Biological E. Limited

July 01, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	178.00	**CARE A; Stable; ISSUER NOT COOPERATING* (Single A; Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE AA-;Stable; ISSUER NOT COOPERATING (Double A Minus; Outlook: Stable); on the basis of best available information
Long-term/Short-term Bank Facilities	272.00	**CARE A; Stable/CARE A1; ISSUER NOT COOPERATING* (Single A; Outlook: Stable/ A One; ISSUER NOT COOPERATING*)**	Issuer not cooperating; Revised from CARE AA-; Stable /CARE A1+; ISSUER NOT COOPERATING (Double A Minus; Outlook: Stable/ A One Plus; ISSUER NOT COOPERATING); on the basis of best available information
Total	**450.00 (Rs. Four hundred and Fifty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated March 22, 2018, placed the rating(s) of Biological E. Limited (BEL) under the 'issuer non-cooperating' category as BEL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. BEL continues to be non-cooperative despite repeated requests for submission of information through e-mails, phone calls and an email dated June 03, 2019, June 05, 2019, June 07, 2019, June 18, 2019, June 24, 2019, June 25, 2019 and June 26, 2019. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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 of BEL has been revised on account of absence of adequate information which forms critical to assess the credit quality of rated facilities. The ratings of BEL are tempered due to significant decline in total operating income and PBILDT margin during FY18 (FY refers to the period from April 01 to March 31), debt funded capital expenditure whose further details and its progress is not available with CARE and risk related to the successful commercialisation of products under development, product and client concentration risk and high regulatory risk associated with the industry. The rating also takes cognizance from 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, diversified geographical market presence and strong R&D capabilities.

Detailed description of the key rating drivers

At the time of last rating on March 22, 2018 the following were the rating strengths and weaknesses:

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.

[2]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

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

Strong presence in the vaccine market:
The company enjoys prominent position in the vaccine industry, especially in the pediatric range and has more than two decades of presence in the vaccine industry.

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
Significant decline in total operating income and PBILDT margin during FY18
During FY18, the total operating income of the company has significantly declined from Rs. 1129.71 crore during FY17 to Rs. 803.74 crore. Further the PBILDT margins of the company have also deteriorated significantly from 41.66% during FY17 to 8.30% during FY18.

Debt funded capital expenditure:
Overall gearing of the company has deteriorated during FY18 to 0.19x as on March 31, 2018 as against 0.05x as on March 31, 2017. The deterioration was on account of ongoing debt funded capex, however further details with respect to the capex and its progress is not available with CARE. 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.

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

Annexure-1: Details of 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 A; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - LT/ ST-BG/LC	-	-	-	272.00	CARE A; Stable / CARE A1; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING* on the basis of 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	178.00	CARE A; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE AA-; Stable; ISSUER NOT COOPERATING* (22-Mar-18) 2)CARE AA-; Stable (25-Apr-17)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	272.00	CARE A; Stable / CARE A1; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING* on the basis of best available information	-	-	1)CARE AA-; Stable / CARE A1+; ISSUER NOT COOPERATING* (22-Mar-18) 2)CARE AA-; Stable / CARE A1+ (25-Apr-17)	-

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

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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.

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