

SEZ Biotech Services Private Limited

December 22, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Bank Facilities-Fund-based - LT-Term Loan @	232.00 (enhanced from 203.50)	CARE AA+ (CE); Stable [Double A Plus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Bank Facilities-LT/ST Fund-based/Non-fund-based-Term loan/IDC/BG	18.00	CARE AA+(CE); Stable/CARE A1+ (CE) [AA Plus (Credit Enhancement); Outlook: Stable/ A One Plus (Credit Enhancement)]	Assigned
Total Facilities	250.00 (Rupees Two hundred Fifty crore only)		

Details of instruments/facilities in Annexure-1

@ backed by short-fall undertaking from Serum Institute of India Private Limited (SIPL; rated CARE AAA/Stable/CARE A1+)

Unsupported Rating²	CARE AA (Double A)/CARE A1+ (A One Plus)
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The ratings reaffirmed/assigned to the bank facilities of SEZ Biotech Services Private Limited (SBSPL) take into account the credit enhancement in the form of short-fall undertaking from Serum Institute of India Private Limited (CARE AAA/Stable/CARE A1+). The above rating is solely based on CARE's view on credit enhancement provider's credit profile and accordingly the rating rationale highlights the key credit risk assessment parameters of the credit enhancement provider. The rating remains sensitive to any variation in credit profile of SIPL.

Key Rating Drivers of Serum Institute of India Pvt. Ltd.

The rating reaffirmation to the bank facilities of Serum Institute of India Private Limited (SIPL) continues to reflect SIPL's leadership position in the vaccine manufacturing segment, highly experienced and resourceful promoters and professionally qualified management with a proven track record of five decades, its wide geographic presence along-with healthy financial risk profile marked by robust revenues, high operating margins, comfortable gearing levels and healthy liquidity position. It has long-standing affiliations with the international agencies and conformance of its manufacturing facilities with the current Good Manufacturing Practices (cGMP) approved by World Health Organization (WHO).

The strengths far out-weigh the regulatory risks associated with the global pharmaceutical industry.

Key Rating Drivers of SBSPL

The revision in unsupported rating of SBSPL factors in increased stake of SIPL (51.20%) by way of infusion of equity of Rs 65.00 crore, improved capital structure as reflected in overall gearing of 2.19x as on March 31, 2020 (4.37x as on March 31, 2019) considering preference share capital subscribed by SIPL as neither debt nor equity and improved business prospects on account of proposed COVID vaccine manufacturing by the group. Further, the rating derives strength from experienced and financially strong promoter group i.e. Poonawalla group, strong operating efficiency coupled with efficient working capital management. SBSPL's liquidity is supported by significant funding support by SIPL in the form of equity and preference share capital and; presence of escrow mechanism as well as debt service reserve account approximately equivalent to one quarter's term loan principal repayment obligations.

These strengths are partially offset by moderate scale of operations with majority of the revenue derived from SIPL and long creditor cycle leading to low current ratio of 0.31x as on March 31, 2020.

Rating Sensitivities of SIPL

Negative factors – factors that could lead to negative rating action/downgrade

- Significant and sustained decline in revenue or profitability
- Deterioration in the capital structure beyond 1.00x either due to un-envisaged debt programme or rise in corporate guarantees extended to group companies.

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

² As stipulated vide SEBI circular no SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

- Any adverse regulatory outcome.

Detailed description of the key rating drivers - SIIPL

Key Rating Strengths

Highly-experienced and resourceful promoters and professionally-qualified management with a proven track record of five decades

SIIPL is the flagship company of the Poonawalla Group which is promoted by Dr. Cyrus S. Poonawalla (Padma Shri awardee by Government of India in 2005) who along with his family wholly owns SIIPL through their holding company; Poonawalla Investments and Industries Pvt. Ltd. and through their other step down subsidiaries and individual holdings. The group's promoters are resourceful and have presence in wide array of businesses ranging from stud farm, real estate, non-banking finance, aviation, pharmaceuticals and SEZ. With a track record of over of five decades, SIIPL holds the distinction of being the world's largest vaccine manufacturer by number of doses produced and sold globally (more than 1.5 billion doses) which includes Polio, Diphtheria, Tetanus, Pertussis, HIB, BCG, r-Hepatitis B, Measles, Mumps and Rubella vaccines. Mr. Adar Poonawalla, the CEO of SIIPL, leads well-defined organization structure and is supported by qualified and experienced second tier management. This brings in high degree of professional management and operational expertise. Therefore the knowledge, expertise of the technical team along with the promoters and the reputation and long track record of the company in manufacturing vaccine has been key drivers in the growth of SIIPL.

Long-standing affiliations with international agencies and quality certifications for its manufacturing facilities

SIIPL has long-term tie-ups with leading international associations such as WHO, UNICEF (United Nations Children's Fund), and PAHO (Pan American Health Organization). These agreements are long term in nature and signed at regular intervals with delivery schedule as per terms. The existing manufacturing facilities spread across approximately (approx.) 60 acres in Hadapsar and approx. 58 acres in Manjari located in Pune conforms to the Current Good Manufacturing Practice (cGMP) requirements approved by WHO, Geneva. Also, these facilities comply with USFDA indicating high levels of standards which are important to cater to highly regulated markets of United States of America (USA) and European Union (EU).

Strong market position in the vaccine manufacturing segment marked by its diversified geographic presence

SIIPL, in fiscal 2020, sold its vaccines to around 170 countries majority through UNICEF and PAHO, deriving around 85.95% of its revenue through exports, signifying its strong market position in the vaccine manufacturing segment. The top ten countries constitute 41.43% of its export sales. The company recorded total operating income (TOI) of Rs.5774.00 crores in FY20 registering year-on-year growth of 3.09% from Rs.5601.00 crores in FY19. The company's new plant located at Manjri, Pune has been operationalized and its operations will ramp up in the next couple of fiscal years and majority of the benefits are expected to trickle in from FY22 onwards. SIIPL is expected to sustain its strong market position going forward.

SIIPL has been strategically acquiring brownfield projects over the recent past. Bilthoven Biologicals B.V., (BBio) which is a subsidiary of Serum International B.V. and step down subsidiary of SIIPL, has manufacturing plant of approx. 40 acres with an installed capacity of over 20 million doses of vaccines annually, located in Netherland. BBio held 25% of the shares in Praha Vaccines A.S., a facility in Bohumil, Czech Republic, which the company sold off in May 2020 to Novavax, an American vaccine development company.

Further, SIBV has also acquired Vakzine Project Management (step down subsidiary) which is research and Development Company, holding the patent of rBCG vaccine and minority stakes (less than 20% stake) in 3 US companies in CY2019 which are into Research & Development activities.

For the production of vaccine for COVID-19 vaccine, SIIPL has floated a new company by the name of Serum Institute Life Sciences Private Limited that will focus on the pandemic vaccine.

Strong profitability supported by economies of scale, long term contracts with customers and diversified product profile

SIIPL has been enjoying strong profitability margins over the years with PBILDT margin in the range of 54-55% over the last three fiscals through 2020. For FY 20, the PBILDT margin marginally increased to 55.13% due to controlled expense related to cost of raw material which is 5.23% (8.84% in FY 19) of total revenue from operations. The PBILDT margins are further expected to moderate but remain above 50% on account of increase in fixed costs from the operationalizing of the Manjri Plant. The production of vaccines from the newly opened plant has commenced gradually on account of various trials and clearances.

Being, the largest producer of vaccines, it enjoys economies of scale in turn reducing cost of production of each dose. Majority of the revenue company derives from UNICEF and PAHO, this can lead to price risk with regards to any revision in prices by these organizations, post the end of contracts. However, the diversified product profile and its ongoing development of new products shield it from any sharp revision in prices for any particular vaccine.

Robust financial profile limiting threat from new entrants

The company's steady growth in total operating income (TOI) registered y-o-y growth of 3.09% in FY20 to Rs.5774 crores from Rs.5601 crores in FY19. The strong operating margins (PBILDT margin of 55.13% and PAT margin of 38.98%) and retention of profits in the business provides large cushion in case of any exigency. Also, the company's track record of managing capital expenditure (capex) and working capital management primarily through its own accruals has kept the balance sheet largely unleveraged. SIPL has a robust network of Rs.17,690 crores as on March 31, 2020 on account of large accretion to reserves over the years.

Owing to healthy profitability with negligible debt, the company's debt protection metrics are also robust with interest coverage ratio of 127.32 times and Total Debt/GCA of 0.02 times in FY20. With the expectations of sustainment in the revenue and profitability along with no envisaged debt funded capex, the company's financial risk profile may remain strong over the medium term.

Further to above, the vaccine manufacturing sector is a highly regulated sector with approvals required from WHO and US FDA (for sale in USA). Also it requires huge capital expenditure and focus on research and development which limits threat from new entrants.

Liquidity: Strong

SIPL has a healthy liquid investment portfolio (excluding investments in subsidiaries and associates) to the tune of Rs.3941 crore as on March 31, 2020 and cash balance of Rs.180 crore as on March 31, 2020. Further, SIPL had generated gross cash accruals of Rs.2538 crores and is expected to generate large gross cash accruals in the range of Rs.2700 crores in the medium term against which the company has no term loan repayment obligation. Working capital requirements are largely met through internal accruals leading to negligible utilization of fund based limits while average month end non-fund based limits utilization stood at 18.63% over the past 12 months ended August, 2020. Against the GCA the company has no term debt obligations at a standalone level. Even after factoring repayments obligations of subsidiaries/associates for which SIPL has provided corporate guarantee and shortfall undertaking, the company has healthy cushion available.

Analytical approach of SIPL: Standalone**Analytical approach of SBSPL:**

- The bank facilities availed by the SBSPL are backed by short-fall undertaking from Serum Institute of India Private Limited (SIPL). Hence, to arrive at the ratings, CARE has assessed the financial risk profile of SIPL.
- CARE has considered implicit support from Poonawalla group, particularly SIPL's support to SBSPL on account of strong business linkages and funding support from SIPL.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch'](#)

[CARE's Policy on Default Recognition](#)

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

[Rating Methodology-Factoring Linkages in Ratings](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology-Pharmaceutical Sector](#)

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

[Criteria for Rating Credit Enhanced Debt](#)

About the Company – SIPL

SIPL was incorporated in 1966 as a partnership firm and promoted by the Poonawalla Group headed by Dr. Cyrus S. Poonawalla to manufacture life-saving immune-biological, which were in short supply in India and were imported at high prices. The company was reconstituted as a public limited company on May 22, 1984 and named 'Serum Institute of India Limited'. Further, on October 21, 2015, the company was converted to a Private Limited company and its name changed to current name. SIPL has established itself as one of the world's largest producer of Measles and DTP (Diphtheria, Tetanus and Pertussis) group of vaccines.

About the Company – SBSPL

SBSPL was established in January 2006, and is a part of Pune (Maharashtra) based Cyrus Poonawalla group. Majority of the shareholding is held by Serum Institute of India Private Limited (SIPL; stake of 51.20% as on March 31, 2020; rated 'CARE AAA / CARE A1+ reaffirmed in December 2020) which is the flagship company of the Poonawalla group. During FY20, the stake of SIPL was increased from 9% to 51% and thereby SEZ became a subsidiary of SIPL. While the remaining shareholding is held by the body corporates which are 100% owned and controlled by Dr. Cyrus S Poonawalla and family members.

SBSPL revenue segments are bifurcated into two: i) Sales & Services which includes processed cold air, processed water for injection, processed pure steam, power house utility equipments & services, water treatment services, etc. ii) Lease rentals which includes Infrastructure services i.e. construction of building to suit the manufacturer's requirements and giving the same on lease. Currently, it manages two special economic zone (SEZ) namely - Hadapsar SEZ and Manjari SEZ both located in Pune and leased out to SIPL.

SIPL

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5601	5774
PBILDT	3071	3183
PAT	2250	2511
Overall gearing (times)	0.01	0.00
Interest coverage (times)	113.74	127.32

A: Audited

SBSPL

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	118.24	134.51
PBILDT	61.04	65.25
PAT	6.53	19.36
Overall gearing (times)	4.37	2.19
Interest coverage (times)	3.25	3.12

A: Audited

*CARE has considered the preference share capital subscribed by SIPL (one of the shareholder and credit enhancement provider of SBSPL) as neither debt nor equity.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument/facilities: Please refer Annexure-3

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	January 29, 2019	-	-	125.00	CARE AA+ (CE); Stable
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE AA / CARE A1+
Fund-based - LT-Term Loan	August 20, 2020	7.65%	November 30, 2028	107.00	CARE AA+ (CE); Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	August 20, 2020	-	-	18.00	CARE AA+ (CE); Stable / CARE A1+ (CE)

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	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	125.00	CARE AA+ (CE); Stable	-	1)CARE AA+ (CE); Stable (06-Jan-20)	1)CARE AA+ (SO); Stable (07-Dec-18)	1)CARE AA+ (SO) (05-Jan-18)
2.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE AA / CARE A1+	-	1)CARE A (06-Jan-20)	-	-
3.	Fund-based - LT-Term Loan	LT	107.00	CARE AA+ (CE); Stable	-	-	-	-
4.	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	18.00	CARE AA+ (CE); Stable / CARE A1+ (CE)	-	-	-	-

Annexure 3: Covenants of rated instrument/facilities – NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

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.

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