

Strong poultry demand drives Q4 performance...

Q4 revenues grew 47.1% to ₹ 64.2 crore due to 74.4% growth in poultry segment to ₹ 52.7 crore as bird-flu incidences led to higher usage of preventive and curative poultry vaccines and health products. However, animal healthcare segment de-grew 11.6% YoY to ₹ 11.5 crore. EBITDA margins, not comparable YoY due to pandemic impacted base, came in at 30.8% (16.5% in Q4FY20). EBITDA came in at ₹ 19.8 crore, ~2.8x YoY. Adjusting for exceptional loss on Patan farm disposal, PAT came in at ₹ 13 crore vs. ₹ 2.7 crore in Q4FY20.

Key conference call takeaways

- Guidance: Topline growth of 25-30% in FY22
 - Exports to grow 100% over FY21, domestic to grow 22%+
 - Growth in animal health – 50%, poultry – 10-15%
- Growth to be driven by
 - Animal vaccines - registration process continues for classical swine fever, lumpy skin disease (only player) and sheep pox (only player) vaccine production and marketing for all the three vaccines to likely be commenced by December 2021
 - Health products to drive growth (70:30 mix of vaccine and health)
 - Ramp-up of herbal products and new launches in animal health
- MoU with Bharat Biotech – to manufacture only the intermediate/ drug substance (DS) for Covaxin from its Gujarat plant in 3 months
 - The DS would lead to 0.5-1 crore dose production per month
- Hester's domestic Brucella tender bid was second lowest this year, Hester plans to again bid next year. Hester has got higher priced order for exporting to offset any opportunity impact
- Hester looking to increase India sales team by 40-50% in FY22

Valuation & Outlook

Despite exports being impacted by air shipment restrictions due to Covid, Hester ended FY21 on a relatively strong note amid strong demand for poultry vaccines and health products in domestic market. Going ahead, opportunities panning out from animal vaccines such as classical swine fever, lumpy skin disease (only player) and sheep pox (only player) in the domestic space besides increased focus on health products, growth prospects look promising for Hester. Additionally, the management intends to move away from preventive healthcare to curative healthcare as a long term strategy. As the company strengthens its hold in the overall animal healthcare space, the next important aspect would be its progress in the human vaccines space (via maiden Covaxin adjuvant foray) in the long run. Due to the recent stock run-up, we maintain **HOLD** and arrive at a revised TP of ₹ 2870 (earlier ₹ 1765) based on base business value of ₹ 2758 at 40x FY23E EPS of ₹ 68.9 + NPV of ₹ 112 for Covaxin DS opportunity.

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E) %
Revenues	183.3	214.3	271.0	331.5	24.4
EBITDA	55.4	68.7	88.1	111.1	27.2
EBITDA margins(%)	30.2	32.0	32.5	33.5	
Adjusted Net Profit	29.2	37.8	44.7	58.6	24.6
EPS (₹)	34.3	44.4	52.5	68.9	
PE (x)	79.2	67.1	51.7	39.4	
EV to EBITDA (x)	13.3	10.3	8.3	7.0	
RoNW (%)	14.5	16.5	17.0	19.0	
RoCE (%)	14.0	16.5	15.4	17.7	

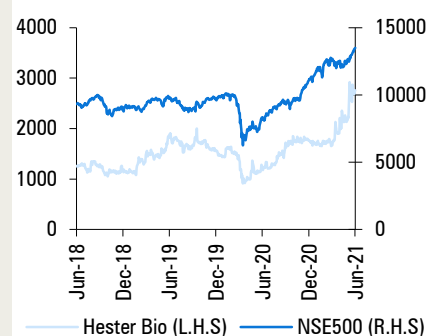
Source: ICICI Direct Research; Company



Particulars

Particular	Amount
Market Capitalisation	₹ 2311 crore
Debt (FY21)	₹ 98 crore
Cash (FY21)	₹ 22 crore
EV	₹ 2388 crore
52 week H/L (₹)	3180/1145
Equity capital	₹ 8.5 crore
Face value (₹)	₹ 10

Price Performance



Key risks to our call

- Delay in commercialisation of animal vaccines in India
- Faster than expected sales ramp-up at subsidiaries

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Continued conference call takeaways...

- Exports saw various restriction with the air shipment of vaccines impacted completely
- Domestic grew 55% in Q4 and 29% in FY21 driven by poultry vaccines and health products as Bird-flu led to higher demand for preventive and curative medication
- India - single-digit percent of revenues from tenders
- Hester is looking to launch some new disinfectants as well
- Capex planned only for India expansion, ₹ 40 crore for the plant for Bharat Biotech collaboration
- Covid collaboration: IIT-Guwahati Covid-19 vaccine candidate is under development. While the master seed has been delayed, the project is not shelved
 - Bharat Biotech: BASL 3 facility for Covaxin DS can be utilized for more stringently regulated vaccine post Covid
- Subsidiaries
 - Nepal – export oriented unit – Sales and net profit were impacted due to flight restrictions and lack of FAO tender
 - 65-70% tender business
 - Texas Life Sciences (90% sales to Hester India) – to grow in tandem with Hester’s Health portfolio which is expected to grow strongly going ahead
 - Tanzania – endeavouring to grow aggressively, hiring some people, expecting 3-4x topline in FY22
 - Africa – Flight restrictions and other challenges led to delayed validations but looking to inaugurate by August 2021
 - Hester is looking mostly at private market sales
- CWIP of ₹ 108 crore primarily for Tanzania

Financial Summary

Exhibit 1: Profit & Loss (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Revenues	183.3	214.3	271.0	331.5
Growth (%)	2.9	17.0	26.4	22.3
Raw Material Expenses	19.7	51.5	65.0	79.6
Employee Expenses	40.7	38.9	47.4	56.4
Other Expenditure	67.5	55.3	70.5	84.5
Total Operating Expenditure	127.9	145.7	182.9	220.4
EBITDA	55.4	68.7	88.1	111.1
Growth (%)	-18.6	23.9	28.3	26.1
Interest	7.4	6.6	8.9	8.9
Depreciation	13.1	13.3	21.5	23.2
Other Income	6.4	4.7	2.7	0.3
PBT before Exceptional Items	41.3	53.4	60.5	79.3
Less: Forex & Exceptional Items	0.0	3.3	0.0	0.0
PBT	41.3	50.1	60.5	79.3
Total Tax	10.3	15.4	15.5	20.3
PAT	29.2	34.4	44.7	58.6
Adjusted PAT	29.2	37.8	44.7	58.6
Growth (%)	-29.8	29.4	18.4	31.2
EPS	34.3	40.5	52.5	68.9
EPS (Adjusted)	34.3	44.4	52.5	68.9

Source: ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	30.4	36.2	44.7	58.6
Add: Depreciation & Amortization	13.2	13.3	21.5	23.2
Add: Interest	7.7	4.0	8.9	8.9
Net Increase in Current Assets	-36.1	14.2	-15.5	-97.4
Net Increase in Current Liabilities	22.5	-15.0	8.3	8.9
CF from operating activities	37.6	52.7	67.9	2.2
(Inc)/dec in Fixed Assets	-72.5	-40.7	-70.0	-30.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
Other Investing Activities	-2.9	-1.0	1.5	1.6
CF from investing activities	-75.5	-41.7	-68.5	-28.4
Proceeds from issues of Equity	0.0	0.0	0.0	0.0
Proceeds/(Repayment) Loan	28.2	-22.9	50.0	0.0
(Payment) of Dividend and Divid	-7.2	-5.6	-10.1	-13.2
Other Financing Activities	-2.4	10.3	-8.9	-8.9
CF from financing activities	18.6	-18.2	31.1	-22.1
Net Cash flow	-19.2	-7.2	30.5	-48.3
Opening Cash	42.1	23.5	21.7	52.2
Closing Cash	22.9	16.4	52.2	3.9
FCF	-34.9	12.0	-2.1	-27.8

Source: ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	8.5	8.5	8.5	8.5
Reserve and Surplus	192.6	219.8	254.4	299.9
Total Shareholders funds	201.1	228.3	262.9	308.4
Total Debt	126.2	97.8	147.8	147.8
Deferred Tax Liability	8.8	7.3	7.6	8.0
Minority Interest	5.4	7.7	8.0	8.4
Other Non Current Liabilities	7.0	23.6	24.8	26.0
Source of Funds	348.5	364.6	451.2	498.6
Gross Block - Fixed Assets	226.3	229.9	369.9	399.9
Accumulated Depreciation	83.8	97.1	118.5	141.7
Net Block	142.5	132.8	251.3	258.1
Capital WIP	74.2	109.0	39.0	39.0
Net Fixed Assets	216.7	241.8	290.3	297.1
Total Intangible Assets	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0
Inventory	64.0	62.2	77.3	115.7
Cash	23.5	21.7	52.2	3.9
Debtors	58.4	49.2	48.2	105.7
Loans & Advances & Other CA	12.6	28.4	29.8	31.3
Total Current Assets	158.5	161.5	207.5	256.6
Creditors	18.6	28.1	35.5	43.4
Provisions & Other CL	18.2	18.3	19.3	20.2
Total Current Liabilities	36.8	46.4	54.8	63.7
Net Current Assets	121.7	115.1	152.7	192.9
LT LG & A, Other Assets	10.2	7.8	8.2	8.6
Deferred Tax Assets	0.0	0.0	0.0	0.0
Application of Funds	348.5	364.6	451.2	498.6

Source: ICICI Direct Research

Exhibit 4: Key Ratios (₹ crore)

(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	34.3	44.4	52.5	68.9
Cash EPS	26.6	34.4	40.7	53.4
BV	236.4	268.4	309.1	362.5
DPS	7.7	10.0	11.8	15.5
Cash Per Share	98.5	114.1	139.4	166.6
Operating Ratios (%)				
Gross Profit Margins	89.2	76.0	76.0	76.0
EBITDA margins	30.2	32.0	32.5	33.5
Net Profit margins	15.9	17.6	16.5	17.7
Inventory days	127.4	106.0	104.1	127.4
Debtor days	116.4	83.8	65.0	116.4
Creditor days	37.1	47.8	47.8	47.8
Asset Turnover	0.8	0.9	0.7	0.8
EBITDA conversion rate	67.9	76.8	77.0	2.0
Return Ratios (%)				
RoE	14.5	16.5	17.0	19.0
RoCE	14.0	16.5	15.4	17.7
RoIC	16.9	23.7	18.5	19.3
Valuation Ratios (x)				
P/E	79.2	67.1	51.7	39.4
EV / EBITDA	13.3	10.3	8.3	7.0
EV / Revenues	4.0	3.3	2.7	2.3
Market Cap / Revenues	3.5	3.0	2.3	1.9
Price to Book Value	11.5	10.1	8.8	7.5
Solvency Ratios				
Debt / Equity	0.6	0.4	0.6	0.5
Debt/EBITDA	2.3	1.4	1.7	1.3
Current Ratio	3.7	3.0	2.8	4.0

Source: ICICI Direct Research

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