



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

HESTER BIOSCIENCES

WHAT WE LIKE

LONG TRACK RECORD & PROMOTER PEDIGREE

Rajiv Gandhi is the founder, CEO and MD of HBL. He has more than three decades of experience in vaccine industry. Started in 1987 as a small proprietary trading business, HBL is now Asia's largest single-location animal biological manufacturing facility catering to four verticals: Poultry Vaccines, Animal Vaccines, Poultry Health Products and Animal Health Products.

DIVERSIFIED PORTFOLIO WITH A STRONG COMPETITIVE EDGE

HBL is one of India's leading animal healthcare companies and the second-largest poultry vaccine manufacturer. It makes 48 types of poultry vaccines in single and combo varieties; 3 types of large animal vaccines, and more than 70 health products for poultry as well as large animals. Hester is also looking to expand its current capacity by 100% to meet the rising market demand. There is also a big opportunity for animal vaccines in export markets where the world requirement from FAO for them is around \$500 million.

HBL has acquired technologies for the production and commercialization of vaccines for Classical Swine Fever and Sheep Pox which will start selling from Q1FY23. The company is also looking to get into pet health products which is a largely untouched market in India vs the pet markets in advanced economies.

HUGE OPPORTUNITY FROM AFRICA

HBL's Tanzania plant cost approx \$18 million, with a capacity of 1.5 billion doses per year. Estimated revenue from the plant is \$30 million per year at full capacity. There is a big potential in the animal vaccine space in Africa as most of the current demand is imported at prices that are higher than any other continent in the world. Hester also has a competitive advantage here as the vaccines it is looking to make at this plant (PPR & CBPP) are not being supplied by anyone in the continent.

FORAY INTO HUMAN VACCINES

HBL is building a BSL-3 facility to make and supply the drug substance for the manufacturing of Covaxin to Bharat Biotech. This project is set to be completed by Q4FY22 and it will be yielding 7 million doses per month. In Q3FY22 concall, the management stated that this facility will be their ticket to enter into human vaccines in the future.

WHAT WE DON'T LIKE

LOWER SCALE & HIGH WC REQUIREMENT

HBL only made a turnover of about Rs 214 Cr in FY21. This lower scale of operation restricts the financial and operational flexibility of HBL against pharma MNCs in similar businesses. An operating cycle of 171 days makes it WCap intensive. High inventory days is largely due to the manufacturing process of the product which requires average two-three months of work in progress for various stages of product development.

TOUGH COMPETITION IN NEW SEGMENTS

Although Hester has big market share in a few vaccine supply tenders in India and in the domestic poultry space, it faces tough competition in these segments in exports markets from global giants like MERCK and in from domestic competitors like Cadila in the emerging segments of Animal Health Products. Thus in order to be able to compete with the reach and scale of these competitors, HBL will need to stay on the front foot with sustained growth momentum and constant innovations.

TANZANIA- BUSINESS RISKS

Given the size of the company today, the Tanzania plant is expected to be a game-changer for HBL. The plant has commenced operations from Sep 2021. The size of the CAPEX was relatively large compared to the present operation of the company and the scale-up of operations in this region is expected a difficult task given the nascent state of the market and local level difficulties of establishing a new business in Africa.

RISKS PERTAINING TO POULTRY INDUSTRY

The biggest revenue segment for Hester remains poultry vaccines. Thus any negative effect on poultry industry can severely affect sales of HBL. Demand of HBL's product is also directly proportionate to the poultry farmer's ability to spend. E.g., in Q2FY20, as the cost of animal feed rose, farmers were forced to cut expenditure on healthcare products and hence sales of HBL was impacted.

HIGHLY REGULATED VACCINE INDUSTRY

The vaccine industry is a highly regulated market in terms of intellectual property rights (IPR) and other regulatory requirements. Failure to adhere to regulatory standards or to implement changes in those standards could affect HBL's ability to register, manufacture or promote their products.

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