

Hester Biosciences Q4FY20

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) | | | | | | | | |
|----------------------------------|--------|--------|---------|--------|---------|-------|-------|---------|
| | Q4FY20 | Q4FY19 | YoY % | Q3FY20 | QoQ % | FY20 | FY19 | YoY% |
| Sales | 41.7 | 50.3 | -17.10% | 44.8 | -6.92% | 172.3 | 174.3 | -1.15% |
| PBT | 6.5 | 16.0 | -59.38% | 10.6 | -38.68% | 41.2 | 59.8 | -31.10% |
| PAT | 5.0 | 12.4 | -59.68% | 7.7 | -35.06% | 31.2 | 43.8 | -28.77% |
| Consolidated Financials (In Crs) | | | | | | | | |
| | Q4FY20 | Q4FY19 | YoY % | Q3FY20 | QoQ % | FY20 | FY19 | YoY% |
| Sales | 48.4 | 55.5 | -12.79% | 51.0 | -5.10% | 189.6 | 185.3 | 2.32% |
| PBT | 6.2 | 17.7 | -64.97% | 14.9 | -58.39% | 41.3 | 56.9 | -27.42% |
| PAT | 4.8 | 14.1 | -65.96% | 11.9 | -59.66% | 31.0 | 40.7 | -23.83% |

Detailed Results:

- The company had a dismal quarter with 13% decline in consolidated revenues and a 65% fall in PBT at a consolidated level.
- PAT fell 66% YoY.
- The EBITDA margin was down 13.86% YoY to 24.79% in the current quarter while the net profit margin fell 13.27% YoY to 12.08%. Roe has reduced to 9.85% in Q4FY20 from 27.59% a year ago.
- The revenue growth in Q4 for the various segments is:
 - Poultry Healthcare: Down 15% YoY
 - Animal Healthcare: Up 4% YoY
 - Other: Down 39% YoY
- The poultry healthcare still remains the biggest contributor at 73% contribution to revenues.
- The poultry health division declined 5% YoY for FY20. The division was directly impacted due to the poultry industry which remained in a recessionary condition throughout the year.
- In Animal Healthcare, the trade business grew 6% YoY in FY20 but purchases by various state governments got delayed which resulted in lower revenues than expected.
- Exports grew by 63% in FY20.
- The company has set up a Manufacturing Science & Technology Division to focus on implementing innovation and best practices and solutions for vaccine manufacturing. One of the objectives of this division is to work on the improvisation of production yields and performances of the vaccines in the field.

10. The National Animal Disease Control Program of the Government of India is expected to be implemented for the Brucella vaccine (which was supposed to have been started from Feb 2020). Hester is one of the two suppliers for this vaccine.
11. Hester Nepal saw phenomenal YoY revenue growth of 88% for Q4. FY20 revenues for this unit rose 109% YoY.
12. Profit from Hester Nepal for Q4 grew 113% YoY bringing the total profit for the year to Rs 3.93 Cr which is the first year of profit for Hester Nepal.
13. The Texas Lifesciences unit also saw a YoY revenue growth of 57.6% in Q4 and 53.3% in FY20.
14. Hester Tanzania had a good quarter with sales of Rs 69.5 Lacs. Total Sales for the unit in FY20 was Rs 2.78 Cr vs Rs 23.4 Lacs in FY19.
15. The company has announced a dividend of Rs 6.6 per share.

Investor Conference Call Details:

1. The management stated that the poor performance in Q4 was mainly due to the crash in the poultry industry which was hit hard by the rumours of COVID-19 transmission through livestock.
2. The tenders for animal health vaccines were again delayed but the company has indeed received an allocation for Brucella. These orders for Brucella vaccines are expected to come in the next few months.
3. The company managed to hold on to its market share of 35% in the poultry vaccine market.
4. The company expects exports to double in FY21 as all disruptions in shipping and logistics due to COVID-19 get resolved.
5. The company has started the registration process into Tanzania, Uganda, Kenya and other neighbouring countries through a common registration. The company expects this to be done in the next year.
6. The company has made a big shipment to Hester Tanzania of the PPR vaccine and expects sales to commence in the next 60 days.
7. The management has stated that the company will be able to come out with a COVID-19 vaccine by the end of 2021 at the earliest.
8. Although the home consumption of poultry has taken a minor blip, the major damage to the overall demand for poultry has come from the catering industry which accounts for roughly 50% of overall demand.
9. The management expects feed manufacturers to recover in 4-5 months' time.
10. The management has reassured that despite the spike in inventory, there isn't any danger of losses from expired inventory at hand.
11. The company is seeing good potential in the poultry segment for West and East India and on the livestock segment in North and South India.
12. PPR procurement remains at the hands of individual states while Brucella and FMD procurement has shifted to the centre.
13. In Hester Nepal, 90% of sales are from exports while the remaining 10% is from domestic sales.
14. The company will not expand its sales team currently and will focus on consolidating the expanded team and bring in operational efficiency before looking to add on to it.
15. The management has admitted that even with the size of large integrators like Godrej and Venky's increasing through integrating small farmers, the market for the company is still the same as long as the volume of poultry on the ground does not go down.

16. The management has stated that the core competency required to make human vaccines is not too different from animal vaccines and Hester is already using the Paramyxovirus virus, which is ordinarily used for poultry vaccines, as a platform to develop its COVID-19 vaccine.
17. The company will be proceeding cautiously in expanding the team in Africa. It will set up distributors who at a later date will be integrated back into the company directly. This is how it went ahead in Tanzania and now the exclusive distributor for the country is part of the company.
18. The company is not expecting much debtor defaults in India and bad debt so far has been limited to 0.6%.
19. In R&D, the company is currently developing diagnostic kits for poultry. It is also looking to develop a thermotolerant PPR vaccine as well a nasal mechanism for delivery of PPR vaccine. In poultry, the company is looking to combine a Newcastle and a Gumboro vaccine into a 2in1 shot.
20. In Hester Africa, the company is looking to develop 16 types of different vaccines which are for Africa only.
21. The company already has a few products which it has not registered yet in Africa since the markets are too small for these products. Once the markets expand, the company can register and start selling these as well.
22. In Poultry, the company has a full range of vaccines and is mainly working on improving production efficiency and other operational details.
23. The management expects the Brucella tender to be almost Rs 100 Cr per year and PPR to be Rs 12-15 Cr per year.
24. The management has stated that the company can easily double the capacity in Hester Nepal with any new land acquisition and with only an investment of Rs 5 Cr into plant and machinery. Overall the company has enough plot to increase capacity up to 4-5 times.
25. The market size for FMD in India is expected to be Rs 1000 Cr. There 3 main competitors in this space which are Indian Immunologicals, Brilliant and Biovet.
26. The management expects exports to overtake domestic sales in at least 2-3 years.
27. In FY20, the sales from Brucella tender were around Rs 4-5 Cr while sales from PPR tender were less than Rs 10 Cr.

Analyst Views:

Hester Biosciences has been a darling of small-cap picks in the recent past. The company has had a tough time this year with the recession in the poultry industry and delays in the animal vaccine tenders. The growth of their international units has been very good and has helped shore up most of the shortfall in the domestic market. The management has done well to clearly identify the growth path ahead for the different vaccine divisions for the company and for foraying into the human vaccine with a potential COVID-19 vaccine in collaboration with IIT Guwahati. It remains to be seen how long the slowdown in the domestic poultry market continues and whether the industry will bounce back as soon as the company expects. Nonetheless, given their excellent technical expertise and the future potential of its international operations and its foray into human vaccines, Hester Biosciences remains a good small-cap stock to watch out for.



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