Fermenta Biotech Limited (Revised)

April 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	182.85 (Reduced from 195.83)	CARE BBB+; Negative	Revised from CARE A-; Stable
Short Term Bank Facilities	6.25	CARE A3+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Fermenta Biotech Limited (FBL) is on account of moderation in the credit risk profile of the company owing to downturn in the business operations led by decline in the volumes of Vitamin D3 on the human nutrition business segment along with the slowdown in the animal nutrition segment. This has led to deterioration in operating and financial performance of the company in FY22 (refers to the period from April 01 to March 31) and 9MFY23. During 9MFY23, FBL has reported decline in revenues and incurred losses at operational level. The company continues to face headwinds owing to slowdown in demand for Vitamin D3 on the human nutrition side coupled with lower prices for animal feed resulting into inventory losses. However, CARE notes the company has been able to realise sizeable cash flows from monetisation of non-core assets in FY23 which has resulted in strengthening of liquidity. Going forward, the company expects to generate sizeable incremental cash flows from sale of additional non-core assets which is expected to support the operations of the company in the aftermath of subdued business operations owing to headwinds faced by the company as stated above.

The ratings assigned to bank facilities of FBL derive strength from established track record of the company in the pharmaceutical industry, leadership position in Vitamin D3 API product range, wide spread presence across various geographies with reputed clientele base. The core expertise for Vitamin D3 API is developed on the back of strong in-house research and development team. The rating is also strengthened by comfortable capital structure and adequate liquidity.
The above rating strengths, however continue to be tempered by modest scale of revenues with high product concentration risk, significant deterioration in operating profitability margins as it remains susceptible to volatile movement of commodity prices as well as competition from China in the animal feed grade segment, moderation in debt coverage indicators, elongated working capital cycle, and moderate project risk.

Going forward, improvement in credit risk profile of the company on a consolidated basis as a result of significant and sustained improvement in the operating performance as well as efficiently managed working capital requirement remains key rating sensitivities.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Recovery in business operations resulting into an improvement in PBILDT margin to above 20% leading to higher profitability at PAT levels and higher cash accruals on sustained basis.
- Improvement in ROCE above 15% on sustained basis.

Negative factors

- Deterioration in capital structure to above unity levels.
- Inordinate delay in/or lower than anticipated realization of cash flows from monetisation of non-core asset in absence of revival of business leading to pressure on liquidity and debt coverage indicators.
- More than expected debt funded capex or acquisitions/mergers resulting in adverse impact on the financial risk profile of the company.

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

- Aegean Properties Limited
- 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)

Name of entities consolidated	% shareholding
Aegean Properties Limited	100%

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

Fermenta Biotech Gmbh	100%
Fermenta Biotech (UK) Limited	100%
GI Biotech Private Limited	62.50%
Fermenta Biotech USA LLC	100%
Fermenta USA LLC	52%

Outlook: Negative

Negative outlook reflects FBL's ongoing subdued operating performance which is expected to continue in near term on the back of slower recovery of business operations in both the segments. This is expected to adversely impact the cash flow generation from core operations. However, the outlook may be revised to stable on the back of revival in the core operations resulting into better operating/financial performance or if the company is able to achieve the monetisation of non-core assets leading to significant cash flows into the company thereby strengthening its liquidity.

Key strengths

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

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 has 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. It has focussed on increasing production of Vitamin D3 and added capacities on regular basis for this product line leading to significant product concentration risk, with Vitamin D3 segment contributing to around 80% of the total sales in FY22 and 60% in 9MFY23. 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 (includes bulk drugs and other API, and Vit D3 products) and lease rental business for ITES properties developed in Thane (with lease rental business contributing to around 3.34% of consolidated revenue in FY22).

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 Vitamin D3 for Human Nutrition and sale of feed grade segment (commenced in FY15) and other Vitamin D3 API products. The company has established presence with around 67% of total sales derived from export markets in FY22. 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.

Comfortable capital structure albeit moderation in debt coverage indicators

The total borrowings comprise of working capital bank borrowings and term debt. As on March 31, 2022 major portion of FBL's long-term debt pertained to outstanding term loan amounting Rs. 138.67 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 stood at same level at 0.69x as on March 31, 2022 vis-à-vis 0.70x as on March 31, 2021 thus remaining steady on the back of healthy and improved net worth base which stood at Rs. 347.57 crore as on March 31, 2022 vis-à-vis Rs. 332.78 crore as on March 31, 2021. The company's financial risk profile is comfortable, characterized by large net worth base. The debt coverage indicators marked by total debt to GCA deteriorated from 3.83x as on March 31, 2021 to 5.31x as on March 31, 2022 owing to higher debt level and decline of 34.57% in gross cash accruals in FY22 over FY21 (owing to higher depreciation and decline in net profit). Further, the interest coverage ratio also deteriorated from 3.71x in FY21 to 2.88x in FY22 owing to decline in operating profitability.

With respect to 9MFY23, the debt position remained at Rs. 248.96 crore as on Dec 31, 2022 with overall gearing at 0.74x as on December 31, 2022 and debt coverage indicators viz. interest coverage ratio of -1.28 times and total debt to GCA of -7.27 times as on December 31, 2022.

Key weaknesses

Moderate scale of operations

The product portfolio of the company majorly includes Vitamin D3 API products, and specialty APIs amongst others. The company's revenue from operations grew by 6.27% to Rs. 387.85 crore in FY22 vis-à-vis Rs. 364.97 crore in FY21. The modest increase is mainly on account of increase in Vitamin D3 sales (for human consumption) with the prices remaining stable. The sales contribution from Vitamin D3-Human Nutrition had increased in FY22 (from Rs.191 crore in FY21 to Rs. 219 crore in FY22) as compared to animal feed contribution of Rs.98 crore in FY21 which had declined to Rs.77 crore in FY22. However, during 9MFY23, the company's revenues declined significantly owing to lower demand for both human and animal feed products. Particularly in case of Vitamin D3 for human nutrition, there was a spurt in demand of the same during FY21 and FY22 as consumers felt the need to rely on immunity boosting health supplements during the pandemic. The entire distribution chain, comprising wholesalers, distributors, stockists and retailers continued to maintain large inventory of the same during FY23 as well, expecting the demand to be sustained during the year. However, with the pandemic over in FY22, consumption demand for Vitamin D3 health supplements fell drastically in FY23, due to which the distribution channel was saddled with surplus stocks, which took around three quarters to rationalise. Besides, on the animal nutrition segment side, the prices were lower while volumes were steady in FY23. Consequently, in 9MFY23, the sales from animal feed stood at Rs. 25 crore and sales from human feed stood at Rs. 116 crore.

Decline in profitability in FY22 and losses incurred in 9MFY23
Business risks has elevated owing to lower demand for Vitamin D3-Human Nutrition in FY23. Additionally, FBL's export destinations viz. Europe and USA faced high inflation during FY23 due to which consumption of Vitamins (including vitamin D3) assumed less priority as compared with the more essentially consumption items such as food and groceries. On the animal nutrition segment side, the prices and volumes were both impacted in FY23 leading to inventory losses in the German subsidiary which reflected in the overall performance of the company in FY22 and 9MFY23. Led by these reasons, on a consolidated basis, the PBILDT margins of FBL declined to 13.33% in FY22 vis-à-vis 19.33% in FY21. During 9MFY23, the company reported net loss of Rs. 48.62 crore vis-à-vis PAT of Rs. 7.34 crore in 9MFY22. This has led to cash losses incurred by the company in 9MFY23.

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 maintained an average utilization of 96% for the past twelve months ending January 2023. The company's working capital cycle remained largely stable at 189 days in FY21 and 187 days in FY22. However, there was slight increase in the operating cycle owing to elongation in collection days from 70 days in FY21 to 73 days in FY22.

Margins 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 premix plant project is in the last phase of completion and is expected to get completed by April or May 2023. It has delayed from the original project completion date of Oct-Nov 2022. However, there is no major cost overrun. Revenue from the same will be generated from August or September 2023 through both domestic and export sales. The project will create premix of Vitamin A, E, D, K all mixed as per the customers requirement. The Fortified Rice Kernel plant project is now completed and revenue visibility is expected from Q1FY24. Nevertheless, with the project yet to commence production and operations yet to stabilise, moderate project risk continues to remain.

Liquidity: Adequate

The company had repayment obligation of Rs. 6.92 crore in a quarter (Q3FY23) and had healthy cash and bank balance of around Rs. 43.02 crore as on December 31, 2022 (on a consolidated basis) and Rs. 36.28 crore (on a standalone basis), thereby providing sufficient liquidity cushion to service the debt obligations. The existing cash balances along with the cash flows expected to be generated (FY23~Rs.79 crore and FY24~Rs.80 crore) from the sale of non-core assets is expected to be adequate to service debt obligations even in the event of operating losses over this period. Therefore, the liquidity cushion is available for repayments and working capital requirements.

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

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

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 company has also developed commercial property named "THANE ONE" of a total area of 2.00 lakh square feet in Thane (leasable area is 1.77 lakh square feet) on land area of 1 acre. 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 3.34% of consolidated revenue in FY22.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	364.97	387.85	227.86
PBILDT	70.53	51.70	-18.48
PAT	42.53	15.06	-47.75
Overall gearing (times)	0.70	0.69	0.74
Interest coverage (times)	3.71	2.88	-1.28

A: Audited; UA: Unaudited (As published on BSE); Note: 'the above results are latest financial results available'

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 the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Not Applicable

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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	99.00	CARE BBB+; Negative
Fund-based - LT-Term Loan	-	-	-	January 2028	83.85	CARE BBB+; Negative

Non-fund-based - ST-BG/LC	-	-	-	-	6.25	CARE A3+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	99.00	CARE BBB+; Negative	1)CARE A-; Stable (09-May-22) 2)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 A3+	1)CARE A2 (09-May-22) 2)CARE A2 (04-Apr-22)	-	1)CARE A2 (05-Jan-21)	1)CARE A2 (08-Jan-20)
3	Fund-based - LT-Term Loan	LT	83.85	CARE BBB+; Negative	1)CARE A-; Stable (09-May-22) 2)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 the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media Contact	Analytical Contacts
Name: Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Name: Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-67543404 E-mail: saikat.roy@careedge.in	**Name:** Sudarshan Shreenivas Director **CARE Ratings Limited** Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in Name: Vikash Agarwal Associate Director **CARE Ratings Limited** Phone: 022-68374427 E-mail: vikash.agarwal@careedge.in Name: Pranjali Hatode Analyst **CARE Ratings Limited** E-mail: pranjali.hatode@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in