

## Hester Biosciences Q4FY21

### Financial Results & Highlights

#### Brief Company Introduction

Hester Biosciences Limited (HBL) is a publicly traded Indian company headquartered in Ahmedabad, Gujarat, India. Hester is an animal and poultry vaccines manufacturing Company with plants situated in Gujarat and Nepal. The company currently has a 30% share of the poultry vaccines market in the country.

| Standalone Financials (In Crs)   |        |        |        |        |         |      |      |        |
|----------------------------------|--------|--------|--------|--------|---------|------|------|--------|
|                                  | Q4FY21 | Q4FY20 | YoY %  | Q3FY21 | QoQ %   | FY21 | FY20 | YoY%   |
| Sales                            | 63     | 42     | 50.00% | 53     | 18.87%  | 210  | 172  | 22.09% |
| PBT                              | 13*    | 7      | 85.71% | 18     | -27.78% | 55*  | 41   | 34.1%  |
| PAT                              | 9      | 5      | 80.00% | 13     | -30.77% | 40   | 31   | 29.03% |
| Consolidated Financials (In Crs) |        |        |        |        |         |      |      |        |
|                                  | Q4FY21 | Q4FY20 | YoY %  | Q3FY21 | QoQ %   | FY21 | FY20 | YoY%   |
| Sales                            | 67     | 48     | 39.58% | 58     | 15.52%  | 219  | 190  | 15.26% |
| PBT                              | 14**   | 6      | 133%   | 18     | -22.22% | 50** | 41   | 22%    |
| PAT                              | 10     | 5      | 100%   | 13     | -23.08% | 35   | 31   | 12.90% |

\*Contains an exceptional item of Rs 5.3 Cr

\*\*Contains an exceptional item of Rs 3.3 Cr

#### Detailed Results:

- The company had a great quarter with a 40% YoY rise in consolidated revenues and an 100% YoY rise in PAT at a consolidated level.
- FY21 figures were encouraging with a revenue gain of 15% YoY and a profit rise of 13% YoY.
- The EBITDA margin was at 32.62% in the current quarter vs 24.78% a year ago. ROE has risen to 14.92% in Q4FY21 from 9.85% a year ago.
- The standalone revenue growth in Q4 & FY21 for the various segments is:
  - Poultry Healthcare: Up 57% YoY (FY21 up 25% YoY)
  - Animal Healthcare: Up 17% YoY (FY21 up 19% YoY)
  - Other: Up 83% YoY (FY21 up 14% YoY)
- Poultry healthcare remains the biggest contributor at 75% contribution to revenues.
- Domestic sales have registered a growth of 55% in Q4FY21 and 29% in FY21 and the export sales have grown by 4% in Q4FY21 and declined 4% in FY21.
- The Board of directors has recommended a dividend of INR 10.00 per equity share for FY21.
- Registration process continues for the Classical Swine Fever vaccine, Lumpy skin disease vaccine and Sheep Pox vaccine.
- On 27 May 2021, an MOU was signed between Bharat biotech and Gujarat Covid Vaccine Consortium (GCVC) of which Hester is a part. The MOU was towards contract manufacturing of the Drug Substance for Covaxin, where Hester shall provide the complete infrastructure at its

Gujarat plant for the manufacturing of the Drug Substance. Hester has invested Rs 40 Cr towards this initiative.

10. Hester Nepal saw a dramatic fall in revenues. Revenues were at Rs 42 Lacs in Q4FY21 from Rs 11.6 Cr last year due to FAO tendering for PPR being extremely low.
11. The Texas Lifesciences unit also saw good revenue growth of 91% YoY in Q4 to Rs 6.69 Cr.
12. Hester Tanzania had a good quarter with sales at Rs 81 Lacs in Q3 vs Rs 61 Lacs a year ago. Commercial production in the Tanzania facility is expected to start from Sep 2021.

**Investor Conference Call Details:**

1. Hester has added a new CFO Mr. Nikhil Jhanwar recently.
2. The company should have a 100% share of the tenders of sheep pox and lumpy skin diseases as it is the only manufacturer for these two in India.
3. The company is looking to launch 3-4 new animal vaccines in the next year.
4. Sales are divided into 70% from vaccines and 30% from health products.
5. The pace of the vaccine development with IIT Guwahati has been slower than expected and they have yet to complete the master seed required for the next steps.
6. According to the management, the growth of the Hester health product business and Texas Lifesciences business is directly proportional.
7. The registration for CSF, LSD and sheep pox vaccine will be done first in India and then expanded to other countries.
8. The company should be able to sell all three in Africa where it already sells goat pox vaccines.
9. Hester is looking to increase the sales team by 40% to 50% within India in FY22.
10. The management is confident of sales in Tanzania going up 3-4x in FY22.
11. The animal healthcare division saw EBIT losses at the consolidated level due to poor sales in Nepal. The management believes that this is a one-off and should get resolved as Nepal sales come back to normal.
12. There is not any significant capex planned for FY22.
13. The management is expecting most of the business in Africa to be on the private side as the prevalent rates there are good. It also believes that the ramp-up in Africa will be faster than expected due to the latent demand there.
14. The management has stated that it is preferable to make a greenfield investment for Hester than an outright acquisition. But in terms of acquisition or collaboration targets, it will prefer to investigate distribution companies in Africa.
15. The management assures that although it expects the top line to rise by 25-30% in FY22, it will be looking to minimize any negative impact on margins from the shift in product mix.
16. The company's bid for the Brucella tender was the 2nd lowest and it has decided to not compete this year and go for it next year. It had already manufactured some vaccines in anticipation which

have already been sold in international markets at much higher prices which have helped mitigate any impact from this tender loss.

17. The management is confident that by making some changes, the Nepal plant can also be made ready to manufacture human vaccines.
18. The new facility made for Bharat Biotech can also be used in the future by Hester to handle many more viruses or bacteria. The capacity for this plant is expected to be at 50 lakhs to 1.5 crore doses a month.
19. The management expects the poultry business to grow 10-15% while the animal health business is expected to grow almost 50%. The management also expects to maintain current margins in the worst case.

#### **Analyst Views:**

Hester Bio has had a tough time in H1 this year with the COVID-19 outbreak and delays in the animal vaccine tenders. The company had a good Q4 with profits doubling YoY despite the absence of the domestic animal vaccine tender business & FAO tenders from Nepal. The company has made good inroads in the animal health products space and the poultry business remains resilient. The company has also entered an MoU with Bharat Biotech to make its drug substance which should yield 50 lacs to 1.5 Cr doses per month from August onwards. It is also looking forward to the start of production in Hester Africa in Sep. It remains to be seen how long the slowdown in animal vaccine tenders in India & from FAO continues and how long it will take for the company's novel vaccine in partnership with IIT Guwahati to be completed. Nonetheless, given its excellent technical expertise and the future potential of its international operations, and its upcoming foray into animal health products, Hester Biosciences remains a good small-cap stock to watch out for.

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