

May 09, 2024

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	37.50	12.50	[ICRA]AA- (Stable); reaffirmed
Long-term – fund-based working capital facilities	15.00	15.00	[ICRA]AA- (Stable); reaffirmed
Short-term – non-fund based limits	35.00	35.00	[ICRA]A1+; reaffirmed
Short-term – fund based limits	10.00	10.00	[ICRA]A1+; reaffirmed
Long-term – Unallocated limits	27.50	52.50	[ICRA]AA- (Stable); reaffirmed
Total	125.00	125.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to reflect the extensive experience of the promoters and the established track record of Concord Biotech Limited (CBL) in the fermentation and semi-synthetic biopharmaceutical (API) business, spanning over two decades. Further, the ratings consider the strong financial profile, characterised by healthy profitability, robust debt protection indicators and strong liquidity. The ratings also factor in the company's key market position in the global immunosuppressant therapeutic API segment, its strong research and development (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 growing, though relatively moderate scale of operations, its high therapeutic segment concentration and high working capital intensity, owing to the elongated receivable cycle and high inventory holding period. The ratings also remain constrained, given the stiff competition it faces for its formulation unit, which is yet to scale up to its optimum level and remains loss making at present. This significantly increases dependence on the API, which remains CBL's torch bearer for revenue growth and profitability at present.

ICRA also notes that the company has begun commercial operations for its Unit-3, which has enhanced its API capacity in FY2022 and has also received requisite regulatory approvals from its key markets in FY2024. The Unit-2 for formulations is also operational from FY2017 and has the requisite regulatory approvals from its key markets as well. Also, the company is amidst commissioning of an injectable plant in Valthera, Gujarat at a total cost of Rs. 180.0 crore, funded entirely by internal accruals. CBL is expected to begin commercial operation of its injectable plant by the end of June 2024. The ability of the company to profitability ramp up operations of its formulation unit and build upon the API segment through the new unit in the near-to-medium term remains key ratings monitorable.

The Stable outlook reflects ICRA's opinion that the company will continue to benefit from the stable demand conditions for the niche product profile of the API segment, expected ramp-up of the enhanced formulation as well as the API capacities, and limited debt levels.

Key rating drivers and their description

Credit strengths

Experienced management and established track record – The promoters and management have significant experience of running the business for more than two decades and are well established in the fermentation and semi-synthetic biopharmaceutical (API) segment. The current promoter, Mr. Sudhir Vaid, is a technocrat turned entrepreneur, who has close to four decades of experience in the field of biotechnology. He was associated with various reputed pharma companies in the past.

Key market player in niche product segment – The company's key products cater to the immunosuppressants therapeutic segment. These complex molecules are exposed to limited competition and generate healthy margins. The molecules cumulatively contribute significantly to the revenues, and CBL is one of the key players in the industry for these products, commanding a healthy and increasing market share. Going forward, these APIs are likely to witness healthy growth, given the strong market position of the company's products, coupled with favourable demand dynamics in its key export and domestic markets.

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 the US Food and Drug Administration (USFDA), European Union's Good Manufacturing Practices (EUGMP), Japanese Foreign Manufacturer Registration (FMR), Korea Ministry of Food and Drug Safety and Indian Good Manufacturing Practices (GMP), and its formulation facility is GMP and USFDA approved.

Strong financial profile – The company reported robust profit margins. Its operating margin stood in the range of 40-43% and its net margin stood in the range of 27-34% over the last four fiscals ending in FY2023. The operating margins rose to 42.2% in FY2023 owing to improved realisations, better product mix as well as improved scale, resulting in higher fixed cost absorption, especially in Unit 2 and Unit 3. The company reported a 22% growth in 9M FY2024 and is expected to report a 15-20% growth in FY2024. Its net worth base remains strong, supported by healthy annual cash accruals. This coupled with low dependence on external borrowings resulted in comfortable capital structure, with a gearing of 0.02 times and TOL/ TNW of 0.17 times as on March 31, 2023 and an overall negative net debt position. Given the low debt levels and healthy profitability, the debt protection metrics remain robust. The coverage indicators, marked by interest coverage indicator and Total Debt/OPBDITA, are expected to be comfortable in the near-to-medium term, on the back of healthy profitability and lower reliance of external debt.

Credit challenges

Relatively moderate scale of operations – The company's scale of operations remains relatively moderate in the pharmaceutical industry with an operating income (OI) of Rs. 872.4 crore in FY2023. The revenues, however, have increased at a healthy CAGR of 15% over the last five fiscals ending in FY2023. Although the revenues are expected to grow at a faster rate than the last few fiscals amid ramp-up in capacity utilisation of the newly capitalised unit-3 and the upcoming injectables division under Unit-4, once requisite approvals come, the same will remain a key rating monitorable in the near-to-medium term.

High product concentration risk, with significant dependence on API segment – The revenues remain exposed to high concentration risk, with its immunotherapy category contributing significantly to the total revenues. 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. Though the competition is limited in the API segment, which is beneficial for the company, the same remained intense in the formulation segment. The formulation division is characterised by the presence of numerous large organised as well as cost-competitive players in India and abroad. Moreover, the competition remains high in the regulated markets with aggressive defence tactics adopted by innovator companies. The formulation unit remains loss making at present as it is yet to scale up to its optimum capacity, with regulatory approvals for few products still pending. However,

comfort can be drawn from the company's dominant position in the immunosuppressant API business and repeat orders from its customers, reflecting a preferred supplier status, limiting the risk to an extent.

High working capital intensity – The company normally provides a credit period of 115-120 days to its key customers and maintains a high inventory of various cultures (raw materials) to produce different APIs. The higher inventory levels are due to the lengthy fermentation process, whereby it takes 30-50 days for the cultures to undergo fermentation and purification. The company would require various chemical and organic compounds for nutrient supply during the fermentation process. Also, the Work in progress (WIP) inventory remains high as it does not complete the last stage (1-5% of production process), until it receives the order as the shelf life of the product starts after the completion of the 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 stood in the range of 45-55% in the last three financial years ending in FY2023. Nonetheless, the same continues to remain high.

Risks associated with successful scale-up of the on-going as well as the recently completed capex – The company is in the process to set up a new unit for the manufacturing of injectables at a total cost of Rs. 180 crore. The funding of the capex is through internal accruals. The company has spent ~Rs. 178.5 crore as on December 31, 2023. The company has already capitalised the second API unit in FY2022, though the requisite regulatory approvals were received in FY2024. The operating performance is expected to improve over the medium term as the entity leverages on these approvals and further penetrates these markets. The ability to scale up operations through healthy ramp-up in capacity utilisation levels with commensurate returns in a timely manner, will remain a key monitorable.

Environment and Social Risks

Environmental considerations – The company does not face any major physical climate risk. However, it is subject to several domestic and international environmental laws and thus is required to comply with different regulatory standards wherever its products are sold. Further, the regulatory environment across the globe is becoming increasingly stringent, making entry into new geographies more challenging. The company has set up Standard Operating Procedures (SOP) to ensure compliances with environmental laws. It also remains exposed to tightening environmental regulations such as breach of waste and pollution norms, which can lead to an increase in the operating costs and new capacity installation costs. The company has established a full-scale effluent treatment plant with two streams of physico-chemical, biological, and advanced treatment facilities. The treated effluent is used for gardening purposes.

Social considerations – The company by virtue of being part of pharmaceutical industry faces high social risks related to product safety and the associated litigation risks, access to qualified personnel for R&D and process engineering, and maintenance of high manufacturing compliance standards. Further, government intervention related to price caps/controls for the formulation segment also remains a social risk faced by entities in the pharmaceutical industry.

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 incremental working capital requirements. The cash and liquid investment as on December 31, 2023 stood at Rs. 267.56 crore. Against this, the company had repayment obligations of Rs. 6.25 crore in FY2025. Capex requirements for the near term are expected to be met through the internal accruals.

Rating sensitivities

Positive factors – A significant growth in scale and diversification of revenues along with improvement in working capital cycle, supporting free cash flows, may trigger a positive rating action. Successful scale-up of new capacities in a profitable manner so that it can support the overall financial profile will also be a positive rating trigger.

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 any adverse regulatory measures that weakens the company’s credit profile may trigger a rating downgrade. Inability to scale up new capacities in a profitable manner leading to deterioration in credit metrics, will also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Pharmaceuticals
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company- details of which are given in Annexure-2

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. The company launched its IPO in August 2023 and its shares are listed on BSE and NSE. The company has a robust investor profile with Late. Rakesh Jhunjhunwala and the Group holding a ~24% stake. Those holdings remained prior to the IPO as well.

CBL was initially set up with one manufacturing block for producing 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 APIs with immunosuppressants as its key therapeutic segment. For forward integration, it had set up a formulation unit, which commenced commercial production from March 2017. The company enhanced its API capacities through commercialisation of Unit-3 plant in Limbasi, Gujarat in FY2021 and is in the process of setting up an injectable plant in Valthera Gujarat, which is expected to be commercialised by June 2024.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	725.0	872.4
PAT	178.6	238.1
OPBDIT/OI	39.5%	42.2%
PAT/OI	24.6%	27.3%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	46.6	37.5

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of December 31, 2023 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				May 9, 2024	Apr 10, 2023	Apr 07, 2022	-	
1 Term Loans	Long-term	12.50	12.50	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	
2 Fund based Working Capital Limit	Long-term	15.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	
3 Fund Based Limit	Short-Term	10.00	-	[ICRA]A1+	[ICRA]A1+	-	-	
4 Non-fund-based Limit	Short-term	35.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	
5 Unallocated Limits	Long-term	52.50	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loan	Simple
Letter of Credit	Very Simple
Short-term, Fund based Limit	Simple
Unallocated Limits	Not Applicable

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	Term Loans	FY2020	NA	FY2025	12.50	[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	35.00	[ICRA]A1+
NA	Fund based Working Capital Limit	NA	NA	NA	10.00	[ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	52.50	[ICRA]AA-(Stable)

Source: Company

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Annexure II: List of entities considered for consolidated analysis

Company Name	CBL Ownership	Consolidation Approach
Concord Biotech Japan K.K	50%	Equity Method

Source: Company data; Note: ICRA has taken a consolidated profile of CBL and the JV while assigning the ratings.

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545300

shamsherd@icraindia.com

Srikumar Krishnamurthy

+91 44 45964318

ksrikumar@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Roshan Dugar

+91 20 6606 9924

roshan.dugar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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