

## Strong Q2 performance amid low base...

Q2FY21 revenues grew 20.8% to ₹ 53.4 crore mainly due to 27.8% growth in poultry segment to ₹ 34.3 crore as feed price stabilised and demand for milk and eggs improved. Animal healthcare segment grew 16% YoY to ₹ 13.8 crore. EBITDA margins improved 458 bps YoY to 29.6% mainly due to lower staff & other expenses, partly offset by lower gross margins. EBITDA grew 43% YoY to ₹ 15.8 crore. PAT grew 2.4% to ₹ 6.7 crore in line with operational performance and a higher tax rate.

### Key conference call takeaways

- In Q2 demand for milk and eggs went up, which improved sales
- Started hiring activities to support Q3, Q4 sales growth
- It expects to launch the first lumpy skin disease (LSD) vaccine in India in six months; Hester is the only one developing it in India; good export potential as well; 30 crore volume is expected
- Most new products would be natural or herbal based for poultry and animal division
- National Animal Disease Control Program for Brucella is expected to be implemented by January 2021
- Vaccine sales (poultry and animal) have registered growth of 26% in Q2; Health product sales have registered growth of 51% in Q2
- Domestic sales registered growth of 30% in Q2 and exports have increased by 36%
- Territorial expansion within India has started contributing significantly for Poultry and Animal HC
- Strategically increased health products sales. Though they have lower gross margin, it will ultimately improve the topline and bottomline due to higher sales efficiencies
- Covid-19 vaccine with IIT Guwahati: Animal trials are expected to begin in December 2020
- Planning to expand production capabilities – on the back of Brucella and LSD opportunity visibility

### Valuation & Outlook

After witnessing muted performances in the last few quarters, first on account of maize price issues affecting poultry vaccines and then the Covid related disturbances, the Q2 performance witnessed a substantial revival. Going ahead, opportunities panning out from PPR, Brucella vaccine tenders being floated in near term besides increased focus on health products, growth prospects looks promising for animal segment. That said, higher dependence on poultry segment and mostly tenderised nature of animal vaccine segment in the domestic market continue to influence performances. The management intends to move away from preventive healthcare to curative healthcare as a long term strategy. We maintain **HOLD** and arrive at a target price of ₹ 1765 based on 30x FY23E EPS of ₹ 58.8.

### Key Financial Summary

(₹Crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E) %
Revenues	183.3	203.6	259.5	300.6	17.9
EBITDA	55.4	60.8	80.5	96.2	20.2
EBITDA margins(%)	30.2	29.9	31.0	32.0	
Net Profit	29.2	28.6	40.3	50.0	19.7
EPS (₹)	34.3	33.6	47.4	58.8	
PE (x)	51.3	52.4	37.1	29.9	
EV to EBITDA (x)	13.3	12.3	8.9	7.8	
RoNW (%)	14.5	12.8	15.8	17.1	
RoCE (%)	14.0	12.6	14.5	16.0	

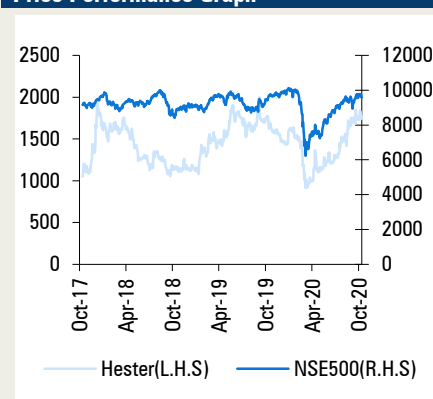
Source: ICICI Direct Research; Company



### Particulars

Particular	Amount
Market Capitalisation	₹1497 crore
Debt (FY 20)	₹126 crore
Cash (FY 20)	₹24 crore
EV	₹1599 crore
52 week H/L (₹)	1890/870
Equity capital	₹8.5 crore
Face value (₹)	₹10

### Price Performance Graph



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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	Comments
Revenue	53.4	44.2	39.9	20.8	34.0	YoY growth amid demand for milk and eggs going up, which directly positively impacted on sales growth
Raw Material Expenses	13.9	5.6	5.0	149.8	180.8	
Gross Margin (%)	73.9	87.4	87.6	-1,346.3	-1,363.1	Decline amid change in product mix
Employee Expenses	8.4	9.4	8.6	-10.0	-1.7	
Other Expenditure	15.3	18.2	14.4	-16.2	5.8	
EBITDA	15.8	11.1	11.9	43.0	32.8	
EBITDA (%)	29.6	25.0	29.9	457.8	-27.4	YoY improvement mainly due to lower employee cost and other expenditure
Interest	2.1	1.4	1.5	49.5	37.5	
Depreciation	3.2	3.2	3.2	0.5	2.1	
Other Income	0.2	0.7	0.7	-65.1	-65.0	
PBT before EO & Forex	10.7	7.1	7.9	50.4	35.6	
Forex & EO	0.0	0.0	0.0			
PBT	10.7	7.1	7.9	50.4	35.6	
Tax	4.0	0.9	2.8	343.2	41.5	
PAT before MI	6.7	6.2	5.1	7.7	32.3	
MI	0.0	-0.3	-0.7			
Net Profit	6.7	6.5	5.7	2.4	16.9	Delta vis-à-vis EBITDA mainly due to higher tax rate (38% against 13% in Q2FY20)
<b>Key Metrics</b>						
Poultry Healthcare	34.3	26.9	29.8	27.8	15.2	YoY growth was amid demand pick-up post Covid-19
Animal Healthcare	13.8	11.9	7.9	16.0	75.6	YoY growth was amid demand pick-up post Covid-19

Source: ICICI Direct Research

## Continued conference call takeaways...

### Subsidiaries

- **Nepal** – Sales were impacted by absence of FAO tenders in H1 and unavailability of flights out of Kathmandu; FAO tenders are expected to start from Q3; peak sales potential: ₹ 50-60 crore; breakeven at ₹ 15 crore
- **Texas Life** – Increasing focus on health products; registration of Texas products started in Africa; 10% from custom manufacturing for external customers
- **Tanzania** - creating a distribution and marketing network in Tanzania, hope to get back in trading in Q3; peak sales potential ₹ 200-230 crore
- **Africa** - Project has got delayed marginally as contractors were unable to reach Tanzania; movement has begun and hope to begin production by mid Q4FY21; breakeven in two to three years

## Financial Summary

Exhibit 2: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>183.3</b>	<b>203.6</b>	<b>259.5</b>	<b>300.6</b>
Growth (%)	2.9	11.1	27.5	15.8
Raw Material Expenses	19.7	35.4	38.9	45.1
Employee Expenses	40.7	39.0	51.9	57.1
Other Expenditure	67.5	68.3	88.2	102.2
Total Operating Expenditure	127.9	142.8	179.1	204.4
<b>EBITDA</b>	<b>55.4</b>	<b>60.8</b>	<b>80.5</b>	<b>96.2</b>
Growth (%)	-18.6	9.7	32.3	19.6
Interest	7.4	7.9	7.6	7.6
Depreciation	13.1	12.9	21.2	22.9
Other Income	6.4	1.4	2.6	1.5
PBT before Exceptional Item	41.3	41.5	54.2	67.2
Less: Forex & Exceptional It	0.0	0.0	0.0	0.0
PBT	41.3	41.5	54.2	67.2
Total Tax	10.3	12.6	13.5	16.8
<b>PAT</b>	<b>29.2</b>	<b>28.6</b>	<b>40.3</b>	<b>50.0</b>
Adjusted PAT	29.2	28.6	40.3	50.0
Growth (%)	-29.8	-2.1	41.1	24.1
EPS	34.3	33.6	47.4	58.8
<b>EPS (Adjusted)</b>	<b>34.3</b>	<b>33.6</b>	<b>47.4</b>	<b>58.8</b>

Source: ICICI Direct Research

Exhibit 3: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	30.4	28.6	40.3	50.0
Add: Depreciation & Amortiz:	13.2	12.9	21.2	22.9
Add: Interest	7.7	7.9	7.6	7.6
Net Increase in Current Asse	-36.1	-0.9	1.8	-81.2
Net Increase in Current Liabil	22.5	-6.5	2.6	18.8
<b>CF from operating activitie</b>	<b>37.6</b>	<b>41.9</b>	<b>73.5</b>	<b>18.0</b>
(Inc)/dec in Fixed Assets	-72.5	-60.0	-30.0	-30.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
Other Investing Activities	-2.9	20.6	1.6	1.7
<b>CF from investing activitie:</b>	<b>-75.5</b>	<b>-39.4</b>	<b>-28.4</b>	<b>-28.3</b>
Proceeds from issues of Equ	0.0	0.0	0.0	0.0
Proceeds/(Repayment) Loan	28.2	0.0	0.0	0.0
(Payment) of Dividend and Di	-7.2	-6.4	-9.0	-11.2
Other Financing Activities	-2.4	-7.9	-7.6	-7.6
<b>CF from financing activitie</b>	<b>18.6</b>	<b>-14.3</b>	<b>-16.6</b>	<b>-18.8</b>
Net Cash flow	-19.2	-11.8	28.5	-29.1
Opening Cash	42.1	23.5	11.7	40.2
Closing Cash	22.9	11.7	40.2	11.1
FCF	-34.9	-18.1	43.5	-12.0

Source: ICICI Direct Research

Exhibit 4: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	8.5	8.5	8.5	8.5
Reserve and Surplus	192.6	214.7	246.0	284.9
Total Shareholders funds	201.1	223.3	254.5	293.4
Total Debt	126.2	126.2	126.2	126.2
Deferred Tax Liability	8.8	9.3	9.7	10.2
Minority Interest	5.4	5.7	6.0	6.3
Other Non Current Liabilities	7.0	27.4	28.8	30.2
<b>Source of Funds</b>	<b>348.5</b>	<b>391.8</b>	<b>425.2</b>	<b>466.2</b>
Gross Block - Fixed Assets	226.3	286.3	386.3	416.3
Accumulated Depreciation	83.8	96.7	117.9	140.8
Net Block	142.5	189.6	268.4	275.5
Capital WIP	74.2	74.2	4.2	4.2
Net Fixed Assets	216.7	263.8	272.5	279.6
Total Intangible Assets	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Inventory	64.0	66.9	74.0	104.9
Cash	23.5	11.7	40.2	11.1
Debtors	58.4	55.8	46.2	95.8
Loans & Advances & Other C	12.6	13.2	13.8	14.5
Total Current Assets	158.5	147.6	174.3	226.4
Creditors	18.6	11.2	12.8	30.5
Provisions & Other CL	18.2	19.1	20.1	21.1
Total Current Liabilities	36.8	30.3	32.8	51.6
Net Current Assets	121.7	117.3	141.4	174.8
LT L& A, Other Assets	10.2	10.7	11.2	11.8
Deferred Tax Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>348.5</b>	<b>391.8</b>	<b>425.2</b>	<b>466.2</b>

Source: ICICI Direct Research

Exhibit 5: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	34.3	33.6	47.4	58.8
Cash EPS	26.6	26.1	36.8	45.7
BV	236.4	262.4	299.2	344.9
DPS	7.7	7.5	10.6	13.2
Cash Per Share	98.5	113.6	138.6	165.5
<b>Operating Ratios (%)</b>				
Gross Profit Margins	89.2	82.6	85.0	85.0
EBITDA margins	30.2	29.9	31.0	32.0
Net Profit margins	15.9	14.0	15.5	16.6
Inventory days	127.4	120.0	104.1	127.4
Debtor days	116.4	100.0	65.0	116.4
Creditor days	37.1	20.0	17.9	37.1
Asset Turnover	0.8	0.7	0.7	0.7
EBITDA conversion rate	67.9	68.9	91.4	18.7
<b>Return Ratios (%)</b>				
RoE	14.5	12.8	15.8	17.1
RoCE	14.0	12.6	14.5	16.0
RoIC	95.4	57.0	35.4	65.6
<b>Valuation Ratios (x)</b>				
P/E	51.3	52.4	37.1	29.9
EV / EBITDA	13.3	12.3	8.9	7.8
EV / Revenues	4.0	3.7	2.8	2.5
Market Cap / Revenues	3.5	3.1	2.4	2.1
Price to Book Value	7.4	6.7	5.9	5.1
<b>Solvency Ratios</b>				
Debt / Equity	0.6	0.6	0.5	0.4
Debt/EBITDA	2.3	2.1	1.6	1.3
Current Ratio	3.7	4.5	4.1	4.2

Source: ICICI Direct Research

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Reduce: -5% to -15%;

Sell: <-15%



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