Fermenta Biotech Limited

May 09, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	195.83 (Enhanced from 143.33)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	6.25	CARE A2 (A Two)	Reaffirmed
Total Facilities	**202.08 (Rs. Two Hundred Two Crore and Eight 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. 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.

The above rating strengths, however continue to be tempered by growing albeit modest scale of revenues with high product concentration risk, deterioration in operating profitability margins as it remains susceptible to volatile movement of commodity prices as well as competition from China in the feed grade segment, elongated working capital cycle and moderate project risk. The ability of the company to scale up its revenues, improve profit margins and return on capital employed (ROCE), as well as maintain capital structure while efficiently managing 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

- Improvement in PBILDT margin to above 25% on a sustained basis driven by broad product mix and improved operating efficiency.
- Increase in ROCE above 20% in sustained manner

Negative factors

- Sustained decline in revenues or deterioration in PBILDT margins to below 13% levels.
- Elongation in working capital cycle to more than 210 days
- Deterioration in capital structure to above unity levels.
- More than expected debt funded capex or acquisitions/mergers resulting into adverse impact on the financial risk profile of the company.

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 segment albeit high product concentration risk

The company's business can be classified majorly under five segments which are Vitamin D3, specialty APIs, biological enzymes and biotech based environmental solutions and rental business. 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. 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 and added capacities leading to significant product concentration risk in Vitamin D3 segment contributing around 78% of the total sales in FY21. Vitamin D3 has applications in different segments viz Pharmaceuticals, Dietary & Nutrition supplements, food & beverage fortification, animal feed, veterinary and rodenticides. The company is also involved in manufacturing of APIs for muscle relaxant and anti-flatulent applications. Thus, from the revenue model perspective, FBL has two business segments; i.e. manufacturing of bulk drugs and other API and lease rental business for ITES properties developed in Thane (contributed around 3.84% of consolidated revenue in FY21) and Vit D3 segment (contributing to around 93.34% of consolidated revenues in FY21).

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

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 72% of total sales derived from export markets in FY21. The company has presence across 50 countries including USA, UK, European Union, Australia, New Zealand etc. 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 FY21.

Comfortable capital structure and debt coverage indicators
The total borrowings comprise of working capital bank borrowings and term debt. As on March 31, 2021, major portion of FBL's long-term debt pertains to outstanding term loan amounting Rs. 133.03 crore from various banks and financial institutions availed towards capex and backward integration plant at Dahej facility, vehicle loan and loan by way of discounting of lease rentals. The overall gearing ratio improved slightly and stood at 0.70x as on March 31, 2021 vis-à-vis 0.75x as on March 31, 2020 thus remaining steady on the back of healthy and improved net worth base which stood at Rs. 332.78 crore as on March 31, 2021 vis-à-vis Rs. 298.84 crore as on March 31, 2020. The company's financial risk profile is comfortable, characterized by large net worth base. Furthermore, debt coverage indicators also stood comfortable for FY21 i.e. interest coverage ratio and total debt/GCA stood at 4.79x and 3.83x in FY21 respectively vis-à-vis interest coverage ratio of 3.93x and total debt to GCA of 4.09x in FY20.

Key Rating Weaknesses
Moderate scale of operations
The product portfolio of the company majorly includes Vitamin D3 products, and specialty APIs amongst others. The company's revenue from operations grew by 26.31% to Rs. 385.53 crore in FY21 vis-à-vis Rs.305.22 crore in FY20. Increase in revenue from operations is mainly on account of increase in contribution in terms of revenue mix from Vitamin D3 (for human consumption) from its customers. In FY21, contribution from Vit D3 for animal consumption has declined significantly owing to the onset of COVID-19 pandemic and lockdown imposed on the back of reduction in the consumption of meat, chicken, etc. In 9MFY22, company recorded revenue of Rs. 307.61 crore as compared to Rs. 281.42 crore in 9MFY21. This is mainly owing to improved demand for Vitamin D product for human consumption post COVID-19 outbreak. However, the revenue contribution from the Vit D3 animal segment remained on the lower side in 9MFY22.

Lower profitability margins
In 9MFY22, on consolidated basis FBL reported PBILDT margin of 15.91% which reflects deterioration as against FY21 and 9MFY21. This is mainly partly due to lower feed volumes and prices as well as partly due to the one-time charges being charged to revenue account w.r.t the product being sold in German subsidiary owing to inventory losses. With regard to FBL's German subsidiary, there were considerable delays in obtaining the required approvals to execute sales due to COVID-19 pandemic situation and the required approvals were received in Q3FY22.
Besides, During FY19 and FY20, FBL constructed a plant to manufacture cholesterol (key raw material) in a multi-synthesis plant at Dahej. The trial production commenced in June, 2020. The plant is completely operational now and majority of company's cholesterol requirement is fulfilled in-house. On a standalone basis, the PBILDT margin of FBL remained healthy at 26.75% in FY21 and at 20.80% in 9MFY22. However, there is a dip in PAT margin which stood at 13.70% in FY21 vis-à-vis 20.36% in FY20 owing to higher depreciation cost and deferred tax asset created in FY20 due to amalgamation. Also, margins are robust in standalone numbers as against consolidated numbers. On standalone basis, margins are still healthy. On consolidated basis, the decline in margins is also due to losses incurred by the subsidiary.

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 77.86% for the past twelve months ending November 2021. As a strategic decision, the management had maintained the raw material at higher levels considering the uncertainties in supply and logistics due to Covid-19, resulting into inventory appearing on the higher side. However, as articulated by the management, the working capital cycle is expected to come down with the easing of covid-19 curbs and streamlining of supply chain.

Susceptible to volatile movement of commodity prices and competition from China under feed grade segment
The Vitamin D3 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 where no stringent pharmaceutical guidelines apply. The demand in animal feed is majorly derived from export markets. China is the major supplier in animal feed grade segment and the industry is characterized with intense competition and volatile commodity prices.

Moderate project risk
The project cost for the capex undertaken at Kullu plant is Rs 40.00 crore, out of which around Rs. 12.50 crore has been spent till date. The same will be fully operational in Q3FY23. Debt for the same is already tied up, hence the project risk remains moderate.

Adequate liquidity position
During FY22, FBL has repayment of Rs. 23.75 crore and out of this the company has repaid Rs. 18.34 crore till January 30, 2022. As compared to repayment of Rs. 23.75 crore due in FY22, the company has generated GCA of Rs. 26.41 crore in 9MFY22, thereby providing cover of 1.11x. The company has repayment obligation of Rs.5.74 crore in a quarter and has cash and bank balance of around Rs.28.34 crore (as articulated by the management) as on Feb 16 2022.
Besides, there is a cushion also available in terms of 22.14% of unused bank limits. Therefore, the adequate liquidity cushion is available for repayments and working capital requirements.

Analytical approach: Consolidated; list of entities consolidated is mentioned below

- Aegean Properties Limited
- CC Squares Films Limited (winded up w.e.f. Nov 26, 2021)
- Fermenta Biotech UK Limited
- Fermenta Biotech Gmbh
- GI Biotech Private Limited
- Fermenta Biotech USA LLC
- Fermenta USA LLC (step down subsidiary of Fermenta Biotech USA LLC)

Applicable criteria:
Policy on default recognition
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Financial ratios - Non-Financial Sector
Short Term Instruments
Manufacturing Companies
Rating Methodology – Pharmaceutical Sector

About the Company
Fermenta Biotech Limited (FBL) (Erstwhile DIL Ltd.), incorporated in 1951 by Dr. DVK Raju, is engaged in development and manufacturing of pharmaceuticals, biotechnology and environmental solutions used across various industries. FBL manufactures a range of Vitamin D3 variants having an optimal mix between human and animal feed products which have applications across multiple sectors like Pharmaceuticals, Dietary and nutritional supplements, Food and beverage fortification, Animal feed, Veterinary and Rodenticides
The company is also involved in manufacturing of APIs for muscle relaxant and anti-flatulent applications. Thus, from the revenue model perspective, FBL has two business segments; i.e. manufacturing of Vitamin D3 and other API and lease rental business for ITES properties developed in Thane (contributed around 3.84% of revenue in FY21).
The APIs manufactured by company include Vitamin D3, biological enzymes (beta lactam antibiotics, enzymes for manufacturing different semi synthetic Penicillin products- Penicillin G Amidase to advanced enzyme variants) and also offers integrated biotech-based environment solutions (treated municipal sewage treatment plant (STP), industrial effluent treatment plant (ETP), treating septic tanks, bio remediation of oil sludges, lakes, ponds amongst others). FBL has over the years gained expertise in the manufacturing of Vitamin D3 products and in FY21 around 78% of the total sales are from this segment. The company has also developed commercial property named "THANE ONE" of total leasable area of approx 2 lakh square feet in Thane. The commercial property is classified as information technology (IT)/IT enabled Services Park on its freehold land. In addition, the total area available for lease on allied properties in Mumbai is around 10,035 square feet. Rental income accounted for 3.84% of consolidated revenue in FY21.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov.)
Total operating income	305.22	385.53	307.61
PBILDT	79.05	91.10	48.94
PAT	59.52	42.53	7.34
Overall gearing (times)	0.75	0.70	0.71
Interest coverage (times)	3.93	4.79	3.87

A: Audited; Prov.: Provisional
Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: 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-Cash Credit	-	-	-	-	99.00	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	6.25	CARE A2
Fund-based - LT-Term Loan	-	-	-	January 2028	96.83	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 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-Cash Credit	LT	99.00	CARE A-; Stable	1)CARE A-; Stable (04-Apr-22)	-	1)CARE A-; Stable (05-Jan-21)	1)CARE A-; Stable (08-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	6.25	CARE A2	1)CARE A2 (04-Apr-22)	-	1)CARE A2 (05-Jan-21)	1)CARE A2 (08-Jan-20)
3	Fund-based - LT-Term Loan	LT	96.83	CARE A-; Stable	1)CARE A-; Stable (04-Apr-22)	-	1)CARE A-; Stable (05-Jan-21)	1)CARE A-; Stable (08-Jan-20)

* Long Term / Short Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Negative Lien	The borrower should not create, without prior consent of the bank, charges on their any or all properties or assets during the credit facilities granted by the bank
B. Non-financial covenants	
1. Stock Statements	The stock/book-debts statement as on the last day of each month should be submitted to the bank within 15 days from the last day of the preceding month.

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
3	Non-fund-based - ST-BG/LC	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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