

November 02, 2022

## Biological E. Limited: Ratings reaffirmed on existing limits and assigned to enhanced limits

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Loans	84.7 USD million	84.7 USD million	[ICRA]AA- (Stable); reaffirmed
Long-term – Fund-based Facilities	100.00	1,500.00	[ICRA]AA- (Stable); reaffirmed on existing limits and assigned to enhanced limits
Short-term – Non-fund Based Facilities	140.00	190.00	[ICRA]A1+; reaffirmed on existing limits and assigned to enhanced limits
Long-term/ Short-term – Fund-based/ Non-fund Based Facilities	178.00	399.87	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed on existing limits and assigned to enhanced limits
Long-term/ Short-term- Unallocated Facilities	546.87	--	--
<b>Total</b>	<b>84.7 USD million Rs. 964.87 crore</b>	<b>84.7 USD million Rs. 2,089.87 crore</b>	

\*Instrument details are provided in Annexure I

### Rationale

The ratings consider 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 segments<sup>1</sup>, 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 RBD<sup>2</sup> protein subunit Covid-19 vaccine, CORBEVAX, and received DCGI's<sup>3</sup> authorisation for emergency use during December 2021–April 2022 for all age groups above five years. As per the Government's purchase orders, the company supplied around five crore doses during 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 GoI<sup>4</sup> is expected in the near term. The company has a minimum revenue offtake from Johnson and Johnson's (J&J's) Covid-19 vaccine contract manufacturing arrangement spread over two fiscals (FY2023–FY2024). ICRA notes that supplies to J&J have been deferred 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-

<sup>1</sup> Vaccine and pharmaceuticals (excluding the Covid vaccine)

<sup>2</sup> RBD: Receptor Binding Domain. This is a part of the spike protein of SARS-CoV-2 virus.

<sup>3</sup> DCGI: Drugs Controller General of India

<sup>4</sup> Government of India

prequalified supplier of LPV, Japanese encephalitis vaccine (JEEV), MR, TCV and other vaccines. The existing vaccine business revenues are expected to improve in the near term, backed by a healthy order book (~\$299 million during CY2022-CY2024 as of September 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.

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 because BEL additionally manufactured CORBEVAX vaccines (along with its stock of raw materials and adjuvants) during Q4 FY2022 for ensuring supplies to the GoI. As the first batch of CORBEVAX doses was supplied in February–March 2022, the debtor levels increased by ~Rs. 510 crore (while the company had 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 inventory levels have further increased during H1 FY2023 for ensuring CORBEVAX supplies to the GoI and export markets. Also, the debtor levels for CORBEVAX sales increased to ~Rs. 1,000 crore when the second batch of doses was supplied during April 2022 (while the company had advances of ~Rs. 1,000 crore from the GoI as of September 30, 2022). The increase in working capital requirements has led to increase in short-term borrowings to ~Rs 1,209 crore as of September 30, 2022. The company's debt metrics are expected to improve with the liquidation of the CORBEVAX inventory and receipt of payments from the GoI against the same. However, the timelines for this will remain monitorables.

The ratings also factor in BEL's high revenue dependence on the institutional segment (UNICEF, GoI), along with LPV accounting for ~40% of vaccine sales in FY2022 (reduced from ~55% in FY2021). The revenue concentration from LPV is, however, expected to further reduce with commercialisation of new vaccines. The profitability of the company remains vulnerable to foreign exchange (forex) fluctuations due to its foreign operations and foreign currency borrowings.

ICRA notes that the feud in the promoter family between Mrs. Renuka Datla (wife of the Late Dr. D.V.K. Raju) and her three daughters (Ms. Mahima Datla, Ms. Poonam Datla and Ms. Indira Datla) regarding BEL's control has been resolved in the Supreme Court. It is also noted that as part of the resolution, a fixed monthly payment is to be paid to Mrs. Renuka Datla from BEL (in addition to the lumpsum amount already paid).

The Stable outlook reflects ICRA's opinion that BEL will continue to benefit from its long track record of operations, healthy order book, strong product pipeline along with financial profile backed by healthy margins.

## Key rating drivers and their description

### Credit strengths

**Established player in global vaccines segment with strong development capabilities** – BEL is pre-qualified by WHO for manufacturing vaccines, its key products being LPV, MR, JEEV 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 PAHO<sup>5</sup> and the GoI, among others. These two factors combined present a formidable entry barrier for new entrants into this business. BEL also has strong development capabilities as witnessed in its proposed new product launches and collaborations with reputed national and international organisations, who provide 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 who are fully backward integrated into 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 LPV.

<sup>5</sup> PAHO: Pan American Health Organization

**Healthy order book and strong product pipeline, coupled with launch of Covid-19 vaccine, provide revenue visibility** – BEL's outstanding order book stood at ~\$299 million as on September 01, 2022, of which orders worth ~\$100 million are to be executed before March 31, 2023. 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 began supplying to 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. After the regulatory approvals, PCV will be supplied to domestic markets and subsequently to export markets. Other vaccines in the pipeline to be commercialised over the medium term include the integrated polio vaccine (IPV), 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 segments, coupled with the launch of CORBEVAX. 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 into the speciality generic business over the medium term.

### Credit challenges

**High working capital intensity of operations** – The company witnessed increase in working capital borrowings as of March 31, 2022, due to increase in inventory (~725 days) and receivables (~115 days), mainly pertaining to CORBEVAX. The inventory levels increased because BEL additionally manufactured CORBEVAX vaccines (along with its stock of raw materials and adjuvants) during Q4 FY2022 and H1 FY2023 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; and the second batch increased them further to ~Rs. 1,000 crore. Owing to this, the working capital intensity remained high with 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 vaccine segment revenues in FY2022. This exposes the company's revenues and earnings to fluctuations in the quantum of orders from 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), LPV remains BEL's key revenue contributor. The revenue concentration from LPV 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 forex fluctuations on account of its foreign currency operations and foreign currency borrowings. While the company has natural hedging and forward contracts are also entered to certain extent, its profitability is exposed to forex 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 crore and unutilised bank lines of Rs. 528.0 crore as on September 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 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 for 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 had a sanctioned, but pending, drawdown of a \$40-million term loan as of September 30, 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 working capital intensity of operations may also lead to pressure on the ratings. Specific metric that could also trigger a rating downgrade would be interest coverage ratio lower than 7.0 times.

### Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Pharmaceutical Industry</a>
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 drive most of its revenues from exports markets, 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 regulated markets with a 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	Type	Amount Rated	Amount outstanding as of Sep 30, 2022	Current rating (FY2023)		Chronology of rating history for the past 3 years			
				Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
				Nov 02, 2022	Aug 30, 2022	May 27, 2021	Aug 11, 2020	Jun 20, 2019	
1	Term loans*	Long-term	84.7 USD million	84.7 USD million	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA] A (Negative)	[ICRA] AA-(Negative)
2	Fund-based Limits	Long-term	Rs. 1,500.00 crore	--	[ICRA]AA-(Stable)	[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. 190.00 crore	--	[ICRA]A1+	[ICRA]A1+	[ICRA] A1	[ICRA] A1	[ICRA] A1+
5	Fund-based/ Non-fund Based Limits	Long Term/ Short term	Rs. 399.87 crore	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[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	--	--	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]A+(Stable)/ [ICRA] A1	[ICRA] A (Negative)/ [ICRA] A1	[ICRA] AA-(Negative)/ [ICRA] A1+

\* Includes External Commercial Borrowings of 46.7 USD 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

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Long-term / Short-term –  
fund-based/ non-fund-based Facilities

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Simple/Very Simple

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](http://www.icra.in)

## Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated	Current Rating and Outlook
NA	Term Loan - 1	Apr-17	LIBOR+3.25%	July 2024	38.0 USD million	[ICRA]AA- (Stable)
NA	Term Loan - 2	Apr-17	LIBOR+3.25%	Dec 2025	46.7 USD million	[ICRA]AA- (Stable)
NA	Long-term-Fund-based Facilities	NA	NA	NA	Rs. 1,500.00 crore	[ICRA]AA- (Stable)
NA	Short-term-Non-fund Based Facilities	NA	NA	NA	Rs. 190.00 crore	[ICRA]A1+
NA	Long-term / Short-term – fund-based/ non-fund-based Facilities	NA	NA	NA	Rs. 399.87 crore	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

## Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
<b>Subsidiaries</b>		
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
<b>Step-down Subsidiaries</b>		
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
<b>Joint Venture of BE Vaccine PTE Limited</b>		
Qualivax PTE Limited	50%	Equity Method

Source: Company's Auditor report FY2022

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