Fermenta Biotech Limited

January 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities (Fund based limit)	99.00 (reduced from 109.00)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long-term Bank Facilities (Term Loan)	68.15 (reduced from 74.56)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short-term Bank Facilities (Non-fund based limit)	6.25	**CARE A2 (A Two)**	**Reaffirmed**
Total	**173.40 (Rs. One Hundred Seventy Three crore and Forty lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities of Fermenta Biotech Limited (FBL) continues to derive strength from established track record of FBL in pharmaceutical industry, leadership position in Vitamin D3 API product range, wide spread presence across various geographies with reputed clientele. FBL also completed its backward integration capex during Q2FY21 (for manufacturing Cholesterol in house). This has reduced supplier concentration risk to large extent. The rating is also strengthened by strong financial risk profile characterized by comfortable capital structure and debt coverage indicators. The core expertise for Vitamin D3 API is developed on the back of strong in-house research and development team.

However, the aforementioned rating strengths are tempered by moderate scale of operations with high product concentration risk, working capital intensive nature of business, profitability susceptible to volatile movement of commodity prices as well as competition from China in the feed grade segment.

The ability of the company to scale up its operations and maintain profits in the wake of competition from other market players, to maintain capital structure and to efficiently manage the working capital cycle are the key rating sensitivities. In addition, any major debt funded capital expenditure project will also be monitored.

Rating sensitivities:

Positive factors:

- Increase in scale of operations by more than 25% on a sustainable basis through increase in sales volume.
- Improvement in operating cycle below 120 days through improvement in collection cycle.

Negative factors:

- Reduction in PBILDT margins below 25% on a sustainable basis.
- Increase in total debt to gross cash accruals more than 5x on a consistent basis.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record in the pharmaceutical industry along with strong research and development

FBL has an established track record of over three decades in the pharmaceutical business with key focus on Vitamin D3 API segment. Over the years, it has been able to prove its expertise in this segment and regularly added capacities to cater to this segment. In order to support and manage the overall operations, the senior management is supported by well qualified and experienced second tier management in a well-defined organizational structure. The company has also developed an in-house research and development (R&D) team to improve process and product technologies to have competitive edge in the industry.

Leadership position in Vitamin D3 API segment albeit high product concentration risk

The company's business can be classified majorly under four segments which are Vitamin D3 API, specialty APIs, biological enzymes and biotech based environmental solutions. The company is one of the three players globally to obtain a Certificate of Suitability from European Directorate for the Quality of Medicines (EDQM) for manufacturing of Vitamin D3 API. The demand for Vitamin D3 product range is growing and the company has developed expertise over the years and established its presence in the global market (in 2010 it entered into export market). It focussed on increasing production of Vitamin D3 API and added capacities leading to significant product concentration risk in Vitamin D3 API segment contributing around

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

78% of the total sales in FY20. Vitamin D3 has applications in different segments viz Pharmaceuticals, Dietary & Nutrition supplements, food & beverages, animal feed and veterinary.

Reputed clientele with presence in domestic and export markets

Over the years, the company has increased its presence in export market (forayed in 2010) through sale of feed grade segment (commenced in FY15) and other Vitamin D3 API products. The company has established presence with around 69% of total sales derived from export markets in FY20. The company has presence across 50 countries including USA, UK, European Union, Brazil, Mexico, Russia, China, Turkey, Saudi Arabia, Israel, Australia and New Zealand. The company's clientele base comprises of well-established and reputed players from the pharmaceutical industry as an established preferred vendor in supplying Vitamin D3 API products to various pharmaceutical multinationals globally on a regular basis. Furthermore, the customer concentration risk is moderate with around 51% of sales from top 10 customers in FY20.

Strong profitability; albeit decrease in profitability in FY20 compared to previous year

Company's pricing ability is constrained on account of competition from China. Lucrative profitability in FY19 was owing to increase in vitamin D (animal feed) prices during that year. Owing to decrease in animal feed prices, the PBILDT margins of FBL declined to 25.90% in FY20 compared to 39.41% in previous year.

In H1FY21, FBL overachieved healthy PBILDT margin of 27.38%. This is mainly due to improved sales realization in Vitamin D (human consumption). During FY19 and FY20, FBL constructed a plant to manufacture cholesterol (key raw material) in a multi-synthesis plant. The trial production commenced in June, 2020. The plant is completely operational now and 50% of company's raw material requirement is fulfilled in-house. Going ahead, company plans to manufacture 75% of total cholesterol requirement in-house thereby improving the profitability margins.

Comfortable capital structure and debt coverage indicators

The total borrowings post amalgamation comprise working capital bank borrowings and term debt. As on March 31, 2020, major portion of FBL's long term debt pertains to outstanding term loan amounting Rs.77.25 crore which was availed by FBL for the construction of the real estate building in Thane, which is being completely serviced by the rental income and balance term loans amounting Rs.38.70 crore pertains to Capex and backward integration plant at Dahej facility.

In H1FY21, company has availed term loan amounting Rs.9.00 crore from UBI for backward integration plant and has availed additional term loan of Rs.24 crore in H1FY21 for capex in Dahej plant to increase Vitamin D3 capacity by 20%.

The company's financial risk profile is comfortable, characterized by strong net worth. The overall gearing (including acceptances) stands comfortable at 0.75 times as on March 31, 2020 and 0.78 times as on September 30, 2020.

Despite additional term loan and working capital limits, the overall gearing is expected to remain comfortable. Furthermore, debt coverage indicators also stood comfortable for FY20 i.e. interest coverage ratio and total debt/PBILDT at 3.93 times and 2.85 times in FY20 respectively.

Reduced supplier concentration risk

The key raw material to manufacture Vitamin D3 is cholesterol (manufactured through wool grease which is derived from sheep wool). The supply of cholesterol is an oligopolistic market with few players like Dishman Netherlands B.V. and Maypro Industries LLC. In the past, company's operations have been adversely impacted owing to unavailability of raw materials in timely manner. Prior to FY19, the company was largely dependent on aforementioned suppliers. However, post setting up manufacturing plant for cholesterol in FY20, company's dependence on external suppliers has reduced in H1FY21.

Key Rating Weaknesses

Moderate scale of operations

The company's revenue from operations declined by 26.73% to Rs.305.22 crore in FY20 compared to previous year. Decrease in revenue from operations is mainly on account of decline in Vitamin D3 (for animal feed) prices coupled with low volume orders from one of the major customers. As a result, the sales contribution from Vitamin D3 declined in FY20. The animal feed prices were impacted in H2FY20 owing to major outbreak of African swine flu which impacted consumption leading to price decline.

In H1FY21, company recorded revenue of Rs.190.74 crore compared to Rs.170.06 crore in H1FY20. This is mainly owing to improved demand for Vitamin D product for human consumption post COVID-19 outbreak. There has been significant improvement in OTC sale of Vitamin D products. The company has witnessed improvement in sales volume by 35-40%.

Working capital intensive operations

The business is working capital intensive since it carries significant inventory for various products under manufacturing at different stages of production, maintained at two factories. Also, the credit period required to be offered to customers under feed grade segment is higher due to intense competition. These are being funded by creditors and working capital borrowing from banks with whom the company maintains an average utilization of 91% for the past 12 months ending September 2020.

Susceptible to volatile movement of commodity prices and competition from China under feed grade segment
The Vitamin D3 API demand is derived from five segments which are from pharmaceutical, dietary nutritional and supplements (DNS), cold water dispenser (food industry), veterinary, and animal feed (feed grade and oil). Of the same, animal feed is a commoditized segment since no stringent pharmaceutical guidelines apply. The demand in animal feed is derived from export markets. China is the major supplier in animal feed grade segment and the industry is characterized with intense competition, low entry barriers and volatile commodity prices.

Liquidity position: Adequate
The total repayment commitment in H2FY21 and FY22 is Rs.7 crore and Rs.20.97 crore respectively. However, as on September 30, 2020, the cash and cash equivalents held by the company (consolidated level) is around Rs.62.57 crore and cash accruals stood at Rs.37.22 crore. Therefore, adequate liquidity cushion is available for repayments and working capital requirements. The company availed moratorium on PCFC payments (from Union Bank of India) falling due in April-June 2020 which were regularized in July, 2020. The same was approved by lenders as per RBI guidelines. However, there was no moratorium availed on term loan and interest obligations. The company plans to fund maintenance capex over medium term through internal accruals.

Analytical approach: Consolidated; list of entities consolidated is mentioned below
- Aegean Properties Limited
- CC Squares Films Limited
- Fermenta Biotech UK Limited
- GI Biotech Private Limited

Applicable Criteria
Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating methodology – Manufacturing Companies
Rating Methodology – Pharmaceutical sector
Criteria for financial rations – Non financial sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
FBL, incorporated in 1986, has two business segments; i.e. manufacturing of active pharmaceutical ingredients (APIs) and lease rental business for commercial properties developed in Thane.
FBL's pharmaceutical business can be classified majorly under four segments which are Vitamin D3 APIs, specialty APIs, biological enzymes and biotech based environmental solutions. The company's manufacturing facilities are located at Kullu (Himachal Pradesh) and in Dahej (Gujarat). The facilities are registered with Food Facility Registration Module (FFRM) which operates under the aegis of United States Food and Drug Administration (USFDA). FBL is also certified by World Health Organisation (WHO), Good Manufacturing Practise (GMP), USFDA Establishment Inspection Report (EIR) and received Certificate of Suitability (CEP) accreditation issued by European Directorate for the Quality of Medicines (EDQM) for manufacturing vitamin D3 API.
The company developed commercial property named "THANE ONE" (earlier part of DIL Limited) of a total area of 1.94 lakh square feet at Thane (leasable area is 1.86 lakh square feet). The commercial property is classified as information technology (IT)/IT enabled Services Park on its freehold land. Post amalgamation, the company has four wholly owned subsidiaries namely Aegean Properties Limited, CC Squares Films Limited, Fermenta Biotech UK Limited and GI Biotech Private Limited, of which latter two are dormant. Agean Propertes Limited and CC Squares Films Limited have lease rental business however, the scale is too small.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	416.58	305.22
PBILDT	164.18	79.05
PAT	117.47	59.52
Overall gearing (times)	0.89	0.75
Interest coverage (times)	7.73	3.93

A: Audited

Status of non-cooperation with previous CRA: Not applicable
Any other information: Not applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	77.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	22.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	6.25	CARE A2
Fund-based - LT-Term Loan	-	-	FY25	68.15	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	77.00	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-20)	1)CARE A-; Stable (10-Jan-19) 2)CARE BBB+ (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE BBB+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE BBB+; Stable (19-Apr-17)
2.	Fund-based - LT-Cash Credit	LT	22.00	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-20)	1)CARE A-; Stable (10-Jan-19) 2)CARE BBB+ (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE BBB+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE BBB+; Stable (19-Apr-17)
3.	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	-	1)CARE A2 (08-Jan-20)	1)CARE A2 (10-Jan-19) 2)CARE A3+ (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE A3+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE A3+ (19-Apr-17)
4.	Fund-based - LT-Term Loan	LT	68.15	CARE A-; Stable	-	1)CARE A-; Stable (08-Jan-20)	1)CARE A-; Stable (10-Jan-19) 2)CARE BBB+ (Under Credit watch with Developing Implications) (06-Apr-18)	1)CARE BBB+ (Under Credit watch with Developing Implications) (26-Dec-17) 2)CARE BBB+; Stable (19-Apr-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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