

March 21, 2022

Syngene International 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 (External Commercial Borrowings)	600.00	600.00	[ICRA]AA+&; placed under watch with developing implications
Long-term fund based	29.00	29.00	
Short-term fund based	846.00	846.00	[ICRA]A1+&; placed under watch with developing implications
Short-term unallocated	25.00	25.00	
Total	1500.00	1500.00	

*Instrument details are provided in Annexure-1
&: under rating watch with developing implications

Rationale

Vide release dated March 10, 2022, ICRA has placed the [ICRA]AA+ and [ICRA]A1+ ratings of Biocon Limited (Biocon) on watch with developing implications, following an acquisition announcement by Biocon Biologics Limited, a subsidiary of Biocon and a fellow subsidiary of Syngene International Limited (Syngene). Biocon Limited (rated [ICRA]AA+&/[ICRA]A1+&) holds 70.2% stake in Syngene and Syngene enjoys implicit financial and operational flexibility by virtue of its parentage. The ratings for Syngene have also been placed on watch with developing implications, following the rating action on Biocon Limited.

Biocon Limited (Biocon) 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 of the transaction and up to \$335 million as additional payments expected to be paid in CY2024. Additionally, upon closing of 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.

Biocon's ratings were placed 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 on Biocon as and when more clarity emerges. Pressure on Biocon’s 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 Biocon’s 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 implicit or explicit support from parent or group on an entity’s credit rating Rating Methodology for pharmaceutical industry
Parent/Group Support	Biocon Limited (rated [ICRA]AA+&/[ICRA]A1+&) holds 70.2% stake in Syngene. Syngene enjoys implicit financial and operational flexibility by virtue of its parentage.
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Syngene International Limited

About the company

Syngene International Limited (Syngene), a subsidiary of Biocon Limited, is a contract research organisation (CRO) providing integrated discovery and development services for novel molecules across multiple platforms, including small molecules, large molecules, antibody drug conjugates and oligonucleotides. The company’s strengths include synthetic chemistry and molecular biology. Syngene offers outsourced services to over 400 global customers across biotechnology, nutrition, animal health, consumer goods and specialty chemicals including majors such as BMS, Amgen, Herbalife and Baxter, etc. Syngene has 2 million sq. ft. of R&D infrastructure and over 4,700 scientists currently. Syngene also incorporated a wholly-owned subsidiary, Syngene USA Inc., in the USA in FY2018 for providing marketing services to the company in the region.

Key financial indicators (audited)

Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	2,026.3	2,201.4
PAT (Rs. crore)	412.1	404.9
OPBDIT/OI (%)	30.5%	30.8%
PAT/OI (%)	20.3%	18.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	0.7
Total Debt/OPBDIT (times)	1.3	1.3
Interest Coverage (times)	17.9	24.5

Source: Company and ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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 March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					March 21, 2022	Sep 6, 2021	Aug 10, 2020	Sep 13, 2019	Jul 31, 2018	
1	Term loans (ECB)	Long-term	600.00	512.40	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Positive)	[ICRA]AA (Positive)	
2	Long-term unallocated		0.00	-	-	-	-	-	[ICRA]AA (Positive)	
3	Long-term fund based		29.00	NA	[ICRA]AA+&	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-	
4	Long-term/short term fund based	Long/Short term	0.00	-	-	-	-	-	[ICRA]AA (Positive)/ [ICRA]A1+	
5	Long-term/short term unallocated		0.00	-	-	-	-	[ICRA]AA (Positive)/ [ICRA]A1+	-	
6	Short-term fund based	Short term	846.00	259.90	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	-	-	
7	Short-term non-fund based		00.00	NA	-	-	[ICRA]A1+	-	-	
8	Short-term unallocated		25.00	NA	[ICRA]A1+&	[ICRA]A1+	[ICRA]A1+	-	-	

&-under rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans (ECBs)	Simple
Long-term fund based	Simple
Short-term unallocated	Not applicable
Short-term fund based	Simple

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan- ECB	FY2021	Libor + 1.3%	FY2026	375.00	[ICRA]AA+&
	Term Loan- ECB	FY2021	Libor + 0.87%	FY2026	225.00	
	Long Term- Fund Based- OD	NA	NA	NA	24.00	
	Long Term- Fund Based- CC	NA	NA	NA	5.00	[ICRA]A1+&
	Short Term- Fund Based- PCFC/WCDL	NA	NA	NA	846.00	
	Short Term- unallocated	NA	NA	NA	25.00	

Source: Company, ICRA Research

Annexure-2: List of entities considered for consolidated analysis

Company Name	Syngene Ownership	Consolidation Approach
Syngene USA Inc	100%	Full Consolidation
Syngene Employees Welfare Trust	100%	Full Consolidation

Source: Company, ICRA Research

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
srikumark@icraindia.com

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

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
[jayantac@icraindia.com](mailto:jyantac@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

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ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



Branches



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