

Hester Biosciences Limited.

COMPANY SNAPSHOT					
CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs1479	Rs565	Rs2,200	49%	BUY	Rs12.6

About the Company:

Hester Biosciences Ltd (HBL) is involved in manufacturing and marketing animal vaccines and animal health products which cater to poultry as well as large animals' health and vaccines. HBL is the only listed company in India which is exclusively involved in animal health. The company's R&D center is recognized by the Department of Scientific and Industrial Research (DSIR), Ministry of Science and Technology, Government of India.

Results Declared:

- The net sales for the quarter under review came in at Rs375mn as compared to Rs349mn, growth of 7.4%. For the full year i.e. FY18, the sales in the poultry divisions grew by 5.41% while that of the large animal divisions grew by 16.83%. Management has also agreed to the fact that the growth in sales was lesser than that what was forecasted however, they managed to achieve better profitability.
- The Ebitda margins for the quarter under review came in at 29.9% as compared to 33.5% in the same quarter last year.
- Hester has been able to achieve better bottom line due to better inventory management, strict credit controls and shift in the product mix. The net profit grew by 27% to Rs91mn from Rs71mn.
- For the full year, the net sales clocked growth of 7.7% while the net profit grew by 22.5%.
- The EPS for the quarter is Rs10.6 while for the full year (standalone basis) it stands at Rs35.9.

Conference Call and Other highlights:

- The Board of Directors of the company have declared a final dividend of 60% that is Rs6 per equity share for the financial year 2017-18 which is subject to approval by shareholders.
- Total debt of the company has reduced marginally from Rs270mn to Rs260mn on y-o-y basis.
- Some of the business developments during the quarter ending March 2018 saw registration of two additional products in Egypt; the company acquired manufacturing licence in India for two diagnostics kits and the company also completed the drug authorities audit from two African countries.
- The PPR tenders (worldwide) were far lesser than anticipated which directly impacts the output of Nepal plant. As far as the developments with the Nepal plant is concerned, for the year ending FY18 the company has recorded net sales of Rs14.80mn as against Rs13.14mn for FY17. Net loss for FY18 stood at Rs73.62mn as against Rs22.03mn for FY17, thus converting into accumulated loss of the Rs96.07mn as on 31 March 2018. The company has been successful in acquiring some approvals for locally produced vaccines.
- In June 2017, Hester had acquired 55% stake of Texas Life sciences Private Limited, (Mehsana in Gujarat), for manufacturing and supplying Pharma formulations, tablets, capsules, powder, and oral liquid for human and veterinary markets. The main aim of acquisition was to have an in-house control on the manufacturing for the animal health products marketed by Hester. Now, the sourcing of all health products of Hester has being systematically transferred to Texas. The total revenue recorded for FY18 stands at Rs14.69mn with a net profit of Rs0.45mn.
- In terms of capacity, the company believes poultry is reaching a saturation limit, (approximately 90%), however, they also believe, there is big potential for growth in the segment for large animals.
- The company intends to focus on green field projects rather than looking at any acquisitions as such. The management has reviewed and revised the equity investment to the extent of USD4mn (earlier USD3mn) to Hester Biosciences Africa Limited (HBAL) which is a wholly owned subsidiary for veterinary vaccines manufacturing set-up at Tanzania. In the African market, nearly 80% of the requirements for vaccines are imported. Hester aims to bank on this opportunity in Africa. There are a number of Africa-specific diseases which are currently unaddressed. The upcoming project is intended to mainly manufacture vaccines against Africa-specific diseases. As per the management commentary, the construction is scheduled to be completed by January 2020, whereas they are anticipating the first commercial batch to be produced by November 2020.
- Africa is poised to become one of the major markets for animal vaccines. As far as Tanzania is concerned the state has the third largest herd of domestic livestock and can be the biggest market for animal vaccines in Africa.
- Hester is also setting up a distribution network in Africa. This is with the intentions to service backyard farmers and organised poultry & livestock farmers.

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Financials:

Result Update (Q4&FY2018)								
Q4&FY18 Result (Rs mn)	Mar-18	Mar-17	y-o-y	Dec-17	q-o-q	FY18	FY17	y-o-y
Total Income	375	349	7.4%	319	17.6%	1353	1256	7.7%
EBITDA	112	117	(4.3%)	126	(11.1%)	496	411	20.7%
Other Income	3	1	-	4	(25.0%)	19	7	-
Interest	6	8	(25.0%)	8	(20.0%)	23	32	(27.8%)
Depreciation	14	16	(10.4%)	13	9.3%	55	55	(1.1%)
Tax	4	23	(82.6%)	44	(90.9%)	131	81	61.4%
Net Profit	91	71	27.7%	65	38.7%	306	249	22.5%

Outlook and Recommendations:

The company is looking at organic growth via Tanzania project thus initiating the thread to create a global presence. Margins have come under a little bit of pressure due to lesser than expected PPR tenders floated across the industry. However, as and when there will be an uptick, the same will be beneficial for Hester. Large animal vaccines will be a growth driver for the company in times to come. Securing sources of finance from Bill & Melinda Gates Foundation is a great achievement for the company (interest costs are lower). The company continues on its path to grow which may also test patience of the investors; thus we recommend a regular SIP in the stock for long term target of Rs2,200 over a horizon of 12 months.

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