

March 10, 2022

Biocon Limited: Ratings placed under watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loans	183.83	183.83	[ICRA]AA+&; placed under watch with developing implications
Long-term unallocated	6.17	6.17	[ICRA]AA+&; placed under watch with developing implications
Long-term/short-term fund based/non-fund based	260.00	260.00	[ICRA]AA+& / [ICRA]A1+&; placed under watch with developing implications
Total	450.00	450.00	

*Instrument details are provided in Annexure-1

&: under rating watch with developing implications

Rationale

On February 28, 2022, Biocon Limited (Biocon) announced that its subsidiary, Biocon Biologics Limited ('BBL'), has approved the proposed acquisition of biosimilars assets of Viatrix Inc. (Viatrix) for a consideration of up to \$3.335 billion in stock and cash, subject to necessary regulatory and other approvals. Through the acquisition, BBL will acquire Viatrix' global biosimilars business with estimated revenues and OPBDITA of \$875 million and \$200 million respectively for CY2022 and \$1.1 billion and \$250 million respectively for CY2023, along with its portfolio of in-licensed biosimilar assets. The consideration would be a mix of cash and stock, and BBL will be paying an upfront cash consideration of \$2 billion on closing of the transaction and up to \$335 million as additional payments expected to be paid in CY2024. Additionally, upon closing of the transaction, BBL will issue \$1 billion of Compulsorily Convertible Preference Shares (CCPS) to Viatrix, equivalent to an equity stake of at least 12.9% in BBL, on a fully diluted basis. The cash payment of \$2 billion is expected to be funded by \$800 million raised through equity infusion in BBL from existing shareholders (including Biocon) while the balance will be funded by debt, additional equity or a combination thereof. The transaction is expected to close in H2 CY2022, subject to satisfaction of closing conditions (including certain regulatory approvals).

This transaction is expected to accelerate BBL's direct market strategy for its biosimilars portfolio by gaining commercial engines in the developed markets including USA and Europe. BBL will also acquire complete ownership of Viatrix' rights in biosimilars assets, enabling it to realise the full revenue and associated profits from its partnered products, thereby expanding its operating profits. These are step-ups from its existing arrangement with Viatrix. The deal is also expected to provide other advantages, including strategic agility and operational efficiencies, which could aid BBL in mitigating pricing pressures in a competitive global biosimilars landscape to an extent.

ICRA takes note of the development and has placed the ratings on watch with developing implications, pending complete clarity on the acquisition's funding plan, in terms of the debt to be raised and the impact of the same on Biocon's consolidated debt and coverage indicators post the transaction. Nonetheless, ICRA understands that the transaction, upon successful completion, could increase BBL's debt levels in the near term. Despite incremental OPBDITA from the acquired entity, the debt metrics of Biocon could weaken because of the additional borrowings. In addition to this, any debt raised at the parent level (Biocon) for funding its portion of equity infusion into BBL, could add to Biocon's consolidated borrowings over the near-term. BBL has indicated that it has plans for an IPO in the next 18-24 months. Further, Biocon (standalone) will also evaluate options for equity raise or monetisation of existing investments in its subsidiaries to fund the transaction.

ICRA will continue to monitor the developments on the transaction, especially on the incremental net debt, and take appropriate rating action as and when more clarity emerges. Pressure on ratings could emerge if the borrowings increase significantly from the current levels at Biocon consolidated level, in the absence of adequate equity infusion and management's deleveraging plans. Downward pressure on ratings could also arise from any delay in integration or margin contraction owing to delays or lower than expected revenue potential of product launches in the merged entity.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Biocon Limited.

About the company

Biocon Limited was initially set up as a joint venture between Biocon Biochemicals Limited of Ireland and Indian entrepreneur Ms. Kiran Mazumdar Shaw in 1978 to manufacture and export enzymes. After Unilever acquired the JV partner and the businesses were restructured, Biocon became an independent entity, and the Indian promoters bought the entire stake in 1998. In 2000, the company commissioned its first fully automated submerged fermentation plant to produce specialty biopharmaceuticals and received USFDA approval for lovastatin in 2001. From being a predominantly fermentation-based APIs and enzymes manufacturer, the company has emerged as an R&D-based biotechnology company having developed its proprietary products and offering research services to global pharmaceutical majors. Biocon, through its subsidiary BBL, recently entered into a collaboration with Adagio Therapeutics for a novel Covid antibody therapy and a strategic alliance with SILS for vaccines and infectious diseases antibodies. The alliance with SILS for vaccines enables BBL to generate a committed revenue stream and related margins, commencing H2 FY2023. Currently, BBL has announced proposed acquisition of biosimilar assets of Viartis Inc., and the transaction is expected to be concluded by H2 CY2022.

Key financial indicators (audited)

Biocon Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	6,432.5	7,105.8
PAT (Rs. crore)	899.8	925.4
OPBDITA/OI (%)	26.0%	23.5%
PAT/OI (%)	14.0%	13.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.1
Total Debt/OPBDITA (times)	1.6	2.7
Interest Coverage (times)	25.7	28.9

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations

Source: Company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Mar 10, 2022		Oct 10, 2019	Mar 15, 2019	
1	Long-term term loans	Long Term	183.83	75.00	[ICRA]AA+&	[ICRA]AA+ (Stable)	-	-	-
2	Long-term fund based	Long Term	--	--	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
3	Long-term non-fund based	Long Term	--	--	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-
4	Long-term unallocated	Long Term	6.17	--	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)	[ICRA]AA+(Stable)
5	Long-term/short-term fund based/non-fund based	Long Term/Short Term	260.00	--	[ICRA]AA+&/[ICRA]A1+&	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+	[ICRA]AA+ (Stable)/[ICRA]A1+
6	Short-term non-fund based	Short Term	--	--	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

&: under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term term loans	Simple
Long-term unallocated	NA
Long-term/short-term fund based/non-fund based	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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term term loans	May 2020	3 Months LIBOR + 1.75% p.a.	June 2027	183.83	[ICRA]AA+&
	Long-term unallocated	-	-	-	6.17	[ICRA]AA+&
	Long-term/short-term fund based/non-fund based	-	-	-	260.00	[ICRA]AA+& / [ICRA]A1+&

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Biocon Ownership	Consolidation Approach
Syngene International Limited	70.24%	Full Consolidation
Syngene USA Inc.	100% by Syngene International Limited	Full Consolidation
Biocon Biologics Limited	93.47%	Full Consolidation
Biocon Pharma Limited	100%	Full Consolidation
Biocon Academy	100%	Full Consolidation
Biocon SA	100%	Full Consolidation
Biocon FZ LLC	100%	Full Consolidation
Biocon Pharma Inc.	100% by Biocon Pharma Limited	Full Consolidation
Biocon Pharma Ireland Limited		Full Consolidation
Biocon Pharma UK Limited		Full Consolidation
Biocon Pharma Malta Limited		Full Consolidation
Biocon Pharma Malta I Limited	100% by Biocon Pharma Malta Limited	Full Consolidation
Biocon Biosphere Limited	100%	Full Consolidation
Biofusion Therapeutics Limited	100%	Full Consolidation
Biocon Biologics UK Limited (formerly Biocon Biologics Limited)	100%	Full Consolidation
Biocon SDN BHD	100% by Biocon Biologics UK Limited	Full Consolidation
Biocon Biologics Inc.		Full Consolidation
Biocon Biologics Healthcare Malaysia SDN BHD		Full Consolidation
Biocon Biologics Do Brasil Ltda, Brazil		Full Consolidation
Biocon Biologics FZ LLC		Full Consolidation
Neo Biocon FZ LLC, UAE (JV)	49%	Equity Method
Bicara Therapeutics Inc.	87%	Equity Method

Source: Biocon's annual report FY2021

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