

## Hester Biosciences Limited

January 03, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	19.82 (reduced from Rs.32.39 crore)	CARE A-; Stable (A Minus; Outlook: Stable)	Reaffirmed
Long/Short-term Bank Facilities	35.00	CARE A-; Stable/ CARE A2 (A Minus; Outlook: Stable/ A Two)	Reaffirmed
<b>Total Facilities</b>	<b>54.82</b> <b>(Rupees Fifty Four Crore and Eighty Two lakh only)</b>		

Note: CARE has also withdrawn the ratings assigned to two of its term loans due to complete repayment of said loans. Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Hester Biosciences Limited (HBL) continues to derive strength from its experienced promoters, established position in the poultry vaccine industry, strong marketing and distribution network and its wide product portfolio with new product launches in the margin accretive animal healthcare segment and geographic diversification of manufacturing operation with commercialization of operation in Nepal. The ratings also factors in the consistent growth in its scale of operations, healthy profitability margins and comfortable capital structure and debt coverage indicators.

The ratings, however, continue to remain constrained on account of its working capital intensive nature of operation with high inventory requirement, presence in high regulated vaccine industry, stabilization risk associated with the Nepal operations and requirement of continuous capital expenditure to adhere to regulatory requirement leading to low fixed assets turnover.

The ability of the company to maintain its healthy profitability margins and comfortable capital structure along with effective management of working capital are the key rating sensitivities. Moreover, early stabilization of manufacturing operations at Nepal with its ability to receive new product registrations shall also remain key rating sensitivity.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Wide experience of the promoters:** HBL was founded by Mr. Rajiv Gandhi, CEO and Managing Director, who has an experience of nearly three decades in vaccine industry and looks after the overall operations of the company. The promoters are supported by qualified second tier management.

**Long and established track record of operation:** HBL has long and established manufacturing track record of almost two decades in manufacturing of poultry vaccine. HBL primarily operates into two segments, i.e. vaccine and animal healthcare products each for poultry as well as large animals. HBL manufactures vaccine and health products mainly for poultry apart from sheep, goats, cattle and pigs. Over the year, the company has regularly launched new products as well as expanded its geographical presence in various countries including Africa through its subsidiary Hester Biosciences Nepal Private Limited (HBNPL) which is engaged in the manufacturing of large animal vaccines complementing the Indian operations.

**Wide product portfolio supported by new product launches:** As on March 31, 2017, the product portfolio of HBL comprises of 49 vaccines (including both poultry and large animal vaccines) and 35 animal health products (medicines, feed supplements and disinfectants). Further, during FY17, the company submitted 60 dossiers in 12 countries through HBL and 3 dossiers in 3 countries through HBNPL for approval. It received registration approval for 22 poultry vaccines in 3 countries during the year, thus making it eligible for exports business. Currently, HBL has increased its focus on margin accretive product segment (i.e. large animals) which will result in better operating margins in future.

**Established marketing and distribution network:** The marketing network of HBL is supported by six own warehouses, five C&F agents and nearly ten authorized distributors which has pan India presence. Further, during the year, HBL tied up with a Scottish NGO to create a vaccine distribution network in the backward districts of Chhattisgarh, Jharkhand and Orissa in order to facilitate mass vaccination for the backyard poultry, cattle, sheep and goats. The company also started distribution network in Tanzania and Kenya during the year. HBL also during July, 2017 developed a diagnostic laboratory

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

division for animals to diagnose the diseases at an early stage thereby representing a backward integration of its business model of vaccines development.

**Consistent growth in total operating income with healthy profitability margins:** The total operating income of HBL at a consolidated level reported a healthy Y-o-Y growth rate of 22% during FY17 on the back of increase in the sales volumes of all of its products supported by new registrations in the export countries and increased penetration of products in the domestic markets. The profitability margins of the company continue to remain healthy and improved further during FY17 due to its presence in niche product segments. Moreover, as per the standalone financial result for H1FY18, HBL reported total operating income of Rs.68.70 crore which grew by 12% over H1FY17 with PBILDT and PAT margin of 39.33% and 21.89% respectively.

**Comfortable capital structure and debt coverage indicators:** The capital structure marked by overall gearing at a consolidated level stood comfortable at 0.55 times as on March 31, 2017. The debt coverage indicators too remained comfortable during the period. The overall gearing and the debt coverage indicators further improved during H1FY18 and stood at comfortable level.

**Large opportunity in animal healthcare market and the company is well capitalized to tape the global market:** Food and Agriculture Organization (FAO) of the United Nation (UN), and OIE (World Organization for Animal Health) have embarked on a worldwide PPR (Peste Des Petits Ruminants) disease eradication program over a period of 15 years, starting in 2015. This PPR eradication project will induce a high demand for the PPR vaccine thereby growing the PPR vaccine market by leaps and bounds. HBL through its manufacturing set-up in Nepal is engaged in manufacturing of PPR and Goat pox vaccines of Nigerian strain which are not allowed in India, thereby provides opportunity to grow.

#### Key Rating Weakness

**Stabilization risk associated with the Nepal operations:** HBNPL during November 2016 commenced its operations in Kathmandu, Nepal to manufacture PPR and goat pox vaccines of Nigerian strain thereby widening its product range in the international markets with an installed capacity of 1200 million doses per annum. For the year ended March 31, 2017, HBNPL reported total operating income of Rs.1.30 crore with an operating profit of Rs.0.10 crore. However, the company reported net loss of Rs.1.40 crore owing to higher depreciation charges on the back of recently completed capital expenditure. Therefore, stabilization of the Nepal operations in order to achieve the envisaged scale of operations would remain crucial from the credit perspective.

**Modest scale of operation:** Despite consistent growth in total operating income, the scale of operation of the company remained modest marked by total operating income of Rs.123 crore during FY17 and tangible net-worth of Rs.120 crore as on March 31, 2017 on a consolidated basis. Moreover, continuous requirement of capital expenditure to adhere to regulatory requirement leading to low fixed asset turnover ratio. HBL is under the process to expand the capacity of egg based antigen production and inactivated vaccine production to fulfill the market requirement for specific vaccines at its manufacturing location in India. The project is still under implementation and is expected to be completed by the end of March 2018.

**Working capital intensive nature of operations:** The operations of HBL remained working capital intensive with high inventory requirements considering the nature of its products. However, there has been a continuous improvement in inventory holding due to process improvement. Despite high working capital intensity, the liquidity profile of the company remains comfortable with current ratio of 1.90 times as on March 31, 2017 with low average fund based working capital utilizations for past trailing 12 months ended September 2017.

**Regulated industry and risk related to 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. Further, the poultry industry is exposed to the risks of outbreaks 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.

**Analytical approach:** CARE has considered the consolidated financials of HBL along with its subsidiaries mainly include HBNPL which is engaged in the similar line of business. During last review, the CARE has considered the standalone financial of HBL, however post commissioning of operation of HBNPL at Nepal, CARE has now considered the consolidated financial.

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[CARE's Methodology for Factoring Linkages in Ratings](#)

[CARE's methodology for manufacturing companies](#)

[CARE's methodology for Pharmaceutical Companies](#)

[Financial ratios – Non-Financial Sector](#)

#### About the Company

Incorporated in the year 1987, HBL was promoted by Mr. Rajiv Gandhi as a private limited company and subsequently converted into a public limited company in 1993. HBL is one of India's leading animal health care companies engaged into manufacturing of vaccine and healthcare products mainly for poultry apart from sheep, goats, cattle and pigs. HBL is the second largest poultry vaccine manufacturer with a market share of nearly 35%, in India (Source: Company). The manufacturing facility is located at Kadi in Mehsana district of Gujarat with installed capacity of 4.8 billion doses per annum as on March 31, 2017. HBL has one direct subsidiary, HBNPL, (65% stake of HBL) located in Kathmandu, Nepal. HBNPL is engaged in the manufacturing of PPR and Goat pox vaccines of Nigerian strain.

(Rs. Crore)

Brief Financials of HBL	Consolidated	
	FY16 (A)	FY17 (A)
Total operating income	101.19	123.28
PBILDT	33.36	41.17
PAT	18.71	22.69
Overall gearing (times)	0.56	0.55
PBILDT Interest coverage (times)	8.97	11.77

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**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/ ST-Cash Credit	NA	NA	NA	35.00	CARE A-; Stable / CARE A2
Fund-based - LT-Term Loan	NA	NA	March, 2022	19.82	CARE A-; Stable
Fund-based - LT-Term Loan	NA	NA	NA	2.96	Withdrawn

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the 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/ ST-Cash Credit	LT/ST	35.00	CARE A-; Stable / CARE A2	-	1)CARE A-; Stable / CARE A2 (24-Jan-17)	1)CARE BBB+ / CARE A3+ (21-Mar-16)	1)CARE BBB+ / CARE A3+ (18-Feb-15) 2)CARE BBB / CARE A3 (26-Dec-14)
2.	Fund-based - LT-Term Loan	LT	19.82	CARE A-; Stable	-	1)CARE A-; Stable (24-Jan-17)	1)CARE BBB+ (21-Mar-16)	1)CARE BBB+ (18-Feb-15) 2)CARE BBB (26-Dec-14)
3.	Fund-based - LT-Term Loan	LT	-	Withdrawn	-	1)CARE A-; Stable (24-Jan-17)	1)CARE BBB+ (21-Mar-16)	1)CARE BBB+ (18-Feb-15) 2)CARE BBB (26-Dec-14)

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