Hester Biosciences Limited

December 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	95.18 (Reduced from 122.28)	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

Reaffirmation of ratings assigned to 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. Ratings continue to take into account its comfortable capital structure, moderate debt coverage indicators and adequate liquidity.

However, rating strengths are constrained by its moderate scale of operations and profitability, large working capital requirement due to inherently high inventory holding requirement and presence in the regulated vaccine industry. Ratings also factor in moderation in return indicators due to significant capex undertaken in the last few years, which are yet to scale-up.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations with total operating income (TOI) over ₹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.
- Further elongation in operating cycle, adversely affecting cash flow from operations and liquidity.

Analytical approach: Consolidated

Consolidated financials comprising HBL (Standalone), its five subsidiaries and one joint venture (JV). Details of subsidiaries and JVs consolidated are listed under **Annexure-6**.

Outlook: Stable

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

Detailed description of 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 a member of the National Advisory Committee for Animal Husbandry and Dairying Sector, constituted by the Government of India.

Promoters are supported by qualified second-tier management. Over the years, the company regularly launched new products and expanded its geographical presence across countries, including Tanzania and Nepal through its subsidiaries, mainly Hester Biosciences Africa Limited (HBAL) and Hester Biosciences Nepal Private Limited (HBNPL), complementing HBL (India) operations.

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

Long and established track record of operations
HBL has proven track record of over three decades in manufacturing poultry vaccines. HBL primarily operates in three segments, Poultry healthcare, Animal healthcare and Pet care. It manufactures range of vaccines (both viral and bacterial) and healthcare products catering to these segments. Its product portfolio includes vaccines and healthcare solutions for poultry as well as animals such as sheep, goats, cows and buffaloes, along with companion animals. In FY22, HBL launched its pet care segment with products ranging from dermatology, grooming, specialty nutrition, anti-infectives and parasiticides along with other specialty healthcare products. The pet care business represents a strategic expansion of HBL's portfolio, leveraging its expertise in animal healthcare to cater to the rapidly growing companion animal market.
Over the years, the company has also expanded its geographical presence with setting up manufacturing plants in Nepal under HBNPL and Tanzania under HBAL. HBNPL and HBAL are engaged in manufacturing and supplying veterinary vaccines. Other two subsidiaries, 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 Texas Lifesciences Private Limited (TLPL), healthcare products such as pharma formulations, tablets, capsules, powder, oral liquid, among others for human and animal are manufactured, and major portion of this is sold to HBL (India).

Diversified product portfolio with established marketing and distribution network
As on March 31, 2024, the product portfolio of HBL comprises over 50 vaccines and 70 healthcare products (including therapeutics, drugs, feed supplements, herbal products and disinfectants). It manufactures Peste Des Petits Ruminants (PPR), Goat Pox Vaccine (GPV), Brucella abortus (S19 Delta Per) vaccine, Contagious Bovine Pleuropneumonia (CBPP) Vaccine and Lumpy Skin Disease (LSD) vaccine (under HBAL) etc. on consolidated level.
HBL has also 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 animal healthcare segment (vaccines as well as healthcare products) from ~20% in FY22 to ~40% in FY24 and H1FY25. Apart from developing several new vaccines, HBL is also adding several new products under healthcare products and pet care segment.
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 distributors at PAN-India level. HBL has presence across over 30 countries in Asia, Africa, and European region.
It holds 50% stake in the Thrishool Exim Limited (TEL); a Tanzania based supplier and distributor of animal health and nutrition products. Apart from its marketing subsidiaries HBTL and HBKL, HBL also has collaboration with local distributors in few countries, which shall support expansion in the export market.

Financial risk profile marked by comfortable capital structure and moderate debt-coverage indicators
Capital structure of the company marked by overall gearing remained comfortable and improved from 0.86x as on March 31, 2023, to 0.69x as on March 31, 2024, and 0.66x as on September 30, 2024. Improvement was backed by accretion of profit and receipt of the capital subsidy (₹24 crore in FY23 and ₹26 crore in FY24) along with moderation in the debt levels. Tangible net worth grew from ₹320.33 crore as on March 31, 2023, to ₹371.78 crore as on September 30, 2024.
With no major new debt availment planned in near term, CARE Ratings Limited (CARE Ratings) expects capital structure of HBL to remain comfortable and improve going forward.
Debt coverage indicators remain moderate marked by total debt to gross cash accruals (TD/GCA) and PBILDT Interest coverage of 7.38x and 2.76x respectively as on March 31, 2024 (7.16x and 5.52x as on March 31, 2023). Interest and finance cost of ₹19.78 crore includes exchange rate loss of foreign currency borrowings of ₹10.35 crore, adjusting which, PBILDT interest coverage stood at 5.79x as on March 31, 2024. In H1FY24, debt coverage indicators improved on a y-o-y basis as well as over FY24 level, supported by improvement in profitability, while debt level remain stable.

Key weaknesses

Moderate scale of operations and profitability
HBL's TOI grew by ~14% on a y-o-y basis and remain moderate at ₹304.55 crore in FY24 (FY23: ₹266.94 crore). Growth in FY24 was on the back of growth in export sales coupled with continued growth momentum in domestic sales. Overall, in consolidated TOI, HBL (India) continues to contribute majority share (94% in FY24).
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 ~₹14 crore in FY24 (FY23: ~₹12 crore) and ~₹8 crore in H1FY25. HBAL has a small scale with TOI of ~₹5 crore in FY24 and ~₹12 crore in H1FY25. However, due to high fixed cost HBAL reported net loss of ~₹18 crore in FY24 and net profit of ~₹0.48 crore in H1FY25.

For H1FY25, HBL reported TOI of ₹167.77 crore (H1FY24: ₹161.23 crore) supported by re-bound in demand of the poultry vaccine. Despite steady growth in its TOI, HBL continued to operate on moderate scale with limited operations under its subsidiaries. Going forward, CARE Ratings expects completion and commercialisation of HBL's capacity expansion project along with scale-up in the operations of HBAL, which will remain key revenue driver going forward.
PBILDT margin remained moderate at 17.85% in FY24 (FY23: 19.28%) due to change in the sales mix towards animal healthcare product segment. However, with recovery of the poultry segment along with benefit of economies of scale, PBILDT margins improved to 23.02% in H1FY25.
Consequent to operating margins, profit after tax (PAT) margin too remained moderate at 6.93% in FY24 (FY23: 10.50%) and 9.46% in H1FY25. GCA remained moderate at ₹33.11 crore in FY24 (FY23: ₹38.26 crore) and ₹24.34 crore in H1FY25.

Moderation in return indicators
HBL has undertaken the significant capex in the last 2-3 years, at standalone level as well as under its subsidiaries, which are yet to scale-up. This resulted in substantial moderation in its return indicators with return on capital employed (ROCE) of ~8% in FY24 against ~16% in FY20.
HBAL has commenced operations in FY23, albeit it is currently at small scale and expected to ramp-up gradually.
Under HBL (India), the BSL-3 facility, which was earlier designated for the Covaxin project, is now being repurposed to manufacture other vaccines (which are currently under development stage) and hence will take at-least 1-1.5 years to commence sales.
HBL (India) has also undertaken expansion project of vaccine manufacturing capacity (6.25 billion does to ~13.90 billion does), which is expected to fully commercialise by June 2025 (delayed compared to earlier estimate of by end of FY24). The delay is due to late delivery of few equipment and delay in the regulatory approval. Considering, significant augmentation of the production capacity at a group level, there exists a risk related to the saleability in the scenario of competitive intensity.

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, though improved, remained high at 130 days in FY24 compared to 154 days in FY23. High inventory days is due to long manufacturing process along with requirement to maintain sufficient stock across product categories. Consequently, operating cycle has also improved but remained elongated at 184 days in FY24 compared to 207 days in FY23.

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. 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, causing a cascading effect on profitability of poultry companies. Demand of HBL's products depends on 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 against debt repayment obligation of ~₹25 crore in FY25. HBL's liquidity is further supported by cushion available against unutilised working capital limits with average fund-based working capital utilisation of ~59% for 12-months ended October 2024.
HBAL availed soft loan from The Bill and Melinda Gates Foundation (BMGF), where the company had availed interest deferment. Repayment (interest as well as principal) shall commence from June 2025. Considering the nascent stage of HBAL and loss-making operations, timely financial support from the parent (HBL) is crucial. HBNPL became debt-free as on September 30, 2024, and has self-sustaining operation.
Current ratio and quick ratio of HBL improved from 1.50x and 0.93x respectively as on March 31, 2023, to 1.97x and 1.25x respectively as on March 31, 2024. HBL (on a consolidated basis) has cash and bank balance of ₹16.79 crore as on September 30, 2024.

Environment, social, and governance (ESG) risks

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 ZLD mechanism at its plant. Apart from this, it has installed and commissioned a new 40 KLD Sewage Treatment Plant, replacing old septic tanks.
Social	HBL has implemented corporate social responsibility policy and undertakes various initiatives such as education & healthcare, environment sustainability, homes and workshop for persons with intellectual disabilities among others. It regularly plans training for employees and workers.
Governance	Being a listed company, HBL complies with regulatory requirement for disclosures. The company has all required committees in place such as corporate social responsibility, and whistle blower etc. Its board of director comprises eleven directors (including alternate director), which include five independent directors and two women directors.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Pharmaceuticals
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Healthcare	Healthcare	Pharmaceuticals & Biotechnology	Pharmaceuticals

Incorporated in 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. Also, HBL is currently the largest manufacturer of PPR vaccine and Goat Pox Vaccine in India.
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, 2024. HBL has five subsidiaries (including one step-down subsidiary), namely, TLPL, HBKL, HBTL, HBNPL and HBAL and one JV, TEL.

Brief Financials (₹ crore)-Consolidated	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	266.94	305.42	167.77
PBILDT	51.46	54.53	38.63
PAT	28.04	21.17	15.88
Overall gearing (times)	0.86	0.69	0.66
Interest coverage (times)	5.52	2.76	3.55

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-External Commercial Borrowings	-	-	-	December 2027	67.03	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	May 2028	28.15	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 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 2024-2025	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
1	Fund-based - LT/ ST-Cash Credit	LT/ST	60.00	CARE BBB+; Stable / CARE A2	-	1) CARE BBB+; Stable / CARE A2 (05-Jan-24) 2) 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)
2	Fund-based - LT-Term Loan	LT	28.15	CARE BBB+; Stable	-	1) CARE BBB+; Stable (05-Jan-24) 2) CARE BBB+; Stable (07-Jul-23)	1)CARE BBB+; Stable (07-Feb-23)	1)CARE A-; Stable (21-Jan-22)
3	Fund-based - ST-Standby Line of Credit	ST	-	-	-	-	-	1)Withdrawn (21-Jan-22)
4	Non-fund-based - ST-Credit Exposure Limit	ST	0.22	CARE A2	-	1) CARE A2 (05-Jan-24) 2) CARE A2 (07-Jul-23)	1)CARE A2 (07-Feb-23)	1)CARE A2 (21-Jan-22)
5	Fund-based - LT-External Commercial Borrowings	LT	67.03	CARE BBB+; Stable	-	1) CARE BBB+; Stable (05-Jan-24) 2) 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 (05-Jan-24) 2) CARE BBB+; Stable / CARE A2 (07-Jul-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr. No.	Name of the Entity	Extent of Consolidation	Rationale for consolidation
1.	Texas Lifesciences Private Limited	54.81%	Subsidiary
2.	Hester Biosciences Kenya Limited	100%	Wholly owned Subsidiary
3.	Hester Biosciences Tanzania Limited	100%	Step-down subsidiary
4.	Hester Biosciences Nepal Private Limited	65%	Subsidiary
5.	Hester Biosciences Africa Limited	100%	Wholly owned subsidiary
6.	Thrishool Exim Limited	50%	Joint Venture entity

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

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ankur Sachdeva Senior Director **CARE Ratings Limited** Phone: 912267543444 E-mail: Ankur.sachdeva@careedge.in	Kalpesh Ramanbhai Patel Director **CARE Ratings Limited** Phone: 079-40265611 E-mail: kalpesh.patel@careedge.in Jignesh Trivedi Assistant Director **CARE Ratings Limited** Phone: 079-40265631 E-mail: jignesh.trivedi@careedge.in Bhaumik Shah Analyst **CARE Ratings Limited** E-mail: Bhaumik.shah@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For detailed Rationale Report and subscription information,
please visit www.careedge.in