

Dated: 3/05/2005

HESTER PHARMA

BSECODE: 524669
EQUITY: 3.5 CRS
CMP: 119

NSE CODE: N/A
Industry: POULTRY VACCINES
TARGET: 200

We are initiating a coverage on Hester Pharma with a BUY recommendation on it.

INTRODUCTION

Hester pharma is engaged in manufacturing of poultry vaccine for both domestic and international market and is one of the largest poultry vaccine manufacturers in India. Its plant at Kadi, set up in 1997, today manufactures 12 live and 28 inactivated poultry vaccines and has a capacity of 120 crore doses.

EXPORT THRUST

The company has recently forayed into export market and is currently penetrating in the Middle East and African markets. Hester hopes to add more than 5cr turnover from the export market this yr. As it is the only company from India to export poultry vaccine it will almost have a level playing field in those international markets. Hester has signed an agreement with merial inc, U.S.A as their exclusive distributors for merial's complete range of poultry vaccines in India and this has enabled it to increase its product range and the company expects a 2cr sales from this alliance. We would like to make a note here, that merial is the largest animal healthcare company in the world with a turnover of more than 8100cr.

MOVING BEYOND BOUNDARIES

Further the government of India has banned the imports of poultry products including poultry vaccine since Feb. 2004; this is expected to boost Hester's fortune. The company has its sales offices in almost all parts of the country and has appointed distributors where it does not have a presence. With nearly all parts of the country covered Hester is now planning to expand beyond India. It is an ISO-9002certified company and has the distinction of winning good manufacturing practices by drug authorities. Over the last few months Hester has made substantial addition in the plant and machinery to expand capacity and also with the poultry industry getting bigger companies like Hester are benefiting the most and thus opening up-of newer opportunities to them. The poultry vaccine market in India is about 200cr and its increasing at a faster pace.

CAPACITY EXPANSION

Considering the growth of the poultry industry in India and the over whelming demand for its range of poultry vaccines, the company has on hand an massive expansion plan for increasing its current capacity by 300% which would go on-stream in the last quarter of the current financial year. This expansion envisages adding new product lines of poultry vaccines and other large animal vaccines. The Rs 12-15 crore expansion will be funded majority through debt. The results of the expanded capacity will only be felt on the last quarter of the current financial year.

FINANCIALS & OUTLOOK

The company has shown strong consistency in both topline and bottomline over the last 5yrs and we believe that the same trend is likely to continue in the upcoming yrs. The company also has recently declared a maiden dividend of 12%(applicable to those who buys on 4.6.05 or who has bought before). Hester is looking at a turnover of 30cr this yr compared to 16cr last yr. Pat is expected to be over 7cr (3.94cr last yr 2004).With an expected EPS of more than 20rs the scrip is quoting at a P/E of less than 6 times its expected FY-06 earnings. At 130rs there is enough scope for capital appreciation in the coming months. So, **we recommend a buy rating on it with a price target of 200 in 9 months.**

KEY FINANCIALS (Rs. Cr)

| Year End | 2004 | 2005 | 2006 | 2007 |
|----------|------|------|------|------|
| Sales | 7.7 | 16.2 | 26.5 | 42.0 |
| OP | 5.2 | 9.3 | 14.5 | 19 |
| PAT | 1.1 | 3.9 | 7.1 | 12 |
| Equity | 3.5 | 3.5 | 3.5 | 3.5 |

| VALUATIONS | FY2004 | FY2005 | FY2006E | FY2007E |
|---------------|--------|--------|---------|---------|
| EPS | 3.1 | 11.3 | 20.7 | 34.2 |
| BV | 16.5 | 28.0 | 43.0 | 73.0 |
| P/E | 39 | 10.6 | 5.7 | 3.4 |
| P/BV | 7.3 | 4.2 | 2.8 | 1.6 |
| ROCE(%) | 29.5 | 56.6 | 61.6 | 62.1 |
| ROI(%) | 18.5 | 44.1 | 49.3 | 48.4 |
| Dividend/s | 0.0 | 1.2 | 2.2 | 4.0 |
| Reserve(cr) . | 9 | 4.5 | 11.4 | 22.3 |
| Equity | 3.5 | 3.5 | 3.5 | 3.5 |

Shareholding Pattern (%)

| | |
|-----------------------------|--------|
| Indian Promoters | 27.92% |
| Persons Acting in Concern | 5.14% |
| Mutual Funds and UTI | 0.28 % |
| Banks, FII, Insurance comp. | 0.00% |
| PCB | 6.82% |
| Indian Public | 42.47% |
| NRIs/OCBs | 17.17% |

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