Fermenta Biotech Limited

April 19, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities (cash credit)	34.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Assigned
Long term Bank Facilities (term loan)	8.75	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Assigned
Short term Bank Facilities	5.25	**CARE A3+ (A Three Plus)**	Assigned
Total Facilities	**48.00 (Rs. Forty Eight crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Fermenta Biotech Limited (FBL) derive strength from over three decades of track record in pharmaceutical industry with core expertise of manufacturing Vitamin D3 product range which is backed by strong in-house research and development team emanating into healthy operating margins and strong presence across various geographies including India with reputed client base. Furthermore, the ratings are strengthened by comfortable capital structure and debt coverage indicators, and moderate supplier concentration risk along with resolution of supply for key raw material constraint concerns in FY16 (refers to the period April 1 to March 31).

The rating strengths are tempered by high product concentration risk for Vitamin D3 range, small scale of operations, and elongated working capital cycle due to extended credit period offered to customers in feed grade segment.

The ability of company to scale up operations whilst maintaining profitability as envisaged and efficient management of working capital cycle is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Rating Strength 1:

Established track record in the pharmaceutical industry along with strong research and development (R&D): FBL has an established track record of over three decades in the pharmaceutical business with key focus on the Vitamin D3 segment. In order to support and manage its operations, FBL has well qualified and experienced second tier management with well-defined organizational structure. The company has also developed in-house research and development (R&D) team to improve process and product technologies to have competitive edge in the industry.

Reputed client base with presence in domestic and export markets: In FY16, around 69% of the total sales is derived from export markets with presence across 50 countries and sales to reputed players in the industry.

Established presence in the Vitamin D3 segment: The company has presence in four segments including Vitamin D3, specialty APIs, biological enzymes and biotech based environmental solutions.

Nevertheless, Vitamin D3 product range is in high demand and the company has developed expertise over the years and has established its presence in the global market.

Comfortable capital structure and debt coverage indicators: The company's financial risk profile is comfortable characterized by low overall gearing (including acceptances) of 0.43 times as on March 31, 2016. Further debt coverage indicators also stood comfortable i.e. Interest coverage ratio at 5.57 times and total debt to gross cash accruals (GCA) at 1.99 times in FY16.

Healthy profitability margin and resolution of supply constraints for key raw material in FY16: In FY16, the company reported 15.62% y-o-y growth in total income. FBL's profit before interest, depreciation and tax (PBILDT) and profit after tax (PAT) margin in FY16 stood at 18.43% and 7.96% respectively and has improved from FY15 levels of 10.48% (PBILDT) and 0.25% (PAT) owing to resolution of key raw material supply issues in FY16.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Moderate supplier concentration risk: FBL has moderate supplier concentration risk with top 10 suppliers accounting for 65% of total raw material purchases in FY16.

Key Rating Weaknesses

High product concentration for Vitamin D3 range: The expertise of the company lead to increased focus in the Vitamin D3 product segment leading to increasing production and adding capacities thereby resulting in high product concentration risk contributing around 71% of the total sales in FY16.

Small scale of operations: In FY16, the company achieved total income of Rs.149.44 crore which is considered as a small sized player in the pharmaceutical API industry.

Elongated working capital cycle: The company's working capital cycle is around 120 days in the past three years including in FY16. The business is working capital intensive since it carries significant inventory for various products under manufacturing at different stages of production. In addition inventory is being maintained at two factories for same products. Also, increased credit period is required to be offered to customers in feed grade segment due to intense competition.

Analytical approach: Standalone

Applicable Criteria

Rating Methodology-Manufacturing Companies
Rating Methodology – Pharmaceutical Sector
Criteria for Short Term Instruments
Financials Ratio-Non Financial Sector
Criteria on Assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition

About the Company

Fermenta Biotech Limited (FBL) was incorporated in 1986 and is a subsidiary of DIL Limited (DIL, rated 'CARE BB+/Stable' for bank facilities) which holds around 70.15% stake in the equity share capital of FBL as on December 31, 2016. The parent company, DIL is a listed entity engaged in real estate activity with promoters of DIL being Mr. Krishna Vasantkumar Datla and others and there are no financial linkages between DIL and FBL.

FBL currently manufactures Vitamin D3, other specialty active pharmaceutical ingredients (APIs), biological enzymes (beta lactam antibiotics and 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 etc). FBL has over the years gained expertise in the manufacturing of Vitamin D3 products and in FY16 around 70% of the total sales are from this segment. In FY16, the company exported 69% of total sales with export destinations across 50 countries.

The company's manufacturing facility at Kullu (Himachal Pradesh) was set up in 1987 and Dahej (Gujarat) was set up in 2011. The facilities are registered with Food Facility Registration Module (FFRM) which operates under the aegis of United States Food and Drug Administration (USFDA). FBL is also certified by World Health Organisation (WHO), Good Manufacturing Practise (GMP), USFDA Establishment Inspection Report (EIR) and has received Certificate of Suitability (CEP) accreditation issued by European Directorate for the Quality of Medicines (EDQM) for vitamin D3 manufacture. The company has two wholly owned subsidiaries Fermenta Biotech UK Limited and GI Biotech Private Limited which are dormant.

During FY16, FBL's net profit stood at Rs.12 crore on a total operating income of Rs.149 crore vis-à-vis net profit of Rs.0.30 crore on a total operating income of Rs.129 crore in FY15.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Analyst Contact:
Name: Mr. Ravi Kumar Dasari
Tel: 022 6754 3421
Board: 022 6754 3456
Email: ravi.kumar@careratings.com

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument/facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	5.25	CARE A3+
Fund-based - LT-Term Loan	-	-	November 2020	8.75	CARE BBB+; 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	Dates & Ratings assigned in 2016-2017	Dates & Ratings assigned in 2015-2016	Dates & Ratings assigned in 2014-2015	Dates & Ratings assigned in 2013-2014
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB+; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	4.00	CARE BBB+; Stable	-	-	-	-
3.	Non-fund-based - ST-BG/LC	ST	5.25	CARE A3+	-	-	-	-
4.	Fund-based - LT-Term Loan	LT	8.75	CARE BBB+; Stable	-	-	-	-

CONTACT

Head Office Mumbai

Mr. Mehul Pandya
Cell: +91-98242 56265
E-mail: mehul.pandya@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr. Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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