

## Hester Biosciences Limited

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	122.28 (Reduced from 133.26)	CARE BBB+; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	65.00	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 animal healthcare products and its wide marketing and distribution network. The ratings continue to take into account its moderate profitability, comfortable capital structure and adequate liquidity.

The above rating strengths are, however, constrained by its modest scale of operations, large working capital requirement due to inherently high inventory holding requirement and presence in the regulated vaccine industry. The ratings also factor in moderation in its debt coverage and return indicators during FY23 (refers the period from the April 1 to March 31) owing to subdued operations in its subsidiary Hester Biosciences Africa Limited (HBAL) which is yet to scale-up, along with delay in the completion / ramp up of capacity expansion projects undertaken in HBL (India).

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in 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 3x on sustained basis.
- Any elongation in the operating cycle adversely affecting cash flow from operations and liquidity

### Analytical approach: Consolidated

Consolidated financials of HBL comprising HBL (Standalone), its five subsidiaries and one joint venture (JV). The details of the subsidiaries and JVs consolidated are shown in **Annexure-6**.

### 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.

### 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 over 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, company has regularly launched new products and expanded its geographical presence across various countries, including Africa and Nepal through its subsidiaries, mainly Hester Biosciences Africa Limited (HBAL) and Hester Biosciences Nepal Private Limited (HBNPL), complementing the HBL (India) operations.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Long and established track record of operations**

HBL has an established track record of over three decades in the manufacturing of the poultry vaccines. HBL primarily operates in two segments: Poultry and Animal. It manufactures vaccines (viral and bacterial) and healthcare products for these both segments. It manufactures vaccines and healthcare products 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.

Over the years, the company has also expanded its geographical presence with setting up manufacturing plants in Nepal under Hester Biosciences Nepal Limited (HBNPL) and Africa under HBAL. HBNPL and HBAL are engaged in the manufacturing and supplying of animal vaccines. Other two subsidiaries, viz. Hester Biosciences Tanzania Limited (HBTL; a step-down subsidiary) and Hester Biosciences Kenya Limited (HBKL) are distribution companies for the African market. Under the fifth subsidiary viz. Texas Lifesciences Private Limited (TLPL), healthcare products such as pharma formulations, tablets, capsules, powder, oral liquid, etc. for human and animal are manufactured and major portion of which is sold to HBL (India).

**Diversified product portfolio with established marketing and distribution net-work**

As on March 31, 2023, the product portfolio of HBL comprises more than 50 vaccines and wide range of animal health products (including therapeutics, drugs, feed supplements, herbal products and disinfectants). It manufactures Peste Des Petits Ruminants (PPR), Goat Pox Vaccine (GPV) and Brucella abortus (S19 Delta Per) vaccines in India.

Over last two years, HBL has expanded its footprint in the animal healthcare segment with sizable addition to its sales force, which resulted in an increase in the sales proportion of the total healthcare segment (animal as well as poultry) from around 10% during FY21 to around 30% during FY23 and H1FY24. HBL is also developing classical swine fever vaccine, lumpy skin disease (LSD) vaccine and sheep pox vaccine commercialization of which would further expands its vaccine portfolio.

HBL, under its technical collaboration with Egypt-based Novapharma, provides the technical expertise for the manufacturing and selling of vaccines. In return, HBL has exclusive marketing and distribution rights for all the products manufactured at Novapharma including vaccine for the Avian Influenza.

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 and ten 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, HBL had acquired 50% stake in the Thrishool Exim Limited (TEL); Tanzania based supplier and distributor of animal health and nutrition products. Apart from its marketing subsidiaries viz HBTL and HBKL, it also has collaboration with the local distributors in few countries. CARE Ratings Limited (CARE Ratings) expects that development of the distribution network coupled with scaling-up of operations in the HBAL is expected to create synergy in African market and drive growth of the company.

**Financial risk profile marked by moderate profitability and comfortable capital structure**

PBILDT margin remained moderate at 19.28% (FY22: 25.55%) and 18.91% during H1FY24 due to subdued profitability in the poultry segment and change in the sales mix towards animal healthcare segment, thus impacting the gross profit margin; alongwith high market development cost. Profit after tax (PAT) margin too moderated albeit it remained adequate at 10.50% during FY23 which also includes grant amortization income. With this, gross cash accruals (GCA) moderated from ₹46.39 crore during FY22 to ₹38.26 crore during FY23.

CARE Ratings expects the PBILDT margin to improve from the existing level with improvement in the poultry vaccine segment and benefit of the new capacities coming on-stream.

Capital structure of the company, though moderated as compared to the past level, remained comfortable marked by overall gearing of 0.86x as on March 31, 2023 and 0.81x as on September 30, 2023. Tangible net-worth grew to ₹320.33 crore as on March 31, 2023 (which includes capital grant of ₹32.25 crore) and ₹339.54 crore as on September 30, 2023 (which includes capital grant of ₹48 crore). With no major new debt avilment planned, CARE Ratings expects overall gearing of HBL to remain below unity in medium term.

**Focus in the animal healthcare market**

Food and Agriculture Organization (FAO) of the United Nations (UN) and World Organization for Animal Health (OIE) have embarked on a worldwide PPR disease eradication programme which is expected to induce high demand for the PPR vaccine. 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 (2019-20 to 2023-24), which also provides growth opportunity. Government of India is also taking several preventive measures for the prevailing lumpy skin disease. HBL is one of the two suppliers for this vaccine, which along with strong new product pipeline is expected to augur well for the company. Furthermore, HBL is also one of the entities shortlisted for the development of the vaccine for the monkey pox.

## Key weaknesses

### Modest scale of operations

HBL's TOI grew by around 14% on a y-o-y basis to ₹266.94 crore during FY23, though its scale remained moderate. Growth in FY23 was on the back of a significant growth in the animal healthcare segment which more than doubled on a y-o-y basis despite de-growth in the poultry segment (majorly vaccines) by around 17%. 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.

Overall, in the consolidated TOI, HBL (India) continues to contribute the majority share. TLPL has small though growing scale of operations in line with the growth in the HBL's (India) healthcare products portfolio. HBNPL is largely a tender-driven business, which has reported TOI of around ₹12 during FY23 as compared with around ₹14 crore during FY22. Operations of the HBAL are yet to scale up.

For H1FY24, TOI grew by around 28% on a y-o-y basis to ₹161.23 crore due to sizeable exports of pharmaceutical products. Despite steady growth in its TOI, HBL continued to operate on modest scale with limited operations under its subsidiaries. Going forward, CARE Ratings expects the completion and commercialisation of HBL's capacity expansion project along with scale-up of the healthcare segment (particularly animal) and commercialisation of the new animal vaccines which are currently under development stage to remain the key revenue driver.

### Moderation in debt coverage and return indicators

There has been significant increase in the total debt of HBL over last two years, which remained high at ₹274.15 crore as on March 31, 2023 (₹228.17 crore as on March 31, 2022) and ₹274.49 crore as on September 30, 2023. This was on the back of multiple capital expenditure undertaken at HBL (India) and in HBAL which are yet to scale-up.

Under HBL (India), the BSL-3 facility which was earlier designated for the Covaxin project is under consideration for modification to manufacture other vaccines (which are currently under development stage) and hence, operationalisation of the same shall take time. HBL (India) is also undertaking expansion project of vaccine manufacturing capacity (6.25 billion does to around 13.90 billion does) which is expected to fully commercialize by FY24 end as compared with earlier estimate of by FY23 end. The delay is mainly due to delay in the regulatory approval.

The African subsidiary, HBAL, had received major approval from the Tanzania Medicines and Medical Devices Authority (TMMDA) during FY22; however, delay in receiving the selling approval resulted in no major income with net losses of ₹12.26 during FY23. For H1FY24, it reported TOI of ₹3.71 crore. The ramp up of the same is expected to be gradual considering tender driven nature of industry.

Thus, over the last four years ended FY23, the company on a consolidated basis has undertaken capex of over ₹300 crore (including ongoing projects), which has faced time overrun as well as cost overrun resulting in the moderation in the key return indicators marked by ROCE at around 7.08% during FY23 (FY19: 23.04%). Going forward, CARE Ratings expects ROCE to remain around 8%-11% in the medium term with gradual ramp-of projects.

### 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. Average inventory days remained high at 154 days during FY23 as compared with 160 days during FY22. High inventory days is due to the long manufacturing process along with requirement to maintain sufficient stock across product categories. Operating cycle remained elongated at 207 days during FY23 as compared with 193 days during FY22.

### 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 ₹25 crore during FY24. HBL had received two instalment of government grant of ₹24 crore each (out of total sanctioned grant of ₹60 crore) which would support the cash flows going forward. The liquidity of HBL is further supported by cushion available against unutilised working capital limits with average fund-based working capital utilisation of around 72% for

past 12 months ended November 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 is to start from June 2025 providing added cushion to build the liquidity, while the company has also availed deferment in its interest instalment for 18 months.

HBNPL has very low term debt obligation and does not require any major financial support from HBL.

Despite moderation, current ratio and quick ratio remained adequate at 1.50x and 0.93x as on March 31, 2023 as compared with 1.99x and 1.21x as on March 31, 2022. HBL (on a consolidated basis) has cash and bank balance of ₹14.33 crore as on March 31, 2023 (₹24.73 crore as on March 31, 2022).

### Environment, social and governance (ESG) risk

Risk Factors	Compliance and action by the company
Environmental	The quality and environment practices of the company follow ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018 standards. It has also installed zero liquid discharge mechanism at its plant. Apart from this, it has installed effluent treatment and sewage treatment plant for the efficient treatment and reuse of the water.
Social	HBL has implemented corporate social responsibility 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	Being a listed company, HBL complies with the regulatory requirement for disclosures. Company has all the required committees in place such as corporate social responsibility, whistle blower etc. Its board of director comprises of eleven directors (including alternate director) which include five independent directors and two women directors.

### Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

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### 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 five subsidiaries (including one step-down subsidiary), namely, TLPL, HBKL, HBTL, HBNPL and HBAL and one JV, i.e., TEL.

Brief Financials (₹ crore)-Consolidated	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	235.09	266.94	161.23
PBILDT	60.07	51.46	30.49
PAT	39.48	28.04	10.75
Overall gearing (times)	0.80	0.86	0.81
Interest coverage (times)	14.78	5.52	2.87

A: Audited; UA: Un-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-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### 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	80.67	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	July 2029	41.61	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
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-Jul-23)	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	41.61	CARE BBB+; Stable	1)CARE BBB+; Stable (07-Jul-23)	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-Jul-23)	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	80.67	CARE BBB+; Stable	1)CARE BBB+; Stable (07-Jul-23)	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	1)CARE BBB+; Stable / CARE A2 (07-Jul-23)	-	-	-

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not Applicable

**Annexure-4: 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
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-5: Lender details**

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

**Annexure-6: 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 Tanzania Limited	100%
4.	Hester Biosciences Nepal Private Limited	65%
5.	Hester Biosciences Africa Limited	100%
6.	Thrishool Exim Limited	50%

**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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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