

June 28, 2020

Poultry stagnates; future hinges on animal healthcare

FY20 revenues grew a mere 2.9% mainly due to 4% decline in poultry segment (66% of revenues) amid lower vaccination drive due to sharp increase in maize prices and Covid-19 (C19). Animal healthcare segment grew 22% YoY to ₹ 139.6 crore (26% of revenues), driven by strong export growth and lower base. EBITDA margins contracted 798 bps YoY to 30.2% mainly due to increase in field force count (140-150 from 80) and negative operational leverage. EBITDA de-grew 18.6% YoY to ₹ 55.4 crore. PAT fell 29.8% to ₹ 29.2 crore due to a below expected operational performance.

Key conference call takeaways

- Exports grew 63% in FY20 despite delayed consignments in Q4 amid C-19. Hester has guided for 100% export growth in FY21
- Hester is one of the two suppliers for the National Animal Disease Control Programme of the Government of India for Brucella vaccine. However, this tender has been delayed due to C19, which it expects to start in couple of months
- It has 35% market share in Indian poultry vaccines. Growth in this division is expected to be in line with the market. Animal health segments is expected to remain strong given robust export growth, domestic tenders and lower base
- Hester initiated the development of a vaccine against C19 disease. The management expects to start animal trials by November 2021 and expects final vaccine in FY22. Hester is looking at C19 vaccine as platform to foray into human vaccine segment
- Tanzania projects commercial sales are expected to start from December 2020 and are expected to reach breakeven by CY22
- Hester has completed all major capex in near term. It is awaiting ₹ 20 crore grant for Tanzania project from Bill Gates Foundation
- It entered into a technical collaboration agreement with Nova Pharma in Egypt. Under this agreement, Hester would transfer technology to manufacture veterinary vaccines. Hester will get technology fees and marketing rights for the full range of vaccines manufactured at Nova Pharma

Valuation & Outlook

The poultry vaccine business faced significant headwinds in FY20 as a sharp spike in maize prices (accounting for ~50% of feed cost) hampered the vaccination drive among poultry farmers. Just when things were returning to normalcy, came the Covid disturbance. Uncertainty remains upon normalisation of chicken, egg consumption pattern to pre-Covid level. The animal health segment, on the other hand, is expected to remain strong due to tenders and strong export potential. However, fortunes in the poultry segment would continue to weigh on sentiments. We arrive at a target price of ₹ 1190 based on 22x FY22 EPS of ₹ 54.

Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E) %
Revenues	178.1	183.3	199.6	252.1	17.3
EBITDA	68.1	55.4	53.9	80.0	20.2
EBITDA margins(%)	38.2	30.2	27.0	31.7	
Net Profit	41.6	29.2	23.1	45.9	25.5
EPS (₹)	48.9	34.3	27.1	54.0	
PE (x)	25.7	36.6	46.3	23.2	
EV to EBITDA (x)	9.9	13.1	12.8	8.1	
Price to book (x)	6.0	5.3	4.9	4.2	
RoNW (%)	23.4	14.5	10.5	18.0	
RoCE (%)	23.3	14.5	11.3	19.1	

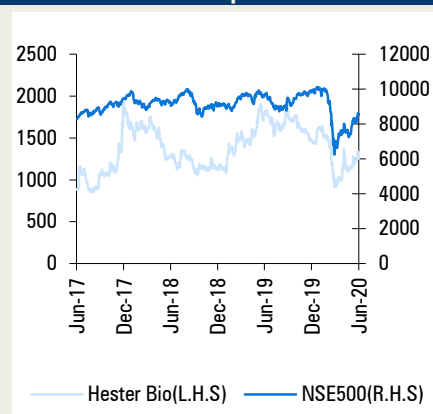
Source: ICICI Direct Research; Company



Particulars

Particular	Amount
Market Capitalisation	₹1067 crore
Debt (FY 20)	₹115 crore
Cash (FY 20)	₹24 crore
EV	₹1158 crore
52 week H/L (₹)	2048/864
Equity capital	₹8.5 crore
Face value (₹)	₹10

Price Performance Graph



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Exhibit 1: Variance Analysis

	FY20	FY19	YoY (%)	Comments
Revenue	183.3	178.1	2.9	Strong growth in Animal health segment was largely offset by impact of recessionary condition in Poultry vaccine segment and C19
Raw Material Expenses	19.7	28.9	-31.8	Improvement in gross margin on account of change in product mix.
Employee Expenses	40.7	28.9	40.6	Increased mainly due to addition of field force
Other Expenditure	67.5	52.2	29.3	Increased mainly due to higher marketing and promotional expenses
EBITDA	55.4	68.1	-18.6	
EBITDA (%)	30.2	38.2	-798.1	Decline mainly due to field force addition and negative operational leverage
Interest	7.4	6.6	11.2	
Depreciation	13.1	11.8	11.1	
Other Income	6.4	7.2	-11.7	
PBT before EO & Forex	41.3	56.9	-27.3	
Forex & EO	0.0	0.0	NA	
PBT	41.3	56.9	-27.3	
Tax	10.3	16.2	-36.1	
PAT before MI	31.0	40.7	-23.8	
MI	1.8	-0.9	-309.6	
Net Profit	29.2	41.6	-29.8	YoY decline mainly due to lower operational performance
Key Metrics				
Poultry Healthcare	120.3	125.8	-4.3	Decline mainly due to recessionary condition throughout the year and C19 impact
Animal Healthcare	47.3	38.8	22.0	YoY increase mainly due to lower base and strong export growth

Source: ICICI Direct Research

Financial Summary

Exhibit 2: Profit & Loss (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Revenues	178.1	183.3	199.6	252.1
Growth (%)	173.5	2.9	8.9	26.3
Raw Material Expenses	28.9	19.7	21.5	27.1
Employee Expenses	28.9	40.7	50.7	59.3
Other Expenditure	52.2	67.5	73.5	85.7
Total Operating Expenditure	110.0	127.9	145.6	172.1
EBITDA	68.1	55.4	53.9	80.0
Growth (%)	209.3	-18.6	-2.7	48.4
Interest	6.6	7.4	9.2	5.2
Depreciation	11.8	13.1	18.4	19.5
Other Income	7.2	6.4	7.0	8.8
PBT before Exceptional Item	56.9	41.3	33.4	64.2
Less: Forex & Exceptional It	0.0	0.0	0.0	0.0
PBT	56.9	41.3	33.4	64.2
Total Tax	16.2	10.3	8.3	16.0
PAT	41.6	29.2	23.1	45.9
Adjusted PAT	41.6	29.2	23.1	45.9
Growth (%)	342.8	-29.8	-21.0	99.3
EPS	48.9	34.3	27.1	54.0
EPS (Adjusted)	48.9	34.3	27.1	54.0

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	41.0	30.4	23.1	45.9
Add: Depreciation & Amortiz:	11.8	13.2	18.4	19.5
Add: Interest	6.6	7.7	9.2	5.2
Net Increase in Current Asse	-9.1	-36.1	1.5	2.9
Net Increase in Current Liabil	-3.2	22.5	-6.2	3.0
CF from operating activitie	47.2	37.6	45.9	76.5
(Inc)/dec in Fixed Assets	-22.5	-72.5	-20.0	-20.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
Other Investing Activities	1.9	-2.9	20.6	1.6
CF from investing activitie:	-20.7	-75.5	0.6	-18.4
Proceeds from issues of Equ	0.0	0.0	0.0	0.0
Proceeds/(Repayment) Loan	19.0	28.2	0.0	-50.0
(Payment) of Dividend and Di	-10.3	-7.2	-5.2	-10.3
Other Financing Activities	-6.1	-2.4	-9.2	-5.2
CF from financing activitie	2.7	18.6	-14.3	-65.4
Net Cash flow	29.2	-19.2	32.1	-7.3
Opening Cash	13.4	42.1	23.5	55.7
Closing Cash	42.5	22.9	55.7	48.3
FCF	24.6	-34.9	25.9	56.5

Source: ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	8.5	8.5	8.5	8.5
Reserve and Surplus	169.0	192.6	210.5	246.1
Total Shareholders funds	177.5	201.1	219.0	254.6
Total Debt	80.9	114.5	114.5	64.5
Deferred Tax Liability	10.7	8.8	9.3	9.7
Minority Interest	3.7	5.4	5.7	6.0
Other Non Current Liabilities	0.4	7.0	27.4	28.8
Source of Funds	273.1	336.9	375.8	363.6
Gross Block - Fixed Assets	215.7	226.7	316.7	336.7
Accumulated Depreciation	71.1	84.2	102.6	122.1
Net Block	144.6	142.5	214.2	214.6
Capital WIP	7.1	74.2	4.2	4.2
Net Fixed Assets	151.7	216.7	218.3	218.8
Total Intangible Assets	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Inventory	50.8	64.0	65.6	71.9
Cash	42.1	23.5	55.7	48.3
Debtors	31.7	58.4	54.7	44.9
Loans & Advances & Other C	18.1	12.6	13.2	13.8
Total Current Assets	142.7	158.5	189.1	178.9
Creditors	8.8	18.6	10.9	12.4
Provisions & Other CL	17.4	29.9	31.4	32.9
Total Current Liabilities	26.2	48.5	42.3	45.3
Net Current Assets	116.5	110.0	146.8	133.6
LT L& A, Other Assets	4.9	10.2	10.7	11.2
Deferred Tax Assets	0.0	0.0	0.0	0.0
Application of Funds	273.1	336.9	375.8	363.6

Source: ICICI Direct Research

Exhibit 5: Key Ratios (₹ crore)

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	48.9	34.3	27.1	54.0
Cash EPS	36.1	26.6	21.0	41.9
BV	208.6	236.4	257.4	299.3
DPS	12.8	7.7	6.1	12.1
Cash Per Share	83.6	99.0	120.6	143.5
Operating Ratios (%)				
Gross Profit Margins	83.8	89.2	89.2	89.2
EBITDA margins	38.2	30.2	27.0	31.7
Net Profit margins	23.3	15.9	11.6	18.2
Inventory days	104.1	127.4	120.0	104.1
Debtor days	65.0	116.4	100.0	65.0
Creditor days	17.9	37.1	20.0	17.9
Asset Turnover	0.7	0.5	0.5	0.7
EBITDA conversion rate	69.3	67.9	85.1	95.6
Return Ratios (%)				
RoE	23.4	14.5	10.5	18.0
RoCE	23.3	14.5	11.3	19.1
RoIC	80.2	75.5	28.9	46.8
Valuation Ratios (x)				
P/E	25.7	36.6	46.3	23.2
EV / EBITDA	9.9	13.1	12.8	8.1
EV / Revenues	3.8	4.0	3.5	2.6
Market Cap / Revenues	3.6	3.5	3.2	2.5
Price to Book Value	6.0	5.3	4.9	4.2
Solvency Ratios				
Debt / Equity	0.5	0.6	0.5	0.3
Debt/EBITDA	1.2	2.1	2.1	0.8
Current Ratio	3.8	2.8	3.2	2.9

Source: ICICI Direct Research

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