February 04, 2021

Concord Biotech Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	100.00	100.00	[ICRA]AA- (Stable); reaffirmed
Long-term– Fund-based Working Capital	15.00	15.00	[ICRA]AA- (Stable); reaffirmed
Short -term – Non-fund Based Limit	10.00	10.00	[ICRA]A1+; reaffirmed
Total	**125.00**	**125.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to reflect the extensive experience of the promoters and the company's established track record in the fermentation and semi-synthetic biopharmaceutical (API) business, spanning around two decades. Further, the ratings note strong financial profile, characterised by healthy profitability levels, robust debt protection indicators and strong liquidity. The ratings also factor in the company's key market player position in the global immunosuppressant therapeutic API segment, its strong R&D capabilities with adequate regulatory approvals and its reputed clientele with strong inflow of repeat business.

The ratings are, however, constrained by the company's relatively moderate scale of current operations, its high therapeutic segment concentration and high working capital intensity, owing to the elongated receivable cycle and high inventory holding period. Given the high working capital requirements, along with the capex and dividend outgo, it has reported negative free cash flows in FY2020 and 7MFY2021, despite of having positive cash flow from operations and retained cash flows. Although it remains one of the key players and faces limited competition in the API segment, the formulation segment entails stiff competition from peers. ICRA also notes that the company is currently in the midst of a debt-funded capex for increase in API capacity at a total cost ~Rs. 400 crore. Despite low execution risk with major part of the cost already incurred and the company currently undergoing trial runs with the unit expected to commercialise from March 2021, achieving the healthy capacity utilisation levels with commensurate returns, through desired scaling up at reasonable size would remain critical.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that the company will continue to benefit from the extensive experience of its promoters in the biopharmaceutical industry and is likely to witness revenue growth, backed by new business garnered from the formulation segment and stable demand conditions for the API segment, supported by the ongoing capex for capacity enhancement.

Key rating drivers and their description

Credit strengths

Experienced management and established track record - The promoters and management are well experienced, having run the business for two decades and are well-established in the fermentation and semi-synthetic biopharmaceutical (API) business.

Key market player in niche product segment - The company's key products are catering to the immunosuppressants therapeutic segment. These complex molecules are exposed to limited competition and garner healthy margins. Although the molecules cumulatively contribute ~70%-85% to the revenues, it is one of the key players in the industry for these products, commanding a healthy and increasing market share. The molecules have shown volume growth on a YoY basis, despite being off-patent which supported its revenues. Going forward, healthy growth is projected for these APIs, given the company's ongoing production capacity expansion plans to cater to the growing demand from its customers.

Strong R&D capabilities and adequate regulatory approvals - The company's R&D centre is recognised by the Department of Scientific and Industrial Research (DSIR), India and backed by a strong team of technocrats. Its API facility is approved by U.S. Food and Drug Administration (USFDA), European Union's Good Manufacturing Practices (EUGMP), Japanese Foreign Manufacturer Registration (FMR), Korea Ministry of Food and Drug Safety, Indian Good Manufacturing Practices (GMP), whereas the formulation facility is GMP and USFDA approved.

Reputed customer base - The customer base of the company comprises reputed formulation players resulting in limited counterparty credit risk.

Strong financial profile - The company reported robust profit margins, with operating margin in the range of 40-43% and a net margin in the range of 27-34% over the last few years. The operating margins improved to 52.16% in 7MFY2021 owing to improved realisations, lower raw material costs, proportionate increase in sales of high value-added products as well as improved profitability from the formulation unit with the ramp up of operations. Its net-worth base (Rs. 770.23 crore as on March 31, 2020)) remained strong, supported by healthy annual cash accruals. This coupled with low dependence on external borrowings resulted in comfortable capital structure, with a gearing of 0.07 times and TOL/ TNW of 0.22 times as on March 31, 2020 and an overall negative net debt position. With low debt level and healthy profitability, debt protection metrics have remained robust—with the interest coverage of 855.30 times and Total Debt/ OPBDITA of 0.24 times in 7MFY2021 as compared to 184.67 times and 0.24 times respectively for FY2020.

Credit challenges

Moderate scale of operations with high concentration risk - The company's scale of operations remains relatively moderate in the pharmaceutical industry with operating income (OI) of Rs. 436.01 crore in FY2019, Rs. 512.33 crore in FY2020 and Rs. 329.78 crore in 7MFY2021. It remains exposed to high concentration risk, with its immunotherapy category contributing ~70%-85% to the total revenue. The scale and diversification are expected to improve in the medium term, with the increase in sales from the formulation segment and stabilisation of the new API unit. It also remains exposed to limited competition in the API segment and intense competition in the formulation segment, the latter being characterised by the presence of numerous large organised as well as cost-competitive-players in India and outside India. Moreover, the competitive intensity remains high in the regulated markets with aggressive defence tactics by innovator companies. However, the company's dominant position in the immunosuppressant API business and repeat orders from its customers reflect a preferred supplier status, thereby limiting the risk to an extent.

High working capital intensity - The company normally provides a credit period of ~90-120 days to its key customers and maintains a high inventory of various cultures (raw material) to produce different APIs. Also, the WIP inventory remains high as it does not complete last stage (~1-5% of production process), until it receives the order, since the shelf life of the product starts after the completion of entire process. Hence, elongated receivables cycle and high inventory holding requirements have resulted in high working capital intensity of operations in the past. The working capital intensity lowered to 52% in FY2019, 47% in FY2020 and 48% in 7MFY2021 from 77% in FY2018 because of faster collection of receivables and lower sales and purchase concentration in the last quarter. Nonetheless, the same continues to remain high. Given the high working capital requirements, coupled with the high capex and dividend outgo, it has reported negative free cash flows in FY2020 and 7M FY2021, despite of having positive cash flow from operations and retained cash flows.

Risks associated with large on-going capex - The company is in the process to set up a new unit for the manufacturing of API at a total cost of Rs. 400.00 crore (scope of work and cost increased from Rs. 224.75 crore initially to the earlier estimated Rs. 366 crore and is now finalised at Rs. 400 crore). The funding of the capex is through a mix of term loan and internal accruals, with debt-to-equity ratio of 0.25 times. Despite low execution risk with most of the cost already incurred and the company currently undergoing trial runs with the unit expected to commercialise from March 2021, achieving healthy capacity utilisation levels with commensurate returns, through desired scaling up at reasonable size would remain critical from the credit perspective.

Liquidity position: Strong

The company's liquidity position is strong, reflected in healthy profitability and accruals, robust cash and liquid investments, and availability of cushion in the form of unutilised working capital limits. The estimated cash accruals will remain strong against debt repayments and adequate to fund the ongoing capex and incremental working capital requirements.

Rating sensitivities

Positive factors –

Significant growth in scale and diversification of revenues and sustained improvement in free cash flows

Negative factors –

Negative pressure on the ratings could arise if there is any significant decline in revenues or material deterioration in margins. Moreover, higher-than-anticipated debt-funded capex or acquisitions, or regulatory measures that weakens the company's credit profile may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Pharmaceutical Industry
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Concord Biotech Limited (CBL), incorporated in November 1984, was taken over by the current promoter, Mr. Sudhir Vaid, in 2000. Mr. Sudhir Vaid is a technocrat, having over four decades of experience in the field of biotechnology, which includes eight years as a director-of Fermentation at Ranbaxy Laboratories Limited and thereafter as a consultant to various leading pharmaceutical companies. It has a robust investor profile with Mr. Rakesh Jhunjhunwala and group holding ~24% and Helix Investment Holdings Pte Limited holding 20% stake in the company. Helix Investment Holdings Pte Limited is an SPV floated by Quadria Capital, which has invested in 18 healthcare chains across the Asia-pacific region.

CBL was initially set up with one manufacturing block for production of Amidase Enzyme. Capacities were subsequently added and at present it has 22 API manufacturing blocks. The company is involved in manufacturing fermentation and semi-synthetic biopharmaceutical active pharmaceutical ingredients with immunosuppressants as its key therapeutic segment. As a means of forward integration, it set up a formulation unit, which commenced commercial production from March 2017. It is currently under the process of setting up a new API unit, which is expected to commence commercial production from March 2021.

Key financial indicators (audited)

CBL	FY2019	FY2020	7M FY2021*
Operating Income (Rs. crore)	436.01	512.33	329.78
PAT (Rs. crore)	118.39	168.96	122.54
OPBDIT/OI (%)	41.45%	42.07%	52.16%
RoCE (%)	27.77%	31.35%	39.90%
Total Outside Liabilities/Tangible Net Worth (times)	0.12	0.22	0.21
Total Debt/OPBDIT (times)	0.05	0.24	0.24
Interest Coverage (times)	194.16	184.67	855.30
DSCR (times)	13.29	16.26	-

**Provisional numbers. All ratios as per ICRA calculations*

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Oct 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	
					Feb 04, 2021	Jun 30, 2020	Mar 01, 2019	Jan 25, 2019
1	Term Loans	Long-term	100.0	69.58	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**
2	Fund based Working Capital Limit	Long-term	15.0	--	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	**[ICRA]AA-(Stable)**	-
3	Non-fund based Limit	Short-term	10.0		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	-

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 click here

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	Term Loans	FY2020	NA	FY2026	100.00	[ICRA]AA-(Stable)
NA	Fund based Working Capital Limit	NA	NA	NA	15.00	[ICRA]AA-(Stable)
NA	Non-fund based Limit	NA	NA	NA	10.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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.

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