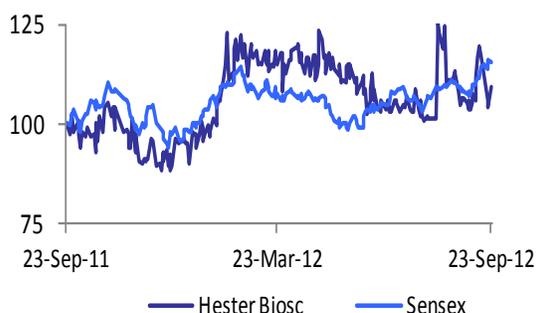


September 24, 2012

**CMP** **Rs. 123.5**

BSE Code	524669
BSE ID	HESTERBIO
High/Low 1Y (Rs.)	142.5/100.0
Average Volume (3M)	2,954
Market Cap (Rs. Cr.)	70

Shareholding %	Jun-12	Mar-12
Promoters	53.81	53.66
FII <sup>#</sup>	0.16	0.16
DII <sup>#</sup>	0.37	0.37
Public & Others	45.66	45.81

**Stock Chart ( Relative to Sensex)**


Stock Performance (%)	1M	6M	1Yr
Hester Biosciences	0.9	-7.2	9.0
Sensex	5.6	9.5	15.5

Financials	FY10	FY11	FY12
Revenue	37.5	42.0	48.3
Y-o-Y	24.4%	11.8%	15.0%
EBITDA	16.1	18.0	18.6
Y-o-Y	8.9%	11.9%	3.2%
Net Profit	6.0	7.6	7.6
Y-o-Y	27.4%	25.4%	0.6%
EPS (Dil.)	11.62	14.57	13.20
EBITDA Margin	42.9%	42.9%	38.5%
Net Profit Margin	16.1%	18.0%	15.8%
P/E(x)	10.6x	8.5x	9.4x

Financial year ends at March 31. All figures in Rs. crore except for per share data

<sup>#</sup>FII<sup>s</sup>- Foreign Institutional Investors

<sup>#</sup>DII<sup>s</sup>- Domestic Institutional Investors

## Hester Biosciences Limited

### Company Overview

Hester Biosciences specializes in the manufacturing of advanced veterinary vaccines. It is the second largest poultry vaccine manufacturer in India. The company operates one of the largest single location animal manufacturing units in Asia. Its primary manufacturing facility is located in Merda-Arday, in Gujarat. The company has a large product basket of 39 live and inactivated vaccines. In 2008, the company changed its name to Hester Biosciences from Hester Pharmaceuticals. Hester Biosciences has two subsidiary companies, Hester Biosciences Mauritius (wholly owned) and Hester Biosciences Nepal Private Ltd (65% holding). The facility in Nepal is a 100% export oriented unit, aimed at expanding reach to the markets of Nigeria, Sudan, Pakistan, Iran, Ethiopia and Middle East.

### Company Fundamentals

#### Expanding product portfolio

The company intends to set up three new divisions - large animal biologicals, large animal health products and poultry health products. The first seven vaccines for specific cattle and sheep diseases in India are expected to be launched in January 2013.

#### Expansion Plan

The company has invested Rs. 12 crore in setting up a quality control laboratory, (to be commissioned by December 2012) which will qualify the company for additional international accreditations, which should translate into a wider footprint across the regulated markets of Europe and Asia. The company also plans to export vaccines for large animals such as dogs, goats and sheep from its upcoming subsidiary in Nepal, which will cater to the markets of South Asia, Nigeria and Middle East.

#### Consistent growth in revenue

The company's revenue has grown at a compounded annualised rate of 12.5% over the past four years. The low debt equity ratio and funding of expansion plans through internal accruals keeps the interest cost of the company low. However, while revenue has been increasing, the company has faced pressure on margins.

#### Key Strengths

- Large product portfolio of 39 vaccines
- Strong customer patronage

## Company Business

Hester Biosciences specializes in the manufacturing of advanced veterinary vaccines. It is the second largest poultry vaccine manufacturer in India. The company operates one of the largest single location animal manufacturing units in Asia. The company's primary manufacturing facility is located in Merda-Arday, in Gujarat. The company has a large product basket of 39 live and inactivated vaccines. It also intends to develop vaccines for larger animals such as goat, dogs and sheep. Apart from vaccinations, the company is also the exclusive marketing agent for Synbiotics (a Pfizer co) Poultry ELISA kits in India. In 2008, the company changed its name to Hester Biosciences from Hester Pharmaceuticals.

Hester Biosciences has two subsidiary companies, Hester Biosciences Mauritius (wholly owned) and Hester Biosciences Nepal Private Ltd, which is a step down subsidiary, where Hester Biosciences Mauritius owns 65%. The facility in Nepal is a 100% export oriented unit, which is being developed at an investment of close to Rs. 18 crore. The facility is expected to go on stream by February 2013. The facility in Nepal will manufacture vaccines for large animals like sheep and cattle. The company plans to produce PPR (Peste Des Petits Ruminants) vaccines in Nepal targeting its projected demand of 40 crore units in countries like Nigeria, Sudan, Pakistan, Iran, Ethiopia and Middle East. The facility in Nepal will also manufacture Classical Swine Fever (CSF) vaccine to meet the projected demand of Rs 6 crore from South East Asian countries.

The company intends to reinforce its business model through three new divisions - large animal biologicals, large animal health products and poultry health products, in addition to a deeper presence in its existing poultry biological division. The company expects to launch products related to the three new divisions in phases starting from October 2012, helping it penetrate the domestic as well as international veterinary market. By December 2012-January 2013, the company aims to commercially launch seven vaccines for specific cattle and sheep diseases in India.

The company has set its sights on the markets in Europe and China. The company has invested Rs. 12 crore in setting up its quality control laboratory, which is expected to be commissioned by December 2012. This will qualify the company for additional international accreditations, which would translate into a wider footprint across the regulated markets of Europe and Asia.

### Sales Realisation

Type of Goods	FY12			FY11		
	Quantity	Value (Rs)	Realisation (Rs.)	Quantity	Value (Rs.)	Realisation (Rs.)
Killed Vaccines (bottles)	182538	175324707	960.48	150263	160167822	1065.92
Live Vaccines (vials)	1534293	303820052	198.02	1112398	256560711	230.64
Feed Additives (vials)	1467	72222	49.23	-	-	-
Kits (Nos)	128	3417180	26696.72	105	2942890	28027.52

Source: Company Annual Report

The fall in the company's operating margins by 439 basis points in FY12 has been partly due to declining realisations of the company's products across segments. Realisations have declined between 9-14% during FY12 for killed and live vaccines.

## Industry Overview

As per estimates by ICRA (as of June 2011), the domestic poultry market size is more than Rs. 47,000 crore. The poultry sector has been growing 8-10% annually over the past decade and at more than 15% over the past three years. ICRA estimates that the domestic broiler meat demand will grow at around 15-18%, while table egg demand is expected to grow at 5%-7% over the medium term. India ranks fourth in broiler meat production, producing 2.9 million metric tons (MMT) of broiler meat. The U.S. and China lead with annual production of 24.0 MMT and 12.3 MMT respectively, thereby providing large potential to grow. At the same time, India is ranked third in table egg production after the U.S. and China, with annual production of 57 billion eggs. Moreover, the annual per capita consumption of poultry meat in India is far below the recommended and global levels. This offers ample opportunity for the industry to grow. Moreover, the demand pull for the sector is strong owing to rising purchasing power of Indians, changing food habits and rapid urbanization.

Over the last two decades, the sector has transformed from a backyard activity to a major commercial activity with the presence of large integrated players. At the same time, bird mortality rates in Indian farms are high at 8-10% compared to the 5% mortality rate in developed countries, leaving room for awareness and growth in the use of vaccinations to counter such mortality.

### Indian Livestock Population

Species	2003	2007	Growth
Cow *	64.5	73	13%
Buffalo*	51	54.5	7%
Sheep	61.5	71.6	16%
Goat	124.4	140.5	13%
Poultry	489	648.7	33%

\* Milch Cattle. Source: Company Annual Report, 18<sup>th</sup> Livestock Census Report

The vaccination market in the other than poultry segment is also vast, given that India boasts of the world's largest dairy herd. Moreover, 90% of the market constitutes branded generics. The transition of livestock rearing is evolving towards commercial farms in India, which will lead to better nutritional and health care for India's livestock and demand for products thereof.\*\*

\*\*Source: company annual report

## Competitor Analysis

The company's closest competitor is Indovax Private Ltd. Since Indovax is not listed on the stock exchange, we have compared Hester Biosciences with close competitors in the pharmaceutical industry. Apart from Indovax, the company also faces competition from Globion India Private Ltd – a joint venture between the international Lohmann Animal Health Co. and Suguna Poultry.

Company	Year End	CMP*	M Cap	Revenue	EBIT Margin	EPS	P/E
Hester Biosciences	Mar-12	123.5	70	48	39.68%	13.20	9.4x
Panacea Biotech	Mar-12	115.6	708	701	-11.67%	-33.92	-

Source: Capitaline, BSE, Market cap and Revenue in Rs. crore. CMP and M Cap as of 24 September '12.

## Summary Financials

Particulars (Rs crore)	FY10	FY11	FY12
<b>Net Sales</b>	<b>37.5</b>	<b>42.0</b>	<b>48.3</b>
Other Op. Revenue	0.0	0.0	0.0
<b>Total Revenue</b>	<b>37.5</b>	<b>42.0</b>	<b>48.3</b>
<i>Growth (%)</i>	<i>24.4%</i>	<i>11.8%</i>	<i>15.0%</i>
Cost of Goods Sold	-11.6	-10.4	-13.0
<b>Gross Profit</b>	<b>26.0</b>	<b>31.5</b>	<b>35.2</b>
Employee Costs	-5.0	-5.8	-6.9
Other Expenditure	-4.9	-7.7	-9.7
<b>EBITDA</b>	<b>16.1</b>	<b>18.0</b>	<b>18.6</b>
<i>Growth (%)</i>	<i>8.9%</i>	<i>11.9%</i>	<i>3.2%</i>
Depreciation	-4.2	-4.5	-4.1
<b>EBIT Profit</b>	<b>11.9</b>	<b>13.5</b>	<b>14.5</b>
Finance cost	-2.4	-2.5	-2.8
Other Income	0.1	0.1	0.2
Exceptional Items	0.0	0.0	0.0
<b>PBT</b>	<b>9.6</b>	<b>11.2</b>	<b>11.9</b>
<i>Growth (%)</i>	<i>17.8%</i>	<i>16.1%</i>	<i>6.7%</i>
Income Tax	-3.6	-3.6	-4.4
<b>Profit after Tax</b>	<b>6.0</b>	<b>7.6</b>	<b>7.5</b>
Extra Ordinary Items*	0.0	0.0	0.1
<b>Net Profit</b>	<b>6.0</b>	<b>7.6</b>	<b>7.6</b>
<i>Growth (%)</i>	<i>27.4%</i>	<i>25.4%</i>	<i>0.6%</i>
Rep. Basic EPS	11.62	14.57	13.20
Rep. Diluted EPS	11.62	14.57	13.20
Equity Capital	5.2	5.2	5.7
Face value	10	10	10

\*Share of loss of subsidiary transfer to Minority Interest

Ratio Analysis	FY10	FY11	FY12
<b>Margins</b>			
EBITDA Margin (%)	42.9%	42.9%	38.5%
Net Profit Margin (%)	16.1%	18.0%	15.8%
<b>Valuation</b>			
P/E (x)	10.6	8.5	9.4
P/BV (x)	1.6	1.4	1.2
<b>Profitability</b>			
ROCE (%)	-	27.2%	23.7%
RONW (%)	14.8%	16.3%	12.7%
<b>Solvency Ratio</b>			
Debt/ Equity Ratio (x)	0.5	0.4	0.2
Interest Cover (x)	5.0	5.4	5.1

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