Biological E Limited

April 25, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	178.00 (reduced from 200.00)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	Revised from CARE AA (Double A)
Long term/Short term Bank Facilities	272.00 (enhanced from 250.00)	**CARE AA-; Stable/ CARE A1+ (Double A Minus; Outlook: Stable/ A One Plus)**	Revised from CARE AA /CARE A1+ (Double A/ A One Plus)
Total Facilities	**450.00 (Rupees Four Hundred and Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of Biological E Limited (BEL) is on account of significant debt funded capital expenditure proposed to be undertaken by the company over a period of next three years period from FY17 to FY19 (FY refers to the period from April 01 to March 31) and the risk related to the successful commercialisation of products under development.

The ratings continue to derive strength from the experienced management, strong market position of the company in the vaccine segment being one of the few players across the globe to receive World Health Organisation (WHO) pre-qualification for Pentavalent vaccine manufacturing, revenue visibility from pentavalent vaccine through long term contracts with renowned organisations viz., Bill & Melinda Gates Foundation (BMGF), Pan American Health Organisation (PAHO) and Government of India; diversified geographical market presence and strong R&D capabilities. The ratings also factor BEL's strong order book position, growth in total operating income, healthy profitability margins albeit decline during FY16 and comfortable capital structure with strong debt coverage indicators. The ratings are, however, constrained by product and client concentration risk and high regulatory risk associated with the industry.

Going forward, the ability of the company to progress with its capex plans and commercialize its products as envisaged would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of the company in the industry with experienced management:

BEL has a long track record of operations in the biologics industry. BEL was the first company in India to manufacture critical vaccines such as anti-TB drugs, heparin, etc. Currently, the company is managed by Ms. Mahima Datla (daughter of the late Mr Vijay Kumar Datla, former CMD) assisted with a team of qualified and experienced professionals in various disciplines. She has around 21 years of experience in the biologics industry and is also a member of the CII (Confederation of Indian Industry) Biotechnology &Pharma Committee.

Growth in total operating income with healthy profitability margins albeit decline in FY16:

The total operating income witnessed growth of 6% in FY16 on account of increase in sale of Liquid Pentavalent Vaccine (LPV)/ComBEfive and Tetanus vaccines to Rs.1017 crore. During 9MFY17 (Provisional), the company made a total operating income of Rs. 865 crore with a PAT of Rs. 244 crore. The PBILDT margin declined during the year on account of increased R&D expenses during the year although the same was comfortable at 41%.

Debt free capital structure during FY16; however the same is expected to be marginally leveraged in the medium term:

BEL was a debt free entity as on March 31, 2016. Further, as on December 31, 2016, the total debt availed by the company was Rs.40crore resulting in overall gearing of 0.03x as on December 31, 2016. The capital structure of the company is expected to be marginally leveraged on account of debt funded capex, however the same is expected to be supported by the healthy cash accruals.

Strong order book with revenue visibility from the Pentavalent vaccine business, predominantly through take or pay contracts:

BEL has strong order book as on March 15, 2017 for the Pentavalent vaccine to be supplied during FY18 and FY19.BEL is one among the six suppliers across the globe, manufacturing Pentavalent vaccine with WHO pre-qualification. BEL has

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

entered into take or pay contracts for the supply of pentavalent vaccines with Bill & Melinda Gates Foundation (co-promoted by Mr Bill Gates) for the supply of doses during CY13-17 to "The United Nations International Children's Emergency Fund" (UNICEF). The company also has orders from Pan American Health Organisation (PAHO) and Government of India.

Strong presence in the vaccine market:

The company enjoys leadership position in the vaccine industry, especially in the pediatric range and has more than two decades of presence in the vaccine industry. It supplies more than 60% of its paediatric vaccines to the Government of India. BEL is the leading supplier of Pentavalent vaccine to UNICEF and PAHO over the last few years.

Strong research & development capabilities*:*

The company has R&D labs at, Azamabad and Shameerpet units and is actively engaged in standardizing and developing new vaccines for human use. The company has tie-ups with various research institutes/public health organisations across the world for joint development of various products. The company has 10 vaccines in pipeline out of which five vaccines are expected to be commercialized between FY17-FY22. The company also has a strong pipeline of around 11 products in the pharma segment which are expected to be commercialized during FY17-FY21

Global market presence with an established market setup*:*

BEL is predominantly an export oriented company with majority of its overall revenues earned in foreign currency. The company exports to Japan, Korea, Taiwan, Indonesia, Malaysia and CIS countries. Under the domestic market set up, the company supplies various essential drugs to various central government & state government hospitals, various public sector undertakings, municipal corporations, armed forces, state road transportation and electricity boards.

Key Rating Weaknesses

Proposed debt funded capital expenditure:

The company is planning to undertake capital expenditure to the tune of Rs.1152 crore over a period of 3 years during FY17-FY19. The capex is funded through debt amounting to Rs.917 crore (to be raised in a phased manner) and balance through internal accruals. The capex is being undertaken for SEZ expansion, various Greenfield and Brownfield vaccines and towards expansion of the pharma segment. BEL would be prone to project risk considering the debt proposed to be availed till the time it is in the expansion phase. The successful commercialization of the products under development would be critical from credit risk perspective.

Risk associated with the products under development*:*

The company has ten vaccines under development out of which five vaccines are expected to be commercialized between FY17-FY22 and the company also has a strong pipeline of around 11 products in the pharma segment which are expected to be commercialized during FY17-FY21.Though there is risk involved for the products under development, once the product becomes a success, the benefits are expected to accrue for a long period of time.

Product and client concentration risk*:*

The company has a concentrated product portfolio with majority of the revenue generated by Liquid Pentavalent vaccine. The United Nations International Children's Emergency Fund (UNICEF) and Pan American Health Organization are the key customers contributing towards majority of the sales.

Highly regulated nature of the industry:

The company's products require pre-qualification approval from WHO. Any deviation in meeting the pre-specified quality standards of the product has serious implications on the future operations of the company. Regulatory risk has also emerged as a significant risk factor, affecting the financial and credit risk profiles of some companies.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Rating Methodology- Pharmaceutical Sector

About the Company

Biological E Limited (BEL) was incorporated in 1953 as Biological Products Pvt Ltd. The company was founded by late Dr. D.V.K.Raju along with Dr. G.A.N. Raju. In 1964, Evans Medicals, a UK based pharma company which later got merged with Glaxo SmithKline (GSK) acquired 40% stake in the company, which was subsequently bought back by the present promoters, Dr Vijay Kumar Datla and relatives. The company is wholly owned by promoters and relatives. The day to day operations of the company are looked after by Dr. MahimaDatla (daughter of Dr. Vijay Kumar Datla, former CMD). BEL acts as a representative of the Developing Country Vaccine Industry on the board of GAVI Alliance (formerly Global Alliance for Vaccine and Immunisation).

BEL is into manufacturing of vaccines (combination vaccine) especially pediatric vaccines, formulations and active pharmaceutical ingredients (API). BEL was the first company in India to manufacture critical vaccines such as Anti-TB drugs, Heparin etc. Headquartered in Hyderabad, the company has five manufacturing facilities in India, of which four are located in and around Hyderabad and one is located at Dehradun in Uttarakhand. Vaccine manufacturing units located at Gaganpahad and Shameerpet are pre-qualified by World Health Organization (WHO) for production and supply of TT (Tetanus Toxoid), DTP (Diphtheria, Tetanus, and Pertussis Vaccine),Hep-B, Pentavalent and Japanese Encephalitis Vaccines.

During FY16, BEL has reported a PAT of Rs.304 crore on a total operating income of Rs.1017 crore as against a PAT of Rs.351 crore on a total operating income of Rs.958 crore in FY15. During 9MFY17 (Provisional), the company made a total operating income of Rs. 865 crore with a PAT of Rs. 244crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	178.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	272.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (01-Dec-14)
2.	Fund-based - LT-Cash Credit	LT	178.00	CARE AA-; Stable	-	-	1)CARE AA (19-Feb-16)	1)CARE A+ (01-Dec-14)
3.	Non-fund-based - ST-BG/LC	ST	-	-	-	-	-	1)Withdrawn (01-Dec-14)
4.	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (19-Feb-16)	1)CARE A+ (01-Dec-14)
5.	Non-fund-based - LT/ ST-BG/LC	LT/ST	272.00	CARE AA-; Stable / CARE A1+	-	-	1)CARE AA / CARE A1+ (19-Feb-16)	1)CARE A+ / CARE A1+ (01-Dec-14)

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