Biological E. Limited

March 22, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	178.00	**CARE AA-;Stable; ISSUER NOT COOPERATING* (Double A Minus; Outlook: Stable; ISSUER NOT COOPERATING*)**	ISSUER NOT COOPERATING; based on best available information
Long-term/Short-term Bank Facilities	272.00	**CARE AA-; Stable/CARE A1+; ISSUER NOT COOPERATING* (Double A Minus; Outlook: Stable/A One Plus; ISSUER NOT COOPERATING*)**	ISSUER NOT COOPERATING; based on best available information
Total Facilities	**450.00 (Rs. Four hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Biological E. Limited (BEL) to monitor the ratings vide e-mail communications/letters from January 09, 2018 to March 10, 2018 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Biological E. Limited's bank facilities will now be denoted as **CARE AA-; Stable/CARE A1+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings take into account 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 Organization (WHO) pre-qualification for Pentavalent vaccine manufacturing, revenue visibility from pentavalent vaccine through long term contracts with renowned organizations viz., Bill & Melinda Gates Foundation (BMGF), Pan American Health Organization (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 (FY refers to the period from April 01 to March 31) and comfortable capital structure with strong debt coverage indicators. The ratings also factor in significant debt funded capital expenditure proposed to be undertaken by the company over a period of next three years period from FY17 to FY19 and the risk related to the successful commercialisation of products under development, product and client concentration risk and high regulatory risk associated with the industry.

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.MahimaDatla (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.

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

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 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

Policy in respect on Non-cooperation by issuer
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Pharmaceutical Sector
Financial ratios – Non-Financial 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. Mahima Datla (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.

Brief Financials (Rs. crore)	FY15 (A)	FY16 (A)
Total operating income	958.46	1017.53
PBILDT	479.99	420.36
PAT	351.44	304.58
Overall gearing (times)	0.00	0.00
Interest coverage (times)	257.67	176.87

A: Audited

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.*

Analyst Contact:
Name: Vidhyasagar L
Tel: 040 6900 5000
Mobile: 8801880184
Email: vidhya.sagar@careratings.com

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About CARE Ratings:

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Disclaimer

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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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - LT/ ST-BG/LC	-	-	-	272.00	CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

**Issuer did not cooperate; Based on best available information*

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; ISSUER NOT COOPERATING*	1)CARE AA-; Stable (25-Apr-17)	-	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+; ISSUER NOT COOPERATING*	1)CARE AA-; Stable / CARE A1+ (25-Apr-17)	-	1)CARE AA / CARE A1+ (19-Feb-16)	1)CARE A+ / CARE A1+ (01-Dec-14)

**Issuer did not cooperate; Based on best available information*

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Ltd.)
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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