

Fermenta Biotech Limited

November 17, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|----------------------------|------------------|---------------------|----------------------------------|
| Long Term Bank Facilities | 182.85 | CARE BBB; Negative | Revised from CARE BBB+; Negative |
| Short Term Bank Facilities | 6.25 | CARE A3 | Revised from CARE A3+ |

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 FY23 (refers to the period from April 01 to March 31) and H1FY24. During H1FY24, FBL has reported decline in revenues and incurred losses at operational and net 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 adequate cash balances to fund the debt servicing and has been able to realise cash flows from monetisation of non-core assets in FY23 which has resulted in stable 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, losses reported by the company at operating and net level 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, stretched working capital cycle, and project stabilization 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)

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

| Name of entities consolidated | % shareholding |
|-------------------------------|----------------|
| Aegean Properties Limited | 100% |
| 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 human and animal nutrition 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.

Detailed description of the key rating drivers

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 FY23. 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 3.29% of consolidated revenue in FY23).

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 for animal feed (commenced in FY15) and other Vitamin D3 API products. The company has established presence with around 49% of total sales derived from export markets in FY23. 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, 2023, major portion of FBL's long-term debt pertained to outstanding term loan amounting Rs. 115.39 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 0.75x as on March 31, 2023 vis-a-vis 0.69x as on March 31, 2022, thus remaining steady on the back of healthy net worth base which stood at Rs. 294.02 crore as on March 31, 2023. There is slight deterioration in overall gearing ratio owing to reduced net worth base given the losses reported by FBL. Nevertheless, the company's financial risk profile is comfortable, characterized by fairly large net worth base, as mentioned above.

The debt coverage indicators marked by total debt to GCA deteriorated from 5.31x as on March 31, 2022 to -8.67x as on March 31, 2023 owing to negative cash accruals on the back of losses reported by the company. Further, the interest coverage ratio also remained negative due to the same.

With respect to H1FY24, the debt position remained at Rs. 171.62 crore as on Sept 30, 2023 with overall gearing at 0.64x as on Sept 30, 2023 along with negative debt coverage indicators as on Sept 30, 2023.

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 de-grew by 24.64% to Rs. 292.27 crore in FY23 vis-à-vis Rs. 387.85 crore in FY22. The

deterioration in TOI is mainly on account of decline in Vitamin D3 sales (for human consumption) along with lower demand for both human and animal feed products. Further, during H1FY24 (refers to period April 01, 2023 to September 30, 2023), the company's revenues declined significantly once again and stood at Rs. 114.17 crore. 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. The total operating income of FBL stood at Rs. 114.17 crore in H1FY24 vis-à-vis Rs. 196.45 crore in H1FY23.

Losses incurred in FY23 and H1FY24

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. Further, with no improvement in the demand position, the company has reported losses at operating and net level in FY23 and further in H1FY24. FBL has reported operating loss of Rs. 39.74 crore and net loss of Rs. 53.55 crore in FY23. Further, in H1FY24, the company has reported operating loss of Rs. 28.16 crore and net loss of Rs. 25.97 crore. Led by these reasons, on a consolidated basis, the PBILDT margins of FBL remained negative. This has led to cash losses incurred by the company in FY23 and H1FY24.

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 98% for the past twelve months ending September 2023. The company's working capital cycle remained largely stable at 187 days in FY22 and FY23.

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.

Project stabilization risk

The premix plant project got completed in October 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 shall be generated from November 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. Thus, the project has commenced production however, the operations are yet to stabilise, and hence moderate project stabilization risk continues to remain.

Liquidity: Adequate

The company had repayment obligation of Rs. 15.32 crore in H1FY24 which were met in a timely fashion, from sale proceeds of non-core assets and cash balances. FBL had healthy cash and bank balance of around Rs. 54.98 crore as on September 30, 2023 (on a consolidated basis) and Rs. 50.22 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 (FY24 ~Rs. 40.00 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 the period i.e. FY24 - FY25. FBL has repayment obligation of Rs. 14.50 crore for H2FY24, which CARE believes shall be met through the existing cash balances and from sale proceeds of non-core assets. Therefore, the liquidity cushion is available for repayments and working capital requirements.

Applicable criteria

[Policy on default recognition](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Financial ratios - Non-Financial Sector](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Rating Methodology - Pharmaceuticals](#)

[Consolidation](#)

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 FY23). 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 3.29% of consolidated revenue in FY23.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 387.85 | 292.27 | 114.17 |
| PBILDT | 51.70 | -39.74 | -28.16 |
| PAT | 15.06 | -53.55 | -25.97 |
| Overall gearing (times) | 0.69 | 0.75 | 0.64 |
| Interest coverage (times) | 2.88 | -1.91 | -3.32 |

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 the various instruments rated: 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 2023-2024 | 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 |
| 1 | Fund-based - LT-Cash Credit | LT | 99.00 | CARE BBB; Negative | 1)CARE BBB+; Negative (07-Apr-23) | 1)CARE A-; Stable (09-May-22) 2)CARE A-; Stable (04-Apr-22) | - | 1)CARE A-; Stable (05-Jan-21) |
| 2 | Fund-based - LT-Cash Credit | - | - | - | - | 1)CARE A-; Stable (04-Apr-22) | - | 1)CARE A-; Stable (05-Jan-21) |
| 3 | Non-fund-based - ST-BG/LC | ST | 6.25 | CARE A3 | 1)CARE A3+ (07-Apr-23) | 1)CARE A2 (09-May-22) 2)CARE A2 (04-Apr-22) | - | 1)CARE A2 (05-Jan-21) |
| 4 | Fund-based - LT-Term Loan | LT | 83.85 | CARE BBB; Negative | 1)CARE BBB+; Negative (07-Apr-23) | 1)CARE A-; Stable (09-May-22) 2)CARE A-; Stable (04-Apr-22) | - | 1)CARE A-; Stable (05-Jan-21) |

*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 detailsTo 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.

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About us:

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