

HESTER BIO SCIENCES LIMITED

BSE: 524669 | Sector: ANIMAL FEEDS

Position: **Close**

CMP : Rs. 580

Target Price: Rs. 900

BUSINESS BACKGROUND

Hester Biosciences is a 25 year old company specialized in the manufacturing of advanced veterinary vaccines. HBSL is the second largest poultry vaccine manufacturer in India & operates one of the largest single location animal manufacturing units in Asia. Its primary manufacturing facility is located in Merda-Arday, in Gujarat and has a large product basket of 39 live and inactivated vaccines. HBSL has a facility in Nepal which is a 100% export oriented unit, aimed at expanding reach to the markets of Nigeria, Sudan, Pakistan, Iran, Ethiopia and Middle East.

INVESTMENT HIGHLIGHTS

Steady Q2 & FY15 Performance –

HBSI reported a sales of Rs 24.04 crs in Q2 FY16 led by better product mix. This was reflected in a EBIDTA of Rs 7.46 crs and a PAT for Q2FY16 standing at Rs 4.23 crs. For H1 of FY16 Topline has totalled Rs 48.53 crs, a EBIDTA of Rs 15.63 crs and a PAT of Rs 8.96 crs.

For FY15 the company has recorded a topline of Rs 90 crs, a EBIDTA of Rs 24.92 crs while PAT is placed at Rs 12.46 crs. HBSL has paid a dividend of 30% for FY15.

HBSL offers wide variety of vaccines for poultry & large animals along with veterinary diagnostics. HBSL's diversified product portfolio comprises over 40 vaccines, 30 health products and 80 diagnostics products marketed across pan-India. Post establishing its poultry vaccine segment it has forayed into animal health business and veterinary diagnostics.

HBSL derives over 90% of its revenue from poultry vaccines

Chicken is India's preferred non-vegetarian protein source, with local production increasing by an estimated 10% annually. As purchasing power of households rise coupled with changing food habits we expect poultry sector to grow at a faster pace in long term.

HBSL has aggressively forayed into large animal health products –

India is world's largest milk producer accounting for nearly 16% of total global output and home to over 52% of the global cattle population. There is plenty of scope for dairy products (known for high nutritional value) as their consumption by households is bound to increase on account of rising income levels. Simultaneously, there is even bigger scope of increase in market size of health products (for improving milk quality and quantity) for cows, buffaloes and milch cattle. HesterBio is poised to benefit richly from this emerging scenario.

FACE VALUE	Rs	10.00
DIVID YIELD %		0.51
52 WK HI/LOW		849/302
NSE CODE		HESTERBIO
BSE CODE		HESTERBIO
MARKET CAP		RS 493 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	54%
BANKS, MFs & DIIs	-	2%
FIIIs	-	1%
PUBLIC	-	43%

KEY FUNDAMENTALS

YE	FY16	FY17	FY18
Rev Gr%	43	61	25
EBIDTA Gr%	45	52	25
PBT Gr%	57	63	26
PAT Gr%	52	57	33
EPS Gr%	52	57	33
Roe %	21	25	26
RoCE %	15	20	21
EPS (Rs)	22	35	47
P/E (x)		16	12

Peste des Petits Ruminants (PPR) disease holds a big potential for HBSL –

Peste des petits ruminants (PPR) also known as goat plague, is a highly viral and contagious disease that occurs in goats and sheep with mortality rate of nearly 80 percent in acute cases. PPR causes an estimated economic loss of USD1.45-2.1bn worldwide and a loss of nearly 200mn in India. (Source: Indian Council of Agricultural Research).

Occurrence of PPR is generally seen in ruminants in Sahara desert in Africa, in most of the Middle East and in many parts of Asia including much of the Indian subcontinent. Currently there are no medications to treat this disease. The only way to prevent the disease is through vaccination that boosts immunity. Efforts are laid by FAO and Organisation for Animal Health (OIE) to eradicate PPR by 2030.

HBSL is the only company in the world, at the moment, to have the capability to manufacture PPR from Nigerian as well as Sungri strains. The company is all geared to manufacture the vaccine at its plant in Nepal which will be on stream by end of year 2015 or early 2016 latest.

Goat Pox Vaccine (GTPV) also holds promising potential for HBSL –

HBSL is the first in India to commercially manufacture Goat Pox vaccine, (Live Uttarkashi strain). Goat pox is a viral disease in goats and sheep's and besides been contagious, goat pox has a 100% mortality rate. This vaccine is to be given annually to goats. The world market for GTPV is estimated to be for USD80mn annually; of which the Indian market is slated to be USD11mn annually.

As per reports and estimates, a total targeted population of goats for Goat Pox vaccine in the world is 970mn, while 50% of that population is in Asia. There is a good demand for this product in Asian and Southern African countries. India has approximately 140mn goats and this vaccine will have a major role to play in controlling the disease and preventing economic losses.

PPR Eradication Program by FAO - A Tremendous Opportunity for HBSL –

The Food and Agriculture Organization (FAO) has embarked on a mission to eradicate PPR disease (plague affecting Sheep and Goats) and has planned to spend about US\$ 7.6 Bn over a span of 15 years starting 2015. Annual spend on PPR vaccines will be about US\$ 0.5 Bn in the initial stages. This is a tremendous opportunity and HBSL has already set up a plant in Nepal to manufacture and export PPR vaccines worldwide. Nepal plant is expected to start operations in Feb 2016.

Animal Health Products to expand strongly –

HBSL is planning to leverage its existing vaccines cold storage and marketing & distribution network to sell animal health products (medicines, feed additives and disinfectants). Health products are expected to become the top contributor to total revenue, which is the case with most large multinational animal health companies.

Animal health product sales during FY15 were a tiny 6% of total sales. Margins are expected to be little lower than those in vaccines but revenues would be much larger than vaccines. HBSL will get these products toll-manufactured (loan license manufacturing) from third parties and market it under the Hester brand.

Steady financial performance - topline growth and margin expansion –

We estimate HBSL's earnings to witness a CAGR of 30% plus over FY16-18E. This will be driven by a steady revenue growth (20-25% CAGR over FY16-18E) and a steady EBITDA margin expansion over the same period. Over the next 24 months HBSL is likely to improve its operational performance with the new Nepal plant expected to contribute sizeably in FY17.

Going ahead we expect EBITDA margins to be maintained at around 26% Also it will be generating a higher a return on equity of 26% and ROCE of 22% in FY18. Also, considering the fact that HBSL business requires large working capital, it has a reasonably low net D :E of 0.40:1 as on Sept 2015 on a net worth of Rs 94 crs as on Sept 2015 which we believe looks low which is a positive for HBSL.

Business Outlook & Stock Valuation –

On a rough cut basis, in FY16, Topline will see a steady rise wherein Topline is expected to touch Rs 130 crs in FY16E.

On the bottomline level we expect the company to record a PAT of Rs 19 crs in FY16E. Thus on a conservative basis, HBSL should record a EPS of Rs 22 for FY16E. For FY17E and FY18E our expectation is that earnings traction for HBSL would continue to be strong wherein we expect a EPS of Rs 35 and Rs 47 respectively.

Also another attractive point for HBSL is that EPS growth over the next three years between FY16 to FY18 is expected to average 30% plus YoY but valuation multiples look quite low between 16x on FY17 and 12x on FY18E.

Looking at HBSL's steady financial track record, strong product domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the HBSL stock should be purchased at the current price for a price target of around Rs 900 over the next two years.

For the Year Ended March RsCrs	FY15A	FY16E	FY17E	FY18E
Net Sales	90.63	130.0	210.0	262.5
EBIDTA	24.72	36.0	55.0	68.77
EBIDTA %	27.28	27.69	26.19	26.20
Interest	4.82	3.50	3.75	3.80
Depreciation	5.91	6.20	8.0	10.0
Non Operational Other Income	0.34	0.4	0.4	0.4
Profit Before Tax	16.98	26.7	43.65	55.30
Profit After Tax	12.46	19.0	30.0	40.0
EPS				
Actual EPS (Rs)	14.65	22.35	35.29	47.06
Equity Capital	8.50	8.50	8.50	8.50
Reserves	73.88	92.88	122.88	162.88
Borrowings	54.94	48.0	50.0	50.0
GrossBlock	96.96	106.0	110.0	120.0
Investments	0.28	0.28	0.28	0.28

KEY CONCERNS

Any sharp down turn in the Govt Policy for Animal Feeds Industry can impact HSBLs financials adversely.

Also any negative development in the new product launches could also impact HSBLs financials negatively.