Fermenta Biotech Limited

February 25, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	128.17 (Reduced from 143.08)	CARE BBB-; Stable	Reaffirmed; Outlook revised from Negative
Short-term bank facilities	6.25	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Fermenta Biotech Limited (FBL) factors in the improvement in performance of its core operations in 9MFY25 (drug division). The performance is driven by both increase in volumes and sales realisation. The clearing of channel inventory has created demand for new orders thus benefitting the company. CARE Ratings Limited (CARE Ratings) expects the performance to be sustainable in near-to-medium term given the recovery in demand and company's leading position in the said product. The backward integration benefits the company in ensuring timely availability of raw material and thus smooth operations. FBL also continues to be lowly leveraged and continues to maintain adequate liquidity.

However, above strengths are offset given that the other income continues to support the net profit in 9MFY25. Though CARE Ratings expects this to improve considering improving performance of the drug division, same remains monitorable. There continues to be high product concentration risk with material revenue contribution from Vitamin D3 and other API. Moreover, the working capital cycle of the company continues to remain elongated.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Turnaround of bulk drug business with income from this business increasing to ₹350 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to 12% on a sustained basis.
- Improvement in working capital cycle, with gross current assets improve to 240 days.
- Improvement in return on capital employed (ROCE) to above 12% on a sustained basis.
- Total outside liabilities to tangible net worth (TOL/TNW) improving to below unity.

Negative factors

- Downturn in performance of bulk drug division with declining sales and PBILDT margin.
- Deterioration in capital structure with TOL/TNW increasing to 1.5x.
- Any significant 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 considering operational and financial linkages and operating under common management. Entities considered in consolidation have been listed in Annexure-6.

Outlook: Stable

Revision in outlook from negative to stable is considering improved performance of the company in 9MFY25 backed by recovery in demand and increased prices. CARE Ratings expects FBL's strong position in market amidst the recovery in demand to sustain the growth in its core operations.

Detailed description of key rating drivers:

Key strengths

Improved performance in 9MFY25; expected to sustain in near-to-medium term

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

FBL is majorly into manufacturing Vitamin D3 active pharmaceutical ingredient (API) used for human consumption. The demand for vitamin D was high in COVID-19. However post-COVID-19, due to reduced demand, market was loaded with high inventory which restricted new orders. Given the clearing of this channel inventory and increasing awareness of dietary nutritional supplement, the demand has started to recover, which benefitted the company in terms of volume growth in 9MFY25. With the recovery in demand and FBL's leading position in the said product ensuring high bargaining power and thus increased realisation, CARE Ratings expects the improvement in both total operating income TOI and PBILDT to sustain in near-to-medium term.

Per 9MFY25 performance, there has been 75% growth in TOI (excluding the other income related to real estate and rentals) to ₹290.24 crore (9MFY24: ₹165.50 crore; FY24: ₹263.00 crore) driven both by increase in volume and realisation. With the improved TOI, the better absorption of the cost has resulted in positive PBILDT of ~12% compared to PBILDT loss (excluding the other income related to real estate and rentals) of previous year.

Lowly leveraged capital structure

The capital structure of the company is expected to remain comfortable given the reduced debt level. With the expected improvement in performance, even the profits from core products are expected to support the net level of the company and other income thus strengthening the net worth. Moreover, with no major debt-led capex plan and company's plan to further reduce the debt, overall gearing of the company is expected to remain comfortable.

Overall gearing of the company remained below unity at 0.51x as on March 31, 2024 (as on March 31, 2023: 0.76x). Given the PBILDT loss from the core products, the interest coverage was weak in the last two years, however, the same has improved significantly in 9MFY25 at 2.99x.

Reputed clientele with presence in domestic and export markets

The clientele of the company continues to comprise of well-established and reputed players from pharmaceutical industry and fast-moving consumer goods (FMCG) companies. The top five customer concentration risk is low at ~32% (29%) in FY24. The company is geographically diversified with 60% of sales (excluding the other income related to real estate and rentals) from exports and rest from domestic market in 9MFY25 on consolidated basis.

Established track record in the pharmaceutical industry and 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. To support and manage the overall operations, the senior management is supported by well qualified and experienced second-tier management in a well-defined organisational 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.

Key weaknesses

Net Profit majorly driven by other income

Post two years of net loss, the company has booked profit at net level in 9MFY25 at ₹43.08 crore. However, same is majorly driven by income from other income, which comprises income from sales of invested assets and rentals. The income from core operations (Vitamin D3 and other APIs') supporting the net level of profit is monitorable.

Working capital intensive operations

The business is working capital intensive since it carries significant inventory for products under manufacturing at different stages of production, maintained at two factories. Though the working capital cycle has improved to 145 days in FY24 (FY23: 188 days), same remains elongated. 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 utilisation of ~93% for the past 12 months ending December 2024.

Margins susceptible to volatility 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 commoditised 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 characterised with intense competition and volatile commodity prices. However, the said risk is mitigated to some extent given that only 25% of revenue contribution is from animal feed segment in the TOI (excluding other income) on consolidated basis in 9MFY25.

Liquidity: Adequate

The improvement in expected gross cash accrual (GCA) in upcoming years basis the improved performance of the company reflects adequate liquidity of the company. The GCA for 9MFY25 stood at ₹61.43 crore (9MFY24: ₹1.40 crore; FY24: ₹0.71 crore). Moreover, under the monetisation plan, the company was able to profit from sale of investment, which supported the company in prepaying a portion of term loan. In addition to this, FBL's cash and bank balance stood was ₹61.17 crore as on December 31, 2024 (FY24: ₹59.66 crore). Against all these sources, FBL's principal debt obligation stood at ₹38.18 crore (inclusive of prepayment), ₹12.99 crore and ₹7.90 crore, in FY26 and FY27, respectively. Per the consolidated audited annual report of FBL, the cash from operation stood healthy at ₹105.34 crore in FY24 (FY23: ₹116.10 crore), majorly supported by proceeds from sale of investment. However, given the elongated working capital cycle, the utilisation of fund-based limits remains modest at 93.33% for last 12 months ended December 31, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 1951 by Dr. DVK Raju, FBL (Erstwhile DIL Ltd.) is engaged in developing and manufacturing pharmaceuticals, biotechnology, and environmental solutions used across 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 such as pharmaceuticals, dietary and nutritional supplements, food and beverage fortification, animal feed, veterinary, and rodenticides. The company is also involved in manufacturing APIs for muscle relaxant and anti-flatulent applications.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	9MFY25(UA)
Total operating income	289.06	263.00	290.24
PBILDT	-41.96	-44.45	33.47
PAT	-53.13	-24.01	43.08
Overall gearing (times)	0.76	0.51	NA
Interest coverage (times)	-1.96	-2.55	2.99

The TOI & PBILDT comprises of the core product (drug division) performance only
A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	99.00	CARE BBB-; Stable
Fund-based - LT-Term Loan		-	-	January 2028	29.17	CARE BBB-; Stable
Non-fund-based - ST-BG/LC		-	-	-	6.25	CARE A3

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	99.00	CARE BBB-; Stable	1)CARE BBB-; Negative (04-Apr-24)	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)	-
2	Non-fund-based - ST-BG/LC	ST	6.25	CARE A3	1)CARE A3 (04-Apr-24)	1)CARE A3 (17-Nov-23) 2)CARE A3+ (07-Apr-23)	1)CARE A2 (09-May-22) 2)CARE A2 (04-Apr-22)	-
3	Fund-based - LT-Term Loan	LT	29.17	CARE BBB-; Stable	1)CARE BBB-; Negative (04-Apr-24)	1)CARE BBB; Negative (17-Nov-23)	1)CARE A-; Stable (09-May-22) 2)CARE A-; Stable	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						2)CARE BBB+; Negative (07-Apr-23)	(04-Apr-22)	

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Fermenta Biotech Gmbh	Full	Wholly owned subsidiary
2	Fermenta Biotech (UK) Limited	Full	Wholly owned subsidiary
3	Fermenta Biotech USA LLC	Full	Wholly owned subsidiary
4	Fermenta USA LLC	Full	Step down Subsidiary
5	Health and Wellness India Private Limited	Moderate	Associate

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Krunal Pankajkumar Modi Director **CARE Ratings Limited** Phone: 079-40265614 E-mail: krunal.modi@careedge.in Arunava Paul Associate Director **CARE Ratings Limited** Phone: 912267543667 E-mail: arunava.paul@careedge.in Ragini Surve Lead Analyst **CARE Ratings Limited** E-mail: Ragini.Surve@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 detailed Rationale Report and subscription information,
please visit www.careedge.in