

Hester Biosciences Limited

July 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	133.26 (Enhanced from 113.35)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	5.00	CARE BBB+; Stable / CARE A2	Assigned
Long Term / Short Term Bank Facilities	60.00 (Enhanced from 50.00)	CARE BBB+; Stable / CARE A2	Reaffirmed
Short Term Bank Facilities	0.22	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Hester Biosciences Limited (HBL) continue to derive strength from experienced promoters, long and established track record of operations with strong position in the poultry vaccine industry, diversified product portfolio with increasing focus on the large animal division and healthcare products, its wide marketing and distribution network and adequate liquidity.

The above rating strengths are, however, tempered by its modest scale of operation, large working capital requirement due to inherently high inventory holding requirement and presence in the regulated vaccine industry. The ratings also factors in moderation in its profitability during FY22 (FY refers the period from the April 1 to March 31) and FY23 and delay in the implementation of the Covaxin drug substance project with limited demand prospects as well as delay in the ramp-up of the operation in the Hester Biosciences Africa Limited (HBAL, subsidiary company) which would result in moderate return indicators in the near term. However, CARE Ratings Limited (CARE Ratings) continue to take the cognisance of the receipt of the capital grants towards funding of the project cost of the Covaxin drug substance project as well as the un-utilised funds at HBAL level supporting the operations in the initial phase.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in its scale of operations with total operating income (TOI) of more than ₹300 crore along with profit before interest, lease, depreciation and tax (PBILDT) margin above 24% on a sustained basis.
- Improvement in the return indicators with return on capital employed (ROCE) above 15% on a sustained basis.
- Improvement in the overall gearing below 0.75x on a sustained basis.

Negative factors

- Decline in the TOI below ₹200 crore or PBILDT margin below 16%.
- Deterioration in the overall gearing beyond 1x and/or total debt to PBILDT above 4x in FY23 and 3x thereafter.
- Any elongation in the operating cycle adversely affecting its cash flow from operations and liquidity

Analytical approach: Consolidated

Consolidated financials of HBL comprising HBL (Standalone), its four subsidiaries and one joint venture (JV). The details of the subsidiaries consolidated are shown in **Annexure-3**.

Outlook: Stable

The stable outlook reflects that HBL is expected to maintain its financial risk profile supported by its strong presence in the poultry vaccine segment in the Indian market along with growing animal healthcare segment.

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

Detailed description of the key rating drivers:

Key strengths

Experienced promoters

HBL was founded by Rajiv Gandhi, CEO and Managing Director, who has an experience of more than three decades in the vaccine industry and looks after the overall operations of the company. He is also the member of the National Advisory Committee for Animal Husbandry and Dairying Sector, constituted by the Government of India.

The promoters are supported by qualified second-tier management. Over the years, the company has regularly launched new products as well as expanded its geographical presence in various countries, including African continent and Nepal, through its subsidiaries, mainly Hester Biosciences Africa Limited (HBAL) and Hester Biosciences Nepal Private Limited (HBNPL), complementing the Indian operations.

Long and established track record of operations

HBL has an established track record of more than three decades in the manufacturing of the poultry vaccines. HBL primarily operates in two segments: first, Poultry Healthcare (vaccines and healthcare products); and second, Animal Healthcare (vaccines and healthcare products). HBL manufactures vaccines and healthcare products mainly for the poultry apart from sheep, goat, cattle and buffalo. From FY22, HBL had also ventured into pet care segment with initial focus on segments ranging from dermatology, grooming, specialty nutrition, anti-infective parasiticides and specialty products. Vaccines at HBL include viral and bacterial vaccines.

Over the years, the company has also expanded its geographical presence with setting up plants in Nepal and Tanzania under its subsidiaries. HBL has four subsidiaries, namely, Texas Lifesciences Private Limited (TLPL), Hester Biosciences Kenya Limited (HBKL), Hester Biosciences Nepal Private Limited (HBNPL), and HBAL. HBNPL is engaged in the manufacturing and supplying of animal vaccines. In HBAL, it had setup a plant for manufacturing and supplying of veterinary vaccines and animal health products, and HBKL is the distribution company for the African market. TLPL, manufactures healthcare products, such as pharma formulations, tablets, capsules, powder, oral liquid, etc. for human and veterinary health at Mehsana, Gujarat, which are sold in the Indian market through HBL.

Diversified product portfolio with increasing focus on the large animal division and healthcare products

As on March 31, 2022, the product portfolio of HBL comprises around 51 vaccines (including 48 poultry vaccines and 3 large animal vaccines) and more than 70 animal health products (including therapeutics, drugs, feed supplements, herbal products and disinfectants). HBL manufactures Peste Des Petits Ruminants (PPR), Goat Pox Vaccine (GPV) and Brucella abortus (S19 Delta Per) vaccine in India. Furthermore, HBL is diversifying its revenue stream from dependency on the poultry segment to large animal division and healthcare products. HBL is also developing classical swine fever vaccine, lumpy skin disease (LSD) vaccine and sheep pox vaccine. HBL also had collaboration agreement with Novapharma, Egypt, for the manufacturing and selling of veterinary vaccines through the technical expertise from HBL. In return, HBL has exclusive marketing and distribution rights for all the products manufactured at Novapharma for 30 countries, including vaccine for the Avian Influenza.

Established marketing and distribution network

Over the years, HBL has set-up a multi-locational cold chain for the distribution and storage of vaccines. The marketing network of HBL is supported by seven own warehouses, nine consignee agents through which it caters various distributors at PAN-India level. HBL has presence across more than 30 countries in Asia, Africa, and European region. During FY22 and FY23, HBL expanded its workforce significantly (primarily sale force and marketing personnel) to expand its healthcare products as well as pet care products segment.

During FY22, HBL had acquired 50% stake in the Thrishool Exim Limited (TEL); Tanzania based supplier and distributor of animal health and nutrition products. Furthermore, HBL has collaborated with local distributors in few countries apart from its two marketing subsidiaries, namely, HBKL (in Kenya) and a step-down subsidiary, namely, Hester Biosciences Tanzania Limited (HBTL) in Tanzania, for marketing of veterinary vaccines and animal health products in the African region. CARE Ratings expects, development of the distribution network coupled with scaling-up of operation in the HBAL is expected to create synergy in African market and drive growth of the company in the medium term. Also, TEL has reported profitable operations during FY23.

Good opportunity in the animal healthcare market

Food and Agriculture Organization (FAO) of the United Nations (UN) and OIE (World Organization for Animal Health) have embarked on a worldwide PPR disease eradication programme over a period of 15 years, starting in 2015. This PPR eradication project is expected to induce high demand for the PPR vaccine. Through its manufacturing set-up in Nepal, HBL is engaged in the manufacturing of PPR and Goat pox vaccines of Nigerian strain, thereby providing growth opportunity. Furthermore, Government of India has launched National Animal Disease Control Programme (NADCP) to control Foot and Mouth Disease

(FMD) and Brucellosis to support the livestock rearing farmers and has allocated ₹13,343 crore to be expended over the next five years, which also provides growth opportunity. Government of India is expected to spend around ₹90 crore per annum for five years on Brucella vaccine under NADCP. HBL is one of the two suppliers for this vaccine, which along with strong new product pipeline is expected to augur well for HBL. HBL is also one of the entities shortlisted for the development of the vaccine for the monkey pox.

Key weaknesses

Delay in implementation of the Covaxin drug substance project with limited demand prospects as well as delay in the ramp-up of the operation in the subsidiary which would result in moderate return indicators in near term

Covaxin project was earlier expected to be completed by the end of March 2022 which got delayed due to the delay in the receipt of certain machineries and revision in some specifications and same got completed in Q4FY23 with receipt of regulatory approval for the BSL-3 facility. The project cost was also revised upwards from initial estimates. However, considering the limited demand for Covaxin vaccine in the domestic market due to lessening of effect of COVID-19, the saleability risk remains higher. As articulated by the management, Covaxin facility is a multipurpose facility and can be utilised for other products and hence, operationalisation and capacity utilisation of the same would remain key credit monitorable.

In HBAL, the company has completed green field animal vaccine project (in Tanzania) with installed capacity of 1.50 billion doses of the animal vaccines in September 2021 with project cost of around USD 18 million. HBAL had received major approval from the Tanzania Medicines and Medical Devices Authority (TMMDA) during FY22; however, selling approval was received during 9MFY23, resulting in delay in the ramp-up of operations and negligible operations during FY23. The ramp up of the same is expected to be gradual considering tender driven nature of industry. Interest payment of the project debt had commenced from December 2022 and principal repayment would start from the June 2025 and HBAL has cushion available in the form of the unutilised soft loan of around USD 2 million (intended for working capital funding) in the medium term.

Apart from above, HBL (India) is also undertaking expansion project of vaccine manufacturing capacity (6.25 billion doses to around 13.90 billion doses) with total project cost of ₹54 crore. Same is undergoing equipment qualifications.

Over the last 4 years ended FY23, the company had undertaken capex of over ₹250 crore (including ongoing projects), which had faced challenges in timely execution and scaling-up of operations resulting in moderation in return indicators marked by ROCE from around 19% in FY18 to around 11% in FY22, on a consolidated level. Going forward, CARE Ratings expects, ROCE to remain around 8%-11% in the medium term with gradual ramp-of operations from recently completed/ongoing expansion projects.

Moderation in the profitability, capital structure and debt coverage indicators

On consolidated level, HBL had healthy profitability in poultry vaccine resulting in PBILDT margin of 35%-40% in the past, but the same had declined during FY22 and FY23 to 25.55% and 19.52%, respectively, due to change in the sales mix towards healthcare products having comparatively lower margins, increase in the sales manpower and higher marketing spends. Overall, CARE Rating expects PBILDT margin to remain around 22%-27% in the near term.

There has been significant increase in the total debt of HBL on the back of capital expenditure undertaken at HBL and in the subsidiaries. Overall gearing though remained comfortable, stood moderate at 0.86x as on March 31, 2023. Debt coverage indicators had moderated marked by TDGCA and total debt to PBILDT from 4.92x and 3.80x, respectively as on March 31, 2022 to 7.20x and 5.27x respectively as on March 31, 2023.

Going forward, CARE Ratings expects the overall gearing of HBL to remain below unity in the medium term with receipt of grants and healthy cash flow from existing operations.

Modest albeit growing scale of operations

HBL's TOI grew by around 14% to ₹267.76 crore during FY23 (FY22: ₹235.09 crore) on the back of significant growth in the animal healthcare segment which more than doubled on a y-o-y basis whereas poultry segment (majorly vaccines) sales de-grew by 17% on a y-o-y basis. De-growth in the poultry segment during FY23 was due to higher base effect and lower demand on the back of rise in the feed cost impacting the overall vaccine demand from the end customers. HBL's standalone TOI of ₹257.23 crore during FY23 continued to remain major contributor to the consolidated TOI.

TLPL has small albeit growing scale of operation in line with the growth in the HBL's healthcare products portfolio. HBNPL is largely a tender-driven business, which has reported TOI of around ₹12 during FY23 as compared with ₹13.93 crore during FY22. HBKL is into trading business operating at small scale. Despite steady growth in its TOI, HBL continued to operate on modest scale of operation.

Going forward, CARE Ratings expects that the growth in the TOI of HBL would be supported by the completion and commercialisation of its capacity expansion project along with growth in the healthcare segment and commercialisation of the new animal vaccines. Revenue from HBAL project and Covaxin project is key credit monitorable.

Large working capital requirement due to inherently high inventory holding requirement

The operations of HBL remained working capital intensive with high inventory requirements considering the nature of its products. High inventory days is largely due to the manufacturing process of the product which requires average two-three months of work-in-progress for various stages of product development for the formulation, processing, stimulations and quality check, etc.

Presence in regulated industry and risk related to the poultry industry

The vaccine industry has very high entry barriers and is a highly regulated market in terms of intellectual property rights (IPR) and other regulatory requirements. Furthermore, the poultry industry is exposed to the risks of outbreak of diseases, which in turn, could affect the poultry vaccine industry. Such instances cause a severe reduction in the consumption of poultry products besides causing a cascading effect on the profitability of poultry companies. Furthermore, the demand of HBL's products is dependent upon the farmer's ability to spend on poultry vaccines and healthcare products. In case of rise in the cost of animal feed, farmers may be forced to cut expenditure on healthcare products.

Liquidity: Adequate

HBL has adequate liquidity marked by moderate cash accruals against its debt repayment obligation and cushion available from unutilised working capital limits. On a consolidated basis, HBL is expected to earn healthy GCA as against debt repayment obligation of around ₹22-24 crore during FY24. HBL had received first instalment of government grant of ₹24 crore during Q1FY23 and balance to be received in stagewise manner which would support the cash flows going forward. The overall liquidity of HBL is also supported by cushion available against unutilised working capital limits with average fund-based working capital utilisation of around 75% for past 12 months ended April 2023. The reported cash flow from operations was at ₹23.60 crore during FY23 as compared with ₹8.71 crore during FY22.

HBAL had availed soft loan from BMGF where principal re-payment will start from June 2025 providing added cushion to build the liquidity. Also, HBNPL has paid off majority of its term debt, and does not require any major financial support from HBL. Current ratio and quick ratio though moderated, remained strong. On a consolidated basis, HBL had cash and bank balance of ₹13.16 crore as on March 31, 2023 (₹24.73 crore as on March 31, 2022).

Environment, social and governance (ESG) risks

Risk Factors	Compliance and action by the company
Environment	The quality and environment practices of the company follows ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards.
Social	HBL has implemented CSR policy & undertakes various initiatives such as education & healthcare, environment sustainability, homes and workshop for persons with intellectual disabilities etc. It regularly plans training for the employees and workers.
Governance	HBL has complied with all the rules, regulations, directions, and guidelines issued by the local, state, and national governments, as well as international authorities. The Company has required committees and policies in place, which include corporate social responsibility, a code of conduct, a whistle blower mechanism, etc. The Company's Board of Directors comprises ten Directors (excluding an alternate director), which include five Independent Directors, two Executive Directors, and three Non-Executive Directors. HBL has two women Directors on the Board.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Pharmaceutical](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in the year 1987, HBL (CIN: L99999GJ1987PLC022333) was promoted by Rajiv Gandhi as a private limited company and was subsequently converted into a public limited company in 1993. HBL is one of the largest poultry vaccine manufacturers in the country. It also manufactures animal vaccine as well as health products for animal and poultry. HBL's manufacturing facility is located at Kadi in the Mehsana district of Gujarat with installed capacity of 6.25 billion doses per annum as on March 31, 2023. HBL has four subsidiaries, namely, TLPL, HBKL, HBNPL and HBAL and one JV, i.e., TEL.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	235.09	267.76
PBILDT	60.07	52.28
PAT	39.48	28.04
Overall gearing (times)	0.80	0.86
Interest coverage (times)	14.78	5.61

A: Audited; Note: 'the above results are latest financial results available'

Brief Financials (₹ crore)-Standalone	March 31, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	221.33	257.23
PBILDT	62.55	58.12
PAT	39.52	32.34
Overall gearing (times)	0.45	0.52
Interest coverage (times)	25.34	8.94

A: Audited; Note: 'the above results are latest financial results available'

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 / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of various instruments rated: Annexure-5

Lender details: Annexure-6

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 along with Rating Outlook
Fund-based - LT-External Commercial Borrowings	-	-	-	December 2027	89.23	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	July 2029	44.03	CARE BBB+; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	60.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	5.00	CARE BBB+; Stable / CARE A2

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 along with Rating Outlook
Non-fund-based - ST-Credit Exposure Limit	-	-	-	-	0.22	CARE A2

Annexure-2: Rating history for the 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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ST-Cash Credit	LT/ST*	60.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (07-Feb-23)	1)CARE A-; Stable / CARE A2 (21-Jan-22)	1)CARE A-; Stable / CARE A2 (11-Nov-20)
2	Fund-based - LT-Term Loan	LT	44.03	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Feb-23)	1)CARE A-; Stable (21-Jan-22)	1)CARE A-; Stable (11-Nov-20)
3	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	1)Withdrawn (21-Jan-22)	1)CARE A2 (11-Nov-20)
4	Non-fund-based - ST-Credit Exposure Limit	ST	0.22	CARE A2	-	1)CARE A2 (07-Feb-23)	1)CARE A2 (21-Jan-22)	1)CARE A2 (11-Nov-20)
5	Fund-based - LT-External Commercial Borrowings	LT	89.23	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Feb-23)	1)CARE A-; Stable (21-Jan-22)	-
6	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	5.00	CARE BBB+; Stable / CARE A2	-	-	-	-

*Long term/Short term.

Annexure-3: List of subsidiaries/ joint ventures of HBL getting consolidated

Sr. No.	Name of the Entity	% holding as on March 31, 2023
1.	Texas Lifesciences Private Limited	54.81%
2.	Hester Biosciences Kenya Limited	100%
3.	Hester Biosciences Nepal Private Limited	65%
4.	Hester Biosciences Africa Limited	100%
5.	Thrishool Exim Limited	50%

Annexure-4: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-5: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-External Commercial Borrowings	Simple
2.	Fund-based - LT-Term Loan	Simple

Sr. No.	Name of the Instrument	Complexity Level
3.	Fund-based - LT/ ST-Cash Credit	Simple
4.	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5.	Non-fund-based - ST-Credit Exposure Limit	Simple

Annexure-6: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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