Fermenta Biotech Limited

April 04, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	143.08 (Reduced from 182.85)	CARE BBB-; Negative	Revised from CARE BBB; Negative
Short Term Bank Facilities	6.25	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1

Rationale & key rating drivers

The revision in the ratings assigned to the bank facilities of Fermenta Biotech Limited (FBL) considers continuing deterioration in company's performance in the core bulk drug division. During 9MFY24, the company reported sales of Rs. 166 crores as compared to sales of 209 crore during 9MFY23. The operating losses at PBILDT level stood at Rs. 53.72 crore as compared to Rs. 42.73 crore during 9MFY23.

The company continued to face headwinds in 9MFY24 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 and 9MFY24 which has resulted in adequate 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, widespread 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 and stretched working capital cycle.

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 of bulk drug division 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 bulk drug business with improvement in revenue to Rs.350 crore and PBILDT margin to 15% on sustained basis
- Improvement in ROCE above 15% on sustained basis.

Negative factors

- Continuing downturn in performance of bulk drug division with declining sales and widening losses
- Deterioration in capital structure to above unity levels.
- Inordinate delay in/or lower than anticipated realization of cash flows from monetisation of remaining non-core assets 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. The approach for FBL is consolidated on account of consideration of subsidiaries of FBL out of which few have 100% shareholding, and few have proportionate shareholding (as mentioned under Annexure- 6).

Outlook: Negative

Negative outlook reflects FBL's continued weak performance in core bulk drug manufacturing business during 9mFY24, and uncertainty regarding the extent of recovery which may be expected in the near term in human and animal nutrition segments. In a scenario of continued weak sales, it would have an adverse impact on 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 significantly better operating/financial performance.

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

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 3.50% 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
The overall gearing ratio stood at 0.76x as on March 31, 2023 vis-a-vis 0.69x as on March 31, 2022, thus remaining comfortable on the back of healthy net worth base which stood at Rs. 290.20 crore as on March 31, 2023. The term loan outstanding as on Dec 31, 2023, stands at Rs. 70 crore.

Key weaknesses

Moderate scale of operations with concentrated product profile
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. 292.28 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 animal feed products. Further, during 9MFY24 (refers to period April 01, 2023 to December 31, 2023), the company's revenues declined significantly once again and stood at Rs. 173.90 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. Besides, on the animal nutrition segment side, the prices were lower while volumes were steady in FY23. The total operating income from core bulk drug sales of FBL stood at Rs. 173.90 crore in 9MFY24 vis-à-vis Rs. 292.28 crore in 9MFY23.

Losses incurred in FY23 and 9MFY24
Business risk 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 9MFY24. FBL has reported operating loss of Rs. 38.82 crore and net loss of Rs. 53.55 crore in FY23. Further, in 9MFY24, the company has reported operating loss of Rs. 42.28 crore and net loss of Rs. 16.85 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. However, cash accruals remained positive at Rs. 1.41 crore in 9MFY24 due to cash accruals from monetisation of real estate assets.

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 100% for the past twelve months ending January 2024. The company's working capital cycle remained largely stable at 187 days in 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.

Liquidity: Adequate

FBL had healthy cash and bank balance of around Rs. 61.00 crore as on February 29, 2024 (on a consolidated basis) and Rs. 58.85 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 from the sale of non-core assets is expected to be adequate to service debt obligations. FBL has repayment obligation of Rs. 21.16 crore for FY25, 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
Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
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 3.50% 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 3.50% of consolidated revenue in FY23.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	387.85	292.28	173.90
PBILDT	65.32	-38.82	-42.28
PAT	15.06	-53.55	-16.85
Overall gearing (times)	0.69	0.76	0.51
Interest coverage (times)	2.07	-1.82	-3.10

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	44.08	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 (17-Nov-23) 2)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	Non-fund-based - ST-BG/LC	ST	6.25	CARE A3	1)CARE A3 (17-Nov-23) 2)CARE A3+ (07-Apr-23)	1)CARE A2 (09-May-22) 2)CARE A2 (04-Apr-22)	-	1)CARE A2 (05-Jan-21)
3	Fund-based - LT-Term Loan	LT	44.08	CARE BBB-; Negative	1)CARE BBB; Negative (17-Nov-23)	1)CARE A-; Stable (09-May-22) 2)CARE A-	-	1)CARE A-; Stable (05-Jan-21)

					2)CARE BBB+; Negative (07-Apr-23)	; Stable (04-Apr-22)		

LT: Long term; ST: 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

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Aegean Properties Limited	Full	Subsidiary
2	Fermenta Biotech Gmbh	Full	Subsidiary
3	Fermenta Biotech (UK) Limited	Full	Subsidiary
4	GI Biotech Private Limited	Proportionate	Subsidiary
5	Fermenta Biotech USA LLC	Full	Subsidiary
6	Fermenta USA LLC	Proportionate	Subsidiary

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
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3444 E-mail: Ankur.sachdeva@careedge.in	Sudarshan Shreenivas Director **CARE Ratings Limited** Phone: 022- 6754 3566 E-mail: sudarshan.shreenivas@careedge.in Arunava Paul Associate Director **CARE Ratings Limited** Phone: 022-67543667 E-mail: arunava.paul@careedge.in Pranjali Hatode Analyst **CARE Ratings Limited** E-mail: pranjali.hatode@careedge.in

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