Bioneeds India Private Limited

April 08, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	60.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Assigned
Total Bank Facilities	**60.00 (Rs. Sixty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bioneeds India Private limited (Bioneeds) derives strength from acquisition of controlling interest in company by Veeda Clinical Research Limited (Veeda; rated CARE A-; Stable/ CARE A2+). While Bioneeds is into pre-clinical research, Veeda is into early clinical development of drugs. Therefore, the combined entity will have presence across the CRO (Clinical Research organization) chain which will help to provide end to end Clinical research and trial services to the clients.

The ratings assigned to Bioneeds also derives strength from experienced promoter and resourceful management team, its established track record of operations in pre-clinical research domain with diversified revenue profile and geographical diversification with established relations with reputed and diversified customer base.

These ratings strengths are partially offset by modest but growing scale of operations, adverse capital structure and moderation in debt coverage indicators due to change in accounting standards as well as recent conclusion of debt funded capex, exposure to regulatory risk, increasing competition in the CRO industry along with challenging environment with its exposure to foreign currency fluctuations.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in credit profile of Veeda
- Sustainable improvement in scale of operations above Rs.150 Cr and PBILDT margins over 35%
- Maintaining Overall gearing below 1x and ICR >5x and TDGCA less than 4x.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in credit profile of Veeda.
- Deterioration in overall gearing >3x and total debt/ GCA>6x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter and resourceful management team

The management team of Bioneeds consist of Dr. S.N. Vinay Babu, founder and Managing director of Bioneeds and has more than 17 years of experience in various segments of preclinical development. Dr. Nitin M Shetty has over 30 years of pharma industry experience in drug discovery and development, in both R&D and CRO settings in India.

Significant Importance of Bioneeds to Veeda Clinical

Veeda is engaged clinical research mainly Bio-Availability (BA)/ Bio-Equivalence (BE), phase-I -IV clinical research and data management services. Whereas Bioneeds is engaged into providing Integrated Discovery, Development and Regulatory Services to Pharmaceutical, Biopharmaceutical, Agrochemical, Industrial chemical, Herbal / Nutraceutical, Cosmetics, Animal Health and Medical device companies which comes under Pre-clinical phase in the Clinical research. Acquisition of Bioneeds will strengthen the presence of Veeda clinical across in the CRO value chain which will help to provide ended to ended Clinical research and trial services to the clients. In addition to the above, Bioneeds has a capability to manufacture re-agents and kits required for Biosmilars analytical studies that Veeda performs. Having inhouse kits and reagent manufacturing will help Veeda in pitching for biosimilar projects. With acquisition of Bioneeds, Veeda will be present in 11 out of 12 clinical research services offered.

Established track record of operation in clinical research domain with diversified revenue profile

Bioneeds has a 2 fully-equipped clinical research facilities with capacity of 99 beds in Peenya and Devarahosahally situated in Bangalore. Bioneeds is regularly audited by NABL (National Accreditation Board for Testing and Calibration Laboratories) and NGCMA(National GLP Compliance Monitoring Authority). Bioneeds is recognised by department of scientific, and industrial research and accredited Association for assessment, and accreditation of laboratory animal care and accredited as drug testing laboratory by Govt. Bioneeds also has approvals from Approved by CIB & RC (Central Insecticides Board, and Registration Committee) Government of India and is registered with Committee for the purpose of control, and supervision of experiments on animals (CPCSEA). Further Bioneeds has also obtained the license for the dog studies from the regulatory authorities to conduct preclinical trials on dogs and further studies in the new facility exclusively designed for the dog studies.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Geographical diversification with established relations with reputed and diversified customer base

Bioneeds have geographical presence in China, Denmark, Germany, Malaysia, Singapore, Japan, Spain, Sweden, Switzerland among the others. The revenues from these countries alone contribute around 30-45% of total revenue of Bioneeds. Bioneeds enjoys long and established relationship with most of its customers including major reputed Indian players and reputed international players. Further, to expand the operations, Bioneeds has been actively adding established and reputed clientele during the year helping it to expand its customer base. Top 10 customers contribute around 25-40% of the total revenue of Bioneeds.

Key Rating Weaknesses

Modest but growing scale of operations with satisfactory profitability margins

Bioneeds is engaged into preclinical research and studies. Its total operating income stood moderate over the years in the range of Rs.60-65 Cr. TOI has marginal declined in FY21 and stood at Rs.63.35 Cr when compared Rs.67.31 in FY20 on account of lower orders from pharmaceuticals companies followed by cut in R&D spent by pharmaceutical companies and Agro chemical companies however which was compensated by increase in revenue from medical devices. Bioneeds revenue is majorly dependent on orders from Pharma and agro chemical companies.

Profitability margins of the company remained comfortable over the years in the range of 35-40% however it has seen significant decline in FY20 and FY21 on account of significant increase in the employee cost and selling and marketing expenses coupled with change in the accounting standards. Major cost to the company is in the form of employee cost, cost of raw materials and selling and marketing expenses which is around 60% of the total sales of the company. During 9MFY22 the TOI of the company stood at Rs.69.71 Cr on account of increased orders from the agro and pharmaceutical companies. The PBILDT Margin improved and stood at 37.01% and PAT margin stood at 10.19% in 9MY22.

Moderate financial risk profile

Overall Gearing of the company stood at 2.76x with TOL/TNW of 4.72x as on March 31, 2021. Networth of the company has seen a significant deterioration on account of transition of accounting standards from IGAAP to IND AS and rectification of prior period errors.

Exposure to high regulatory risk

The CRO industry is subject to reputation risk associated with safety of subjects. It is the primary responsibility of the CRO to ensure safety of its subjects. The Ministry of Health has asked for compulsory registrations of ethics committee and regular monitoring of clinical trials. The Ministry of Health (GoI) has also come out with patient compensation guidelines in case of clinical trials conducted in India. The regulations lay down guidelines for compensation of the subjects in case of injury and death during these trials. Any adverse impact on the subject's health due to the trials carried out by the CRO would result in the loss of reputation for the CRO. Such a situation may also lead to investigation and subsequent action from the regulatory authorities. Further, CROs require various approvals, licenses, registrations and permissions for their routine business activities. Each authority has its own requirements and there could be a delay or refusal to grant approval. The approval process is also complex, lengthy and expensive. The time taken to obtain approval varies from country to country and it ranges from six months to several years. Any delay or failure in getting approval could adversely affect the business prospects of the company**.**

Increasing competition in the CRO industry along with challenging environment

The growth of the Indian CRO industry would be driven by increased outsourcing from international pharmaceutical companies. Cost pressures faced by international companies are creating the need for the pharmaceutical companies to implement cost cutting measures across operations, including drug development costs. However, considering the recent regulations on patient compensation and delay in approvals, pharmaceutical companies might shift their Phase-I research out of India, particularly to the regions like United Kingdom, Netherlands and Malaysia where it is easier to conduct clinical research which could mean a potential loss of business for domestic CROs. Also, the growth in outsourcing clinical trials will be closely paralleled with the growth in R&D spending of pharmaceutical companies in regulated markets. Further, the large pharmaceutical players have their own CROs which further intensify the competition.

Liquidity: Adequate

Adequate liquidity of the company is characterised by sufficient gross cash accruals against the repayment obligations. The company has utilised its working capital limits to the extent of 62% during the 12 months ended February 28, 2022.Company has cash and bank balance of Rs.6.02 Cr as on December 31,2021.

Analytical approach: Standalone along with factoring in the parentage of Veeda from which it derives managerial, operational and financial support.

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Pharmaceutical

B v About the Company

Bioneeds is a Bengaluru based Preclinical Contract Research Organization established in March 2007. Bioneeds is into providing Integrated Discovery, Development and Regulatory Services to Pharmaceutical, Biopharmaceutical, Agrochemical, Industrial chemical, Herbal / Nutraceutical, Cosmetics, Animal Health and Medical device companies. Bioneeds have expertise and experience in handling small molecules like New Chemical Entity (NCEs), Generics, Vaccines, Biologics, agrochemicals, industrial chemicals, medical devices & other substances for regulatory submissions. Bioneeds have two preclinical facilities at Bangalore, with 99 exclusive experiment rooms.

Veeda Clinical Research Private Limited (Veeda; rated CARE A-; Stable/ CARE A2+) has acquired 75.10% of stake in Bioneeds India Private limited as on March 31, 2022. Veeda is a full-service Clinical Research Organization (CRO) specializing in the early clinical development of drugs by conducting early phase clinical trials on healthy volunteers and patients.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021(Prov.)
Total operating income	66.72	64.57	69.71
PBILDT	19.30	11.77	25.80
PAT	-4.22	-3.05	7.10
Overall gearing (times)	101.92	2.76	NA
Interest coverage (times)	1.45	2.80	2.21

A: Audited; Prov.: Provisional || NA: Not Available

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	May 2028	47.50	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	-	12.50	CARE BBB; 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	47.50	CARE BBB; Stable				
2	Fund-based - LT-Cash Credit	LT	12.50	CARE BBB; Stable				

LT: Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Nil
B. Non financial covenants	Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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