

March 10, 2022

Biocon Biologics Limited: Ratings placed under watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	916.00	916.00	[ICRA]AA+&; placed under watch with developing implications
Working Capital Facilities	661.70	661.70	[ICRA]A1+&; placed under watch with developing implications
Untied Limits	22.30	22.30	[ICRA]AA+& / [ICRA]A1+&; placed under watch with developing implications
Total	1,600.00	1,600.00	

*Instrument details are provided in Annexure-1

&: under rating watch with developing implications

Rationale

On February 28, 2022, Biocon Limited (Biocon; rated [ICRA]AA+&/[ICRA]A1+&) announced that its subsidiary, Biocon Biologics Limited ('BBL'), has approved the proposed acquisition of biosimilars assets of Viatrix Inc. (Viatrix) for a consideration of up to \$3.335 billion in stock and cash, subject to necessary regulatory and other approvals. Through the acquisition, BBL will acquire Viatrix' global biosimilars business with estimated revenues and OPBDITA of \$875 million and \$200 million, respectively for CY2022, and \$1.1 billion and \$250 million respectively for CY2023, along with its portfolio of in-licensed biosimilar assets. The consideration would be a mix of cash and stock, and BBL will be paying an upfront cash consideration of \$2 billion on closing the transaction and up to \$335 million as additional payments expected to be paid in CY2024. Additionally, upon closing the transaction, BBL will issue \$1 billion of Compulsorily Convertible Preference Shares (CCPS) to Viatrix, equivalent to an equity stake of at least 12.9% in BBL, on a fully diluted basis. The cash payment of \$2 billion is expected to be funded by \$800 million raised through equity infusion in BBL from existing shareholders (including Biocon) while the balance will be funded by debt, additional equity or a combination thereof. The transaction is expected to close in H2 CY2022, subject to satisfaction of closing conditions (including certain regulatory approvals).

This transaction is expected to accelerate BBL's direct market strategy for its biosimilars portfolio by gaining commercial engines in the developed markets including USA and Europe. BBL will also acquire complete ownership of Viatrix' rights in biosimilars assets, enabling it to realise the full revenue and associated profits from its partnered products, thereby expanding its operating profits. These are step-ups from its existing arrangement with Viatrix. The deal is also expected to provide other advantages, including strategic agility and operational efficiencies, which could aid BBL in mitigating pricing pressures in a competitive global biosimilars landscape to an extent.

ICRA takes note of the development and has placed the ratings on watch with developing implications, pending complete clarity on the acquisition's funding plan, in terms of the debt to be raised and the impact of the same on Biocon's consolidated debt and coverage indicators post the transaction. Nonetheless, ICRA understands that the transaction, upon successful completion, could increase BBL's debt levels in the near term. Despite incremental OPBDITA from the acquired entity, the debt metrics of Biocon could weaken because of the additional borrowings. In addition to this, any debt raised at the parent level (Biocon) for funding its portion of equity infusion into BBL, could add to Biocon's consolidated borrowings over the near-term. BBL has indicated that it has plans for an IPO in the next 18-24 months. Further, Biocon (standalone) will also evaluate options for equity raise or monetisation of existing investments in its subsidiaries to fund the transaction.

ICRA will continue to monitor the developments on the transaction, especially on the incremental net debt, and take appropriate rating action as and when more clarity emerges. Pressure on ratings could emerge if the borrowings increase significantly from the current levels at Biocon consolidated level, in the absence of adequate equity infusion and management's deleveraging plans. Downward pressure on ratings could also arise from any delay in integration or margin contraction owing to delays or lower than expected revenue potential of product launches in the merged entity.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: [Click here](#)

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Pharmaceutical Industry Rating Approach – Implicit support from Parent or Group
Parent/Group Support	Biocon Limited (rated [ICRA]AA+&/[ICRA]A1+&) currently holds a 93.5% stake ¹ in BBL. It enjoys financial and operational flexibility by virtue of its parentage.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BBL. As on March 31, 2021, the company had one subsidiary and five stepdown subsidiaries which are listed in Annexure-2.

About the company

Biocon Biologics Limited (BBL), a subsidiary of Biocon Limited, manufactures and commercialises biosimilar products. As on date, the company has commercialised eight products in developed and emerging markets primarily in the oncology, diabetes and immunology segments. It has strategic partnerships with global players like Viartis and Sandoz for commercialisation of its biosimilars. BBL recently entered into a collaboration with Adagio Therapeutics for a novel Covid antibody therapy and a strategic alliance with SILS for vaccines and infectious diseases antibodies.

BBL currently has four private equity investors, including Activ Pine LLP (affiliate of True North Fund), Tata Capital Growth Fund II, Goldman Sachs and Beta Oryx Limited (affiliate of Abu Dhabi-based ADQ). The PEs have invested Rs. 2,442.2 crore in the company during January 2020 to January 2021 in the form of equity (combined stake of 5.09%) and redeemable optionally convertible debentures. Also, BBL will offer a 15% equity stake to SILS for the recent vaccine collaboration, subject to the receipt of regulatory approvals. The alliance with SILS for vaccines enables BBL to generate a committed revenue stream and related margins, commencing H2 FY2023. Currently, BBL has announced proposed acquisition of biosimilar assets of Viartis Inc., and the transaction is expected to be concluded by H2 CY2022.

Key financial indicators (audited)

BBL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2,305.5	2,797.2
PAT (Rs. crore)	317.3	267.5
OPBDITA/OI (%)	32.2%	27.0%
PAT/OI (%)	13.8%	9.6%
Total Outside Liabilities/Tangible Net Worth (times)	8.3	4.0
Total Debt/OPBDITA (times)	5.8	6.7
Interest Coverage (times)	9.0	20.3

¹ BBL shall offer a 15% stake to SILS, subject to necessary approvals; Biocon Limited's stake to reduce to 78.5% post completion of this transaction.

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; All ratios are as per ICRA calculations

Source: Company and ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in FY2022		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				Mar 10, 2022	Jan 11, 2022			
1 Term Loans	Long Term	916.00	916.00	[ICRA]AA+&	[ICRA]AA+ (Stable)	-	-	-
2 Working Capital Facilities	Short Term	661.70	--	[ICRA]A1+&	[ICRA]A1+	-	-	-
3 Untied Limits	Short Term/Long Term	22.30	--	[ICRA]AA+&/ [ICRA]A1+&	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-

&: under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Working Capital Facilities	Simple
Untied Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2019	3 Months T-bill + 2.39% p.a.	April 2026	350.00	[ICRA]AA+&
	Term Loans*	FY2021	LIBOR + 1% p.a.	April 2025	566.00	[ICRA]AA+&
	Working Capital Facilities	NA	NA	-	661.70	[ICRA]A1+&
	Untied Limits	NA	NA	-	22.30	[ICRA]AA+&/ [ICRA]A1+&

Source: Company; * in the form of External Commercial Borrowings

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	BBL Ownership	Consolidation Approach
Biocon Biologics UK Limited (formerly Biocon Biologics Limited)	100%	Full Consolidation
Biocon SDN BHD, Malaysia	100% by Biocon Biologics UK Limited	Full Consolidation
Biocon Biologics Inc, USA		Full Consolidation
Biocon Biologics Healthcare Malaysia SDN BHD, Malaysia		Full Consolidation
Biocon Biologics Do Brasil Ltda, Brazil		Full Consolidation
Biocon Biologics FZ LLC, UAE		Full Consolidation

Source: BBL's annual report FY2021

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 5328
shamsherd@icraindia.com

Vinutaa S
+91 44 4596 4305
vinutaa.s@icraindia.com

Seetha Pillai
+91 7550087070
seetha.pillai@icraindia.com

Srikumar Krishnamurthy
+91 44 45964314
ksrikumar@icraindia.com

Mythri Macherla
+91 9701191490
mythri.macherla@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.