	48.63
OPBDIT/OI (%)	20.85%	13.48%	21.00%	14.02%
PAT/OI (%)	11.81%	5.76%	12.28%	6.08%
Total Outside Liabilities/Tangible Net Worth (times)	0.43	0.41	0.36	0.33
Total Debt/OPBDIT (times)	0.32	0.43	0.22	0.28
Interest Coverage (times)	15.59	13.28	16.53	15.93

Status of non-cooperation with previous CRA: N/A

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					23-Dec-2020	-	-	-
1	Foreign Currency Term Loan	Long Term	20.00	19.76*	[ICRA]A+ (Stable)	-	-	-
2	Working Capital Facility	Long Term	202.00	-	[ICRA]A+ (Stable)	-	-	-
3	Letter of Credit	Short Term	18.00	-	[ICRA]A1	-	-	-

Amount in Rs. crore *As on March 31, 2020

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Foreign Currency Term Loan	FY2020	NA	FY2022	20.00	[ICRA]A+ (Stable)
NA	Working Capital Facility	NA	NA	NA	202.00	[ICRA]A+ (Stable)
NA	Letter of Credit	NA	NA	NA	18.00	[ICRA]A1

Source: Bharat Serums and Vaccines Limited

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 Life Private Limited	100%	Full Consolidation

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