August 22, 2023

Natural Biogenex Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	48.00	[ICRA]BBB- (Stable); assigned
Long-term – Fund-based – Cash Credit	16.00	[ICRA]BBB- (Stable); assigned
Short-term – Non-fund Based	6.00	[ICRA]A3; assigned
Total	**70.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned ratings factor in the parentage of Natural Biogenex Private Limited (NBPL) in the form of Natural Capsules Limited (NCL; rated [ICRA] BBB (Stable)/[ICRA]A3+). The ratings 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 (APIs) 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 ratings are, however, constrained by approval and execution risks as the API facility is yet to receive complete drug approvals before it begins production from Q3 FY2024. Also, owing to the complex nature of manufacturing steroidal APIs, the ability of NBPL to successfully manufacture and sell these APIs 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 forex fluctuation risk.

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 and HNIs for its greenfield project, diluting NCL's stake to 75%. 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. The favourable demand for these APIs and limited competition from domestic players will support the NBPL's business prospects.

Low project funding risks – The cost of NBPL's greenfield API facility project was revised to ~Rs. 160 crore from the estimated Rs. 95-100 crore, because of execution related delays as well as scope changes. However, NBPL secured funding for the entire capex outlay with Rs. 75 crore from the PE fund, Somerset Indus Healthcare, Rs. 25 crore from HNI investors, Rs. 20 crore of unsecured loans from NCL, and Rs. 48 crore of term loans. Thus, the project funding risk is low. Further, NBPL also received a sanction of Rs. 22 crore of working capital facilities in March 2023 to fund working capital requirement for the project, once the facility starts operations.

Credit challenges

Project and approval risks as API plant still to commence operations –The API facility is expected to commence operations from Q3 FY2024, delayed from April 2024 as per expectations, in a pilot phase wherein NBPL will manufacture APIs in small batches, with large-scale production expected from FY2025. The company is in the process of completing drug inspections after which it will receive the license to sell APIs in the domestic market. Thus, the timeliness of drug approval is critical for the ramp-up of the facility. Also, API manufacturing is a complex process, and the company does not have significant experience in commercial API manufacturing. Thus, its 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 will start in a phased manner from H2 FY2024. Thus, the credit metrics are expected to remain weak in FY2024 and are expected to start improving from FY2025 with the ramp up of accruals. ICRA expects NCL to fund any operational losses and support NBPL's funding position.

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. The funding for the remaining capex of Rs. 60-65 crore to be incurred in FY2024 has been secured. ICRA notes that the company has received a fresh sanction of Rs. 16 crore of fund-based facility, but the same is subject to the available drawing power.

Rating sensitivities

Positive factors – The rating could be upgraded if the company is able to demonstrate a sustained and significant scale up in revenues and profitability after commencement of its API facility. Improvement in the parent's credit profile will also be a positive rating trigger.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Pharmaceuticals
Parent/Group support	Natural Capsules Limited holds 75% in NBPL
Consolidation/Standalone	Standalone

About the company

Natural Biogenex Private Limited was incorporated on August 23, 2020, as a wholly-owned subsidiary of NCL with the specific intention of entering the steroidal API manufacturing business. NBPL has set up a greenfield API facility in Tumkur (Karnataka) where it will manufacture steroidal APIs—namely Prednisolone, Betamethasone, Dexamethasone and Hydrocortisone. NBPL has been selected for the Government's PLI scheme for manufacturing bulk drugs and can avail such incentives over FY2024-FY2029. NBPL's committed production under the PLI scheme is 15 MT of Prednisolone, 12 MT of Betamethasone and 10 MT of Dexamethasone.

Key financial indicators (audited)

NBPL	FY2022	FY2023
Operating income	0.0	0.0
PAT	0.0	0.0
OPBDIT/OI	-	-
PAT/OI	-	-
Total outside liabilities/Tangible net worth (times)	-	1.7
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	-	-

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 22, 2023	-	-	-
1	**Fund Based-Cash Credit**	Long term	16.00	-	**[ICRA]BBB-(Stable)**	-	-	-
2	**Fund Based-Term Loan**	Long term	48.00	48.00	**[ICRA]BBB-(Stable)**	-	-	-
3	**Non-Fund Based**	Short term	6.00	-	**[ICRA]A3**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term-Fund Based-Term Loan	Simple
Long Term - Fund Based – Cash Credit	Simple
Short Term – Non-Fund Based	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: 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-Term Loan**	2022	9.0-9.5%	2032	48.00	[ICRA]BBB- (Stable)
NA	**Fund Based – Cash Credit**	2023	9.0-9.5%	NA	16.00	[ICRA]BBB- (Stable)
NA	**Non-Fund Based**	2023	NA	NA	6.00	[ICRA]A3

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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