

Hester Biosciences Limited

January 24, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	32.39 (reduced from Rs.34.19 crore)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+ (Triple B Plus)
Long-term/Short-term Facilities	35.00 (enhanced from Rs.25.00 crore)	CARE A-; Stable/ CARE A2 [(Single A Minus; Outlook: Stable/ A Two)]	Revised from CARE BBB+/ CARE A3+ (Triple B Plus/ A Three Plus)
Total Facilities	67.39 (Rupees Sixty Seven Crore and Thirty Nine Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale

The revision in the ratings of Hester Biosciences Limited (HBL) takes into account consistent growth in its total operating income along with steady improvement in working capital cycle, healthy profitability margin and comfortable leverage during past three years ended March 31, 2016. The revision also takes into account the commercialization of Nepal operations which provides good opportunity to expand its presence to large animal healthcare market.

The ratings continue 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 growing large animal healthcare segment.

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

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 achieve the envisaged scale of operation shall also remain key rating sensitivities.

Detailed description of the key rating drivers

HBL's total operating income grew by 12% over FY15 and stood at around Rs.101 crore during FY16 on the back of increase in production and sales volumes supported by new product launches and added registrations. The PBILDT and PAT margins, which have remained healthy, improved further to 33% and 19% respectively during FY16 mainly due to increase in the share of revenue from high-margin export sales. Further, the debt coverage indicators and overall gearing improved on the back of healthy accretion of profits to net-worth.

HBL, through its subsidiary HBNPL, had set up a manufacturing unit in Kathmandu, Nepal, which has commercialized its operations from November 15, 2016. The Nepal plant is engaged in manufacturing of PPR (Peste Des Petits Ruminants) and Goat pox vaccines of Nigerian strain which are not allowed in India, thereby widening its product range for international markets.

Food and Agriculture Organization (FAO) of the United Nation (UN), and OIE (World Organization for Animal Health) have embarked on a worldwide PPR disease eradication program over a period of 15 years, starting in 2015. This would provide good opportunity to HBL to increase its presence in large animal healthcare and vaccine segment.

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. As on March 31, 2016, the product portfolio of HBL comprises of 47 vaccines and 44 animal health products (medicines, feed supplements and disinfectants). Further, in total, HBL has around 91 products which are registered in more than 18 countries which makes its eligible for export business. 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.

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

HBL's scale of operations has continued to remain modest marked by total operating income of Rs.101 crore for FY16 and tangible net-worth of Rs.100 crore in regulated industry. Moreover, the operations of HBL remained working capital intensive with high inventory requirements considering the nature of its products. The working capital cycle days remained elongated to 237 days in FY16. Further, due to continuous requirement of capital expenditure to adhere to regulatory requirement and process improvement, the fixed asset turnover ratio remains low.

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 procurement of viruses is regulated by the country's regulatory body. Furthermore, there are special requirements on handling and safety with live organisms considering the risks of cross-contaminations. Thereby, it reflects a high regulatory risk and need of adhering to stringent norms and processes.

Analytical Approach Followed: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

[Financial Ratios- Non Financial Sector](#)

[CARE's methodology for Pharmaceutical 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 healthcare 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 30% in India. The manufacturing facility is located at Kadi in Mehsana district of Gujarat with installed capacity of 4.8 billion doses per annum as on November 30, 2016.

During FY16 (refers to period April 1 to March 31), HBL has amalgamated its wholly owned subsidiaries namely Diavetra Lifesciences Private Limited, Gujarat Agrofarm Limited and Hester Biosciences (Mauritius) Limited with HBL subsequent to the Gujarat High Court order w.e.f. April 1, 2014. Currently, HBL has only one subsidiary (65% stake) Hester Biosciences Nepal Private Limited (HBNPL), which had set up a new manufacturing facility in Kathmandu, Nepal, for manufacturing of vaccine with investment outlay of Rs.47.00 crore and installed capacity of 1,200 million doses per annum.

As per the audited result for FY16, at a standalone level, HBL reported a PAT of Rs.19.22 crore on a total operating income of Rs.101.19 crore as against a PAT of Rs.13.99 crore on a total operating income of Rs.90.20 crore in FY15. Further, as per the un-audited result for H1FY17, HBL earned a PAT of Rs.11.97 crore on a total operating income of Rs.59.76 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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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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.

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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-Term Loan	NA	NA	March 2021	4.39	CARE A-; Stable
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	28.00	CARE A-; Stable

Annexure 2

Rating History (Last three years)

Sr. No	Name of the Instrument/Bank Facilities	Current Ratings			Chronology of Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund Based - LT-Term Loan	LT	4.39	CARE A-; Stable	-	1) CARE BBB+ (21-Mar-16)	1) CARE BBB+ (18-Feb-15) 2) CARE BBB (26-Dec-14)	1) CARE BBB+ (12-Mar-14) 2) CARE BBB+ (25-Oct-13)
2.	Fund Based - LT/ ST-Cash Credit	LT/ST	35.00	CARE A-; Stable / CARE A2	-	1) CARE BBB+ / CARE A3+ (21-Mar-16)	1) CARE BBB+ / CARE A3+ (18-Feb-15) 2) CARE BBB / CARE A3 (26-Dec-14)	1) CARE BBB+ / CARE A3+ (12-Mar-14) 2) CARE BBB+ (25-Oct-13)
3.	Fund Based - LT-Term Loan	LT	28.00	CARE A-; Stable	-	1) CARE BBB+ (21-Mar-16)	1) CARE BBB+ (18-Feb-15) 2) CARE BBB (26-Dec-14)	-
4.	Non-Fund Based - ST-Bank Guarantees	ST	-	-	-	-	-	1) Withdrawn (12-Mar-14) 2) CARE A3+ (25-Oct-13)
5.	Fund Based - ST-Working Capital Demand loan	ST	-	-	-	-	-	1) Withdrawn (12-Mar-14) 2) CARE A3+ (25-Oct-13)

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