

Hester Biosciences Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	53	49	8.16%	54	-1.85%	147	131	12.21%
PBT	18	11	63.64%	14	28.57%	42	35	20.00%
PAT	13	8	62.50%	4	225.00%	11	9	22.22%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	58	51	13.73%	54	7.41%	152	141	7.80%
PBT	18	15	20%	11	63.64%	36	35	2.86%
PAT	13	12	8%	7	85.71%	25	26	-3.85%

Detailed Results:

- The company had a decent quarter with an almost 14% YoY rise in consolidated revenues and an 8% YoY rise in PAT at a consolidated level.
- 9M figures were encouraging with a revenue gain of 7.8% YoY and a profit fall of 3.85% YoY.
- The EBITDA margin was at 38.97% in the current quarter vs 29.97% a year ago. ROE has risen to 23.24% in Q3FY21 from 15.6% a year ago.
- The revenue growth in Q3 for the various segments is:
 - Poultry Healthcare: Up 32% YoY
 - Animal Healthcare: Up 4% YoY
 - Other: Down 15% YoY
- Poultry healthcare remains the biggest contributor at 75% contribution to revenues.
- Domestic sales have registered a growth of 43% in Q3FY21 and 20% in 9MFY21 and the export sales have reduced by 51% in Q3FY21 and 5% in 9MFY21.
- Overall vaccine sales grew 20% YoY in Q3 and 12% YoY in 9M. Health product sales grew 48% YoY in Q3 and 31% YoY in H1.
- The National Animal Disease Control Program of the Government of India is expected to be implemented for the Brucella vaccine by March 2021.
- There has been no material impact on sales from the outbreak of bird flu in India.
- Hester is set to launch a new range of Herbal Health products this quarter.
- The company will be focussing on domestic demand for vaccines and exports will be for animal products mostly.

12. The management will be looking to raise Rs 200 Cr to finance future expansion.
13. Hester Nepal saw a comeback in revenues. Revenues grew to Rs 3.6 Cr in Q3FY21 from Rs 0.87 Cr last year. FAO orders for PR have resumed.
14. The Texas Lifesciences unit also saw good revenue growth of 55% YoY in Q3 to Rs 5.17 Cr.
15. Hester Tanzania had a good quarter with almost 100% YoY growth in Q3. Commercial production in the Tanzania facility is expected to start from June 2021.

Investor Conference Call Details:

1. The modest growth in animal health business in Q3 was due to the absence of tender business for animal vaccines.
2. The income from technology transfer to Novapharma in Egypt is reflected in other income. This project is expected to be over in 1.5-2 years.
3. Consolidated debt is now at Rs 114 Cr.
4. The company is not yet committed as to how to raise the Rs 200 Cr funds for expansion. It is expected to be a mix of debt and equity.
5. WC has seen good improvement YoY.
6. The company has decided to concentrate on the domestic vaccine demand mainly as the margins for both domestic and export sales of vaccines are roughly the same for Hester. The management is confident of regaining lost export business once capacity expands to be able to address additional demand.
7. Pending capex in Texas is around Rs 5 Cr and is 10% of the allocated amount.
8. There haven't been any overruns in any of the company's capex projects so far.
9. The company's efforts in sales and marketing in FY20 have yielded results and thus the company is seeing unprecedented demand from the domestic sector which has forced the management to decide to concentrate on supplying vaccines only for domestic sales in the short term.
10. The plan ahead for Africa is to look to set up or acquire animal health product making facility as the asset turnover ratio in animal health business is much higher than vaccines.
11. The company will be looking to expand marketing in export destinations from Q1FY22 and creating a distribution network in Africa.
12. The company does want to enter into the pet vaccine market but it is looking for an international partner for international marketing for this sector. Also, it has not entered this segment in India as it is very small here compared to the domestic animal vaccine market. This situation is the reverse of USA where the pet market is much bigger than the domestic animals market.
13. The management expects massive consolidation to take place in the cattle farming segment in India in the future and other animal rearing sectors which should bring in demand for vaccines as the organized sector expands. A similar evolution is expected to take place in Africa at a slower pace as the organized sector is even smaller there as compared to India.
14. The management has stated that it expects margins to stay at current levels or higher in the medium term and revenues to rise to Rs 400-500 Cr in the next 5 years.
15. Around 75% of revenues come from vaccines while the rest is from animal health business.
16. Vaccine capacity utilization is above 80%.

Analyst Views:

Hester Bio has had a tough time this year with the COVID-19 outbreak and delays in the animal vaccine tenders. The company had a good Q3 with minimal impact from bird flu and despite the absence of the domestic animal vaccine tender business. The company has made good inroads in the animal health products space. The management has identified domestic demand as the primary focus for vaccine sales in the near future till they can expand capacity while animal health products will continue to be exported. It is also looking forward to the start of production in Hester Africa in the next 6 months. It remains to be seen how long the slowdown in animal vaccine tenders in India continues and how long it will take for the company to establish itself in the new space of animal health products that it has entered. 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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