



HESTER

“Hester Biosciences Limited Q3 FY-’16 Earnings Conference Call”

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HESTER BIOSCIENCES LIMITED
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MODERATOR: **MR. TEJAS SARVAIYA – TRUST FINANCIAL**

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Hester Biosciences' Q3 FY-'16 Earnings Conference Call hosted by Trust Financial Consultancy. We have with us today Mr. Rajiv Gandhi -- CEO and Managing Director; and Mr. Jigar Shah -- CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajiv Gandhi. Thank you and over to you sir.

Rajiv Gandhi:

Good Afternoon, Everybody. This is Rajiv Gandhi from Hester Biosciences and accompanying me is Jigar Shah -- our CFO. Thank you for coming and participating in this call.

I would like to talk about the Q3 Results which we have declared today. I would like to go through the main business features. As you are aware we are into the Veterinary Healthcare segment which is the production of Vaccines as well as Health products. As of now our focus or the concentration has been on the Poultry because the Large Animal division which comprises of cattle, sheep, goat and swine health products and vaccines, we have just commenced it a year ago, therefore the focus and the contribution of Poultry continues to remain the largest as you would have already known.

I would like to go through first the current business overall situation and then go on to the specifics of Hester Biosciences and the turnover in Poultry as well as in Large Animal, I could even provide details specifically division wise of Poultry as well as Large Animal. Nine-months of our financial year having been completed, we have actually faced more than 6-months of a depressionary situation in the Poultry industry. The Poultry industry has seen one of its worst downward trend in between 10 to 15-years wherein the cost of production has even not able to have been recovered by poultry farmers either it is the meat producers that is the broiler or the egg producer those are the layer farm. In fact, their selling prices have been 20% less than their cost of production. This situation in the last 6-months has impacted our business in all the three quarters and after the 10th or the 15th of December we now see an upward swing in the Poultry industry. The reason to give a brief on this is that as we are dependent on poultry at this point of time it is imperative for me to inform all the people on the current situation. As just mentioned because of the depressional condition, we ourselves have restricted the sales for the Poultry Vaccines as well as health products because we at no point of time wanted to try to increase our amount receivables and we did not want to dilute our focus on improving our margins. So that is a little background on the sales being what they are which has shown a growth of 10% if you take on a quarter-to-quarter basis and if you take a cumulative 9-month ended it is approximately 9%.

On the profit side, we have been extremely disciplined and strict internally as well as externally... when I mean internally I mean looking into increasing the efficiencies in terms of

production capabilities, trying to become more efficient in terms of energy consumption, taking batches which are more larger and economical in size,, etc., Till recently we had a philosophy wherein we would not want to lose out on any small order that we would have ever got which would make us even take small batches which used to be at the cost of profitability while of course continuing our endeavor not to lose any order but we have tried a lot to rationalize our production activities which therefore have resulted in a better profitability.

On the Nepal plant that is the 3rd point that I would like to say is that we have already commenced our trial production, we have in fact taken two batches on trial, we have even submitted these batches to certain regulatory authorities in the African continent whose certifications are required for us to participate in Tender business, we have even got two orders for Tender businesses which have been floated by FAO, we are now just waiting to begin the commercial production. Hopefully the political unrest seems to coming to an end. If it happens so we would soon be back in business as far as Nepal is concerned. But, please do keep in mind that the political and the social unrest at the moment is definitely on and I am not able to give a precise and a fixed timeline as far as Nepal is concerned. So this is just a little overview of the business that we have been doing.

On the Export side, I would like to say that our growth has been better than what we had forecasted. Our growth on exports has been 132% on a cumulative 9-month basis... and I talk of 9-month basis rather than a quarter to quarter basis because at times it does happen that some sales get shifted not for the reason of anything else but instead of in the last few days it could get shifted in the first few days or the weeks of the quarter and therefore I would prefer to talk on 9-month basis.

As far as Large Animal segment is concerned we hope to continue the growth and grow faster. Till date we have grown at approximately 30%, we had forecasted 50% growth rate. The Tender business on the Large Animal side mainly comes in the last quarter. We have reasons to believe that we would honor the growth pattern as far as the Large Animal division is concerned. For the poultry, things are picking. Some businesses that have been lost I would need to admit that it has been lost, but the trend in the 4th quarter is extremely promising, we can already see that from the last few days in December and definitely we are headed towards a good turnaround. In these 9-months we have already launched two poultry vaccines namely Salmonella and Inclusion Body Hepatitis Vaccines. There are four Cattle Vaccines which are in the pipeline to be launched depending upon the regulatory issues, the inspection and other formalities that we should complete; hopefully, these four vaccines should be released in anything between 2 to 6-months of time. I am giving a gap between 2 to 6-months because there are inspections, there are a lot of coordinations which various agencies, etc., to be done therefore it is difficult for me to give an absolute precise timeline. So this is more or less an overview of the business activities.

I would now request any questions from your side and we could take it further and on precise financials, etc., while we are on the question-answer I would request Jigar -- our CFO to address those questions together.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. Mr. Gathani, you may please proceed with your question.

Gathani: Just one question; referring to your earlier statements, you said that you are restricting sales because you are not very sure of the payment cycle because of the industry today. So, just what do you supply is vaccination is a compulsory for the Poultry business, they cannot do it without it. So if you are not supplying, are you losing market share in that case and someone else is coming up or the volumes have fallen to compensate that?

Rajiv Gandhi: One is Vaccines should be used, it is more or less mandatory for them to use, but at times if there is a situation wherein the end user may not get, he might have to do with it. There is no market share that we have lost; in fact, I would say that we have gained market share. There has been depletion in the poultry population in the country for layers as well as broilers and we have definitely not lost any market at all. There are two situations -- one is that there has been a reduction in population and two, yes, due to unmanageable reasons there could be cases where they would go without using the Vaccine. I do not mean to say that when we do not supply, nobody else would supply and they would be left absolutely without Vaccine, but more or less all of us would be in a similar situation, I am talking about the manufacturers.

Gathani: No, but let us say at a point of time to some suppliers you are not supplying, someone else would be supplying there, right, if there is a need?

Rajiv Gandhi: There is a chance someone else could supply, yes.

Gathani: So then there could be some loss of market share for you today which you tend to gain later on or. What I am trying to understand here is are you letting it go because you are getting conservative on your working capital cycle because once someone moves onto another Vaccination, what is the reason for him to come back to you then?

Rajiv Gandhi: We have to definitely take a risk and a chance. Our main objective is that we would not want to embark on a business model wherein chasing amount receivables is a more difficult thing rather than trying to manage inventory at our end. So we would not want to take a chance. There is a risk; there could be a chance somebody else could take over some of that business. It is for us to then take back that whatever little business that we would have lost. That is what I would say.

Gathani: What has your working capital cycle been -- has it improved or it is going bad because of the industry?

- Rajiv Gandhi:** Because of the industry our amount receivables have gone up marginally by approximately 3 or 4-days in the last quarter, but beyond that there has been nothing else that has really impacted us.
- Gathani:** Just for my understanding only; the Vaccination that you provide, is there a uniqueness there or is there a difference what competition would provide, anyways if you keep Venky's out of this norm, then probably you are the leader by miles?
- Rajiv Gandhi:** Yes, Venky's definitely have a larger market share in India for whatever reasons; they themselves are the biggest in the Poultry. To put it very clearly, behind us the person is way behind us.
- Gathani:** But my point is, is there a very big difference technically speaking in the vaccination that you would be doing it?
- Rajiv Gandhi:** Technically speaking the competition is more against certain importers, there are two more local companies of course not that there are not, but we try to sell our Vaccines and that is the basis of our Vaccines is technical support, we do a lot of testing for the poultry farmers to give them their current situation as far as Health is concerned, in fact we are the leaders in offering such services to the Poultry industry and we have reasons to believe that even temporarily moving out of taking our Vaccines would make a customer come back to us more so because of our aftersales service that we have.
- Gathani:** Coming to Nepal plant, if you get the regulatory approvals from Africa, considering the political and social unrest there, will you still be able to start production there or you will have to wait?
- Rajiv Gandhi:** We are trying to address the situation as best we can in the way the things are at this point of time. I have reasons to believe that any situation however bad or difficult it cannot go on because at the end for us it is only a Vaccine plant but for the country it is an economy, the social issues, etc., So I am reasonably sure that things will improve fast. If for whatever time they do not improve, it would definitely impact us. But keeping all these things in mind, we have definitely been able to wriggle out and take trial batches and we are also awaiting the results from the government labs in Africa. Once that comes okay which we are sure it is going to pass, we are even ready with the first batch of supplies to be made in this situation.
- Moderator:** Thank you. The next question is from the line of Ujwal Shah from Quest Investment. Please go ahead.
- Ujwal Shah:** Just to understand the market scenario a bit more better: What were the primary reasons which impacted for such kind of a depressionary trend which has worsened over last as you mentioned it was last 10-15-years? What do you think has been the marked improvement in

terms of volume, in terms of sales, if you can give so the volumes have increased by say 10-15% or something since December as you are seeing the situation has improved over there, can you just throw some light on that?

Rajiv Gandhi:

This is like talking about the Poultry industry. The characteristic of the Poultry industry in India is one is that there are big farms for sure but there are a large number of marginal farmers in the country though the number is reducing. Another feature for the Poultry industry is as far as buying poultry meat is concerned, the trend still continues even in urban areas in India which is not so anywhere in the urbanized cities you can take any of the urbanized cities in the world wherein live chicken is available and then a person goes to the shop, chooses a live chicken and then gets it dressed and then they take it home. Most of the places it is dressed and it is picked up from the shelf of any store that anybody would go to. That is as far as the end use is concerned. If you look at the distribution pattern of Poultry in India it is still to evolve quite a bit because an average Poultry farmer unlike the big people like Godrej or for that matter Venky's, Suguna, etc., the others would depend upon traders to pick up these live birds and derive their income by selling the live birds. Now the poultry farmer does not have the ability to stock any of their produce because it is perishable, it has to be immediately sold more so live, had they been able to slaughter it and store it in their cold store that would have been a different situation wherein they would have been able to partly keep their stock with them to sell it at a better time, but as they are not able to do this, they are reasonably dependent upon the traders. Another aspect that has happened is normally in the Gujarati calendar, the Adhik Mahina is something which has come which is an additional month every 4-years that comes in the calendar as well as the month of Shravan, during both these months the consumption of meat is relatively less in our country because of religious reasons. So these also reduce the sales. So we had two of such months together, which is of course it does happen once in 3-4-years. But all these things put together these 2-months coming together, the already downtrend in the selling prices and there has been a little bit of a slump in the demand in the earlier months. So all these things put together the traders, these religious sentiments, etc., have caused such a situation.

Ujwal Shah:

In terms of improvement that we are seeing from December, can you quantify that?

Rajiv Gandhi:

I would not be able to quantify it in a sense, but I could definitely tell that the people who had reduced their chicken population more so in broilers because the cycle is 6-week, so it is for them to take or not to take every 6-week, so now they have started taking back these things and we definitely see a good trend reviving up to its normal standard, but it would take approximately a month or two for everything to revive and come to its normal level of having all the poultry farms carrying as much population which otherwise there would be. It would be wrong for me to give any quantifications because at any point of time it is like I am trying to commit or give figures, but I would say that at least there would be an increase in the bird population very easily between 5% and 12% in these weeks very easily and plus the better

rates for people to restore back to their programs in terms of health, hygiene in the Poultry which would again not make them shy away from using the Vaccine or any Health products.

Ujwal Shah: Can you throw some more light on your Vaccine pipeline as you mention you have at least four cattle vaccines in the pipeline, so which are the areas they cater to and in terms of size how big can this be?

Rajiv Gandhi: The four vaccines that we are looking at as far as cattle, they are of course targeted towards cattle, sheep and goat. One of the vaccines that is Brucella Vaccine which is a vaccine which is very much required within our country and at the moment there is a shortage of the Brucella Vaccine. So hopefully we should be able to get a license for these vaccines in the near future plus there are other three vaccines which in terms of doses, the turnover could be reasonably be good, but not in terms of rupee value because they are relatively very cheap vaccines which come in a few paisas, etc., but then what happens is when you have all the vaccines on the strength of a cheap vaccine, you could also sell a vaccine which is higher in price. So the complementarity of these Vaccines would definitely help us in trying to sell all the vaccines. The focus of us is right now PPR and the Brucella Vaccine. We have already got the license for the PPR Vaccine, we have participated in quite a few tenders in a few states, and result should come out in this quarter. So hopefully it should derive sizeable revenues to even cover up for the growth which we had anticipated for which we are at around 35% to 40% at this point of time.

Moderator: Thank you. The next question is from the line of Amit Kadam from LIC Nomura. Please go ahead.

Amit Kadam: I have two questions: First is on the competitive landscape. There is lack of information in the public domain about this Vaccine industry in this Poultry Farm. So, can you throw some light on that what is the size of the market, how many players are there, where do we stand in that and in each of the products, how we are placed, maybe in terms of ranking?

Rajiv Gandhi: I would love to give all the statistics that I have sir, but if I right now go on to all these statistics it would really take a lot of time. I partly agree with you that the Poultry Vaccine market as well as the Animal market, there are not too much data, etc., that is available. What I can tell you is at the moment we have around 35% market share as far as Poultry Vaccines is concerned. You could try to correlate from our sales as to the complete market for all these Vaccines for the poultry. For the Large Animal Vaccines PPR is a Vaccine which has just been now taken up for disease eradication in our country and there are tenders not only in India, worldwide. FAO is slated to spend a little over \$7 billion in the next 15-years towards just buying of PPR Vaccines; the other expenses would be independent. So this is what the world market for PPR is. As far as India is concerned the total Cattle Vaccine market... even we have

to make guesstimates as the way that you would have to make guesstimate, it could be approximately around Rs.300 to 400 crores at this point of time.

Amit Kadam: Then my second question is again like PPR what you mentioned, the opportunities which is coming to us hopefully in that, the FAO trend kind of a thing. In that case, can you like maybe share some more light like the kind of opportunity it can come to us and now what is the timeline, how would we realize that thing if it actually goes according to the plan, any tentative number...?

Rajiv Gandhi: One is that by separate communication if you could send your e-mail id we will probably send you the link for an article, which is published by FAO and OIE, so you can have a look at that... in fact, if you do a little bit of Google "PPR Eradication FAO" you would also be able to get that article. As far as the demand of PPR is concerned, today India only allows the local strain while the world uses the Nigerian strain; we would be producing the Nigerian strain in Nepal and the Indian strain at our Indian plant. So between both these we are in a position to address the demand the orders that come to us. As on today, if you ask how are we prepared for the execution for orders that would come, the figures published worldwide including that in India are extremely positive for us to believe that we could prosper a lot in years to come if we even get a small piece of that pie. What we shall do is these are evolving things and eradication program does not happen suddenly. As things evolve we would at that point of time depending upon the pace, get into expansion mode and increase our capacity. It would be difficult for us to tell you because we are dependent on international agencies on how this progresses.

Amit Kadam: But then we are doing this particular project at Nepal with a project cost of somewhere around Rs.35-40 crores. So maybe there would be some kind of an estimated sales attached to that kind of a project...?

Rajiv Gandhi: At full capacity we hope to sell approximately Rs.50 crores from the Nepal plant.

Amit Kadam: So when we say that 7.6 billion, I am just extending this...

Rajiv Gandhi: Yes, 7.6 billion is too huge an amount for us as a company to really plan and work on it. If 7.5 billion we are looking, it is just too staggering a figure. So we will take it as it comes.

Moderator: Thank you. The next question is from the line of Dheeresh Phatak from Goldman Sachs. Please go ahead.

Dheeresh Phatak: Rajiv, what percentage of the Large Animal India Vaccine market are we able to target with our current portfolio? You mentioned three or four Vaccines you are adding.

Rajiv Gandhi: At the moment the biggest market in India is the Foot and Mouth Disease Vaccine which contributes to approximately 70% of the market. All the other vaccines would come in the

30%. But having said that the Government of India is now embarking on Disease Eradication Program for PPR as well as Awareness Campaign for Brucella Vaccine for Goat Pox Vaccine. All these are emerging ideas that are coming up within the government circles and therefore as these demand increases we would be there to supply these Vaccines at that point of time. The government is surely buying Vaccines through the tender system and we on our own have also been started creating business directly to end users, creating awareness for the Vaccination and we are trying to sell these Vaccines. I think for us to give a better idea on the exact market potential for these Vaccines it could take approximately around 6-months to a year's time by the time the government programs are well in place. I do not say that it is too trivial business and we cannot even forecast for a year, nothing of that sort. I do not mean at all. If you look at the composition of business, Large Animal Health products is the main driving force of any veterinary company, we have started that division 2-years ago, the Large Animal Vaccines as well as Poultry Vaccines they would also be there but would come second in line. So as things go, as the demands come, we will moderate everything and we will take it further.

Dheeresh Phatak: If I just exclude the emerging Vaccines in India, which is Goat Pox and PPR, balance which Foot and Mouth is a large part, so the balance legacy vaccine if may call it, you are able to address 100% of that market now?

Rajiv Gandhi: Yes, minus Foot and mouth and Rabies.

Dheeresh Phatak: Which is the large part of the market -- Foot and Mouth itself is 70%?

Rajiv Gandhi: Yes.

Dheeresh Phatak: So any plans of addressing the gap which is Foot and Mouth which is large part of the portfolio?

Rajiv Gandhi: No, our endeavor is to play at the moment in that 30% because that 30% is going to increase and to come at a level of even more than 50% in the near future. We would not want to get into FMD at this point of time.

Dheeresh Phatak: Because technology is not there, because it is already too crowded?

Rajiv Gandhi: No, because FMD it requires an independent investment, if you want to get into FMD we need to create a new plant, we cannot manufacture the FMD Vaccine in this multipurpose plant that we have created; our endeavor is right now to get the maximum out of the assets that we have already created. Having reached a level wherein these assets reach a saturation or a full capacity point, then we could look at such other avenues. If at all and whenever we do decide to get into rabies and/or FMD, we are confident of getting the technology, we are in touch with people, in fact, 2-years ago there was a government PPP model wherein they had invited tenders for setting up FMD Vaccine, we had even participated, and we were as close as to

being there at the finishing line, but it was a conscious decision for us to step back at that point of time.

Dheeresh Phatak: In terms of FAOs spend on PPR this year; can you put a number on how much have they spent this year?

Rajiv Gandhi: I would not really have that figures how much they have spent this year.

Dheeresh Phatak: How much have you supplied as part of FAO?

Rajiv Gandhi: We have got first two orders. They are the Vaccine is under test in Africa in their recognized lab. Once we get the results we would execute those orders. So as on today there is not even \$1 of supply made. But once these batches pass over there then we would start because then the same batch once it is tested then we would be beginning the supplies and for reasons well known there has been a delay and that delay did not permit us to participate in earlier tenders.

Moderator: Thank you. The next question is from the line of Afzal Mohammed from Karvy Stock Broking. Please go ahead.

Afzal Mohammed: Sir, you started a trial batch in Nepal. How far have we come towards acquiring a commercial license to manufacture and expose these PPR Vaccines to Africa?

Rajiv Gandhi: We have got a commercial license and under that only we have taken the trial batches which have already been exported for testing. So technically we have a commercial license.

Afzal Mohammed: What is the order size of the two orders you have won?

Rajiv Gandhi: I would be a little hesitant in giving the exact values, but to be very honest they are not too large values, these are just the first orders that we have got because that was the first time that we have participated and FAO was kind enough to give us small orders and this is just a beginning.

Afzal Mohammed: Which country these two orders?

Rajiv Gandhi: They are in Eastern African countries.

Afzal Mohammed: Probably, Kenya, Somalia. Okay. One more thing is that once you start exporting the Vaccines like, are you using Nigerian strain in Nepal or Sungri strain?

Rajiv Gandhi: Nigerian strain in Nepal, Sungri strain in India. We are in fact the only manufacturer who can cater to both the strains.

Afzal Mohammed: Of the Rs.32.1 crores Poultry Vaccines that you did in third quarter, how much part were exports?

Rajiv Gandhi: The sizeable part of the exports are of Poultry Vaccines. That is what I could tell.

Afzal Mohammed: I have seen that you made some profit in the Large Animal Health products beginning this quarter. So what kind of margin do you expect in Large Animal Health products going forward?

Rajiv Gandhi: As far as the Vaccines is concerned it is identical to that of the Poultry Vaccines, we do not see any difference in the margin. As far as Health Products is concerned, we are trying to manage the margins as what we are currently maintaining. In the Vaccines we are also trying to maintain that on the Health Products side.

Afzal Mohammed: In Africa, what kind of competition you are facing for the PPR Eradication Program like FAO says there will be about 20 manufacturers, so how many exactly you feel will be real manufacturers will give competition?

Rajiv Gandhi: Whenever there are any such opportunities there are people who are bound to come in, we have come in, and I am sure others would also come in, and it is for us to be competitive, pricing is a main criteria with a presumption that quality has been tested and it is as good. Keeping that in mind I think we in India or in Nepal we definitely have a cost advantage as far as other companies are concerned. Today, the PPR Vaccine whichever we are selling in the private market in Africa though small there is a big difference between our price and any other manufacturer of PPR on their vaccine price. 50% more, some are 100% more. So that is the situation at this point of time. Our margins are being maintained at our selling prices, it is not that we are under cutting the terms, undercutting/overpricing all these are redundant as long as our balance sheet and our business can take on supplying at certain prices, that is good enough and we are able to do that.

Afzal Mohammed: This PPR Eradication Program started calendar year 2015?

Rajiv Gandhi: It started in 2015, but I think they are still at the moment tying up all the loose ends and they have not yet got aggressive on to this.

Afzal Mohammed: Any idea how many African countries is not in this program currently running?

Rajiv Gandhi: I had the figures, but I am not carrying the figures while I am talking to you at this point of time. But PPR Vaccine is required in most of the Eastern African countries, in Central African countries and at least in Southern African countries, PPR is required beyond Africa, it is required in the Middle East belt and in Southeast Asia -- Bangladesh, Pakistan, Nepal, Bhutan, all these countries require PPR.

- Afzal Mohammed:** Currently, the Eradication Program is running primarily in African countries, right?
- Rajiv Gandhi:** Yes.
- Afzal Mohammed:** How much sales was the Large Animal Vaccines?
- Rajiv Gandhi:** In the case of Large Animal Vaccines, I did mention the government business is the larger part of the Large Animal Vaccines business and it mostly comes in the last quarter of the financial year before the year ending the budgeting and all these things happen. So, in last quarter of this financial year in which we are now, we hope to do a sizeable good business, in fact, much more than what we have done in these nine months so far, all put together and much more.
- Moderator:** Thank you. The next question is from the line of Saravan Vishwanathan from Unify Capital. Please go ahead.
- S Vishwanathan:** In a business channel interview, you had mentioned that you are looking at inorganic opportunity. Could you take us through the space and size and how will you fund it?
- Rajiv Gandhi:** We are looking at inorganic growth in Africa as well as in Nepal at both these places mainly for the international business wherein our focus is more on the distribution and the marketing rather than the manufacturing. We have enough capacity for us to produce. So we are trying to get into distribution model ourselves which can help us create our own network and take the business further. As far as funding is concerned, one is that for getting funding from a bank is definitely there is a high possibility for us, whether it is in India or whether it is at any other location. Our first possibility is to get financing from the bank get debt financing so that once we repay it then there are no other issues. But if the opportunities a bit larger in size that we could raise funds by certain instruments or something of that sort.
- S Vishwanathan:** So what sizes are you comfortable?
- Rajiv Gandhi:** I would not really want to give a figure on what sizes we are comfortable at this point of time. More than the size, are we looking at turnover, are we looking at the profit quotient because there may be large turnovers with a lesser profit quotient or a small turnover with a better profit quotient, etc., Let us evaluate and let us then come back when we have something concrete in our hand rather than me giving you a figure of certain things that we are still not very sure of it at this point of time. Yes, we have been talking to people, but when we talk something we would want to be more precise rather than giving a figure on what we think we could do.
- S Vishwanathan:** Last year on consolidation you had close to Rs.2 crores loss because most of your subsidiaries still do not have meaningful revenues. So, what was the quantum of either profits or losses in

the first nine months of your subsidiaries? Because you report only standalone numbers, so we want to have the consolidated picture.

Jigar Shah: For the nine-months you have to consider the same trend of the last year because it is more or less the administrative expenditure and the interest cost.

Moderator: Thank you. The next question is from the line of Harsh Vijay Shah from Crescita Investments. Please go ahead.

Harsh V Shah: What is our current gross block and net block?

Jigar Shah: Around Rs.120 crores is our gross block and around Rs.90 crores will be the net block.

Harsh V Shah: Around Rs.120 crores is included in Nepal CAPEX also, right?

Jigar Shah: Not Nepal, this is a standalone figure. That is yet to capitalize because once we start the commercial production then we have to capitalize that CAPEX.

Harsh V Shah: The CAPEX of Nepal that is around Rs.39-40 crores that will be on consolidated basis will we see that CAPEX also coming in the gross block?

Jigar Shah: True, yes.

Harsh V Shah: What is our current gross debt and net debt profile?

Jigar Shah: As on today, for the quarter ended it is Rs.39.60 crores is our debt while for the last financial year it was 37.75 crores.

Harsh V Shah: So going forward, do we see any major changes from your debt profile or is it the peak debt that you are talking of?

Jigar Shah: Yes, we have pipeline for the CAPEX of the Rs.17 crores, out of that the major will be capitalized during this financial year, that will be added on this debt because that CAPEX we will fulfill by the way of term loan from the bank.

Harsh V Shah: What kind of debt profile that you are seeing in one year coming down the line?

Jigar Shah: Rs.17 crores to Rs.25 crores will be the figure.

Harsh V Shah: Will there be any big addition in your CAPEX apart from the total of Rs.160 crores?

- Rajiv Gandhi:** At this point of time, I would say that there would not be any addition considering the current business model that we have forecasted.
- Moderator:** Thank you. The next question is from the line of Akshay Badjate from Rubicon Capital. Please go ahead.
- Akshay Badjate:** What are the current fixed costs which we are running at our Nepal plant?
- Rajiv Gandhi:** It would be the interest cost and the administrative expenses.
- Akshay Badjate:** Excluding the interest, what are the admin costs and the fixed operating costs?
- Rajiv Gandhi:** Around Rs.60 lakhs per month.
- Akshay Badjate:** We are sort of bidding for tenders from FAO currently. Would it be fair to assume that over the next couple of years bulk of our Export business would be Tender business?
- Rajiv Gandhi:** The Tender business and the other business we are at the moment focusing with a mindset that all non-tender business should give us all the growth and the Tender business whatever we get that should be in addition and that should add up to it. We are not forecasting Tender business by ourselves. We have grown more than 100% without any Tender business at this point of time. The market is very big. Our objective is to grow without taking into account the business which is sporadic irrespective of us continuously getting Tender business we have all the reasons to believe that we will, but Tender business by definition is a sporadic business.
- Akshay Badjate:** It is not like a nature of long-term tenders like we would get tenders for let us say two years or three years of supply basically short duration tender?
- Rajiv Gandhi:** No-no, these tenders are on each supply basis. Unless we have different model that they come up with, I would not know.
- Akshay Badjate:** Typically, this would be all USD realizations or there would be realizations of the home African countries?
- Rajiv Gandhi:** All in US dollars.
- Akshay Badjate:** How are we placed in the currency front given especially in the current situation where African currencies have become quite volatile?
- Rajiv Gandhi:** All our exports are only in US dollars or Euro. There is not a single thing that we are exporting in any other currency. We are not exporting anything in any local currency.

- Akshay Badjate:** Recently, I had read an article somewhere where you had outlined that you are considering setting up a Greenfield facility somewhere in Africa. Where do we stand on that as of today?
- Rajiv Gandhi:** Yes, we are doing a survey; we are looking at various locations where we could consider setting up a Greenfield project. That Greenfield project is well up in our mind and we are looking at various governments what can they offer, what are the minimum conditions that they have, etc., So, while we are working on it, we are going slow on it for the simple reason that Nepal should first come on line, Nepal should feed the African market, we should reach at a point where Nepal is up and running or it is being utilized in whichever manner it is supposed to be utilized and then to grow further, we should have a localized plant.
- Moderator:** Thank you. The next question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** What is the likely exports in FY16 & '17?
- Rajiv Gandhi:** 100% growth over this year is what our endeavor is. We have committedly made a statement that we would grow 100% for the next four to five years in exports.
- Ketan Gandhi:** Any CAPEX pending in Nepal?
- Rajiv Gandhi:** Maybe something nominal, but nothing that of any relevance.
- Ketan Gandhi:** This quarter is for Jigar, what is the debt profile of ours -- how much is short term and how much is long term?
- Jigar Shah:** Working capital we have Rs.25 crores on CC limit and Rs.14 crores for the long-term.
- Moderator:** Thank you. The next question is from the line of Veena Patel from iWealth Management. Please go ahead.
- Veena Patel:** I like to have the revenue breakup across the four segments that we generally report for this particular quarter?
- Jigar Shah:** Under Poultry Vaccine division, sales is Rs.20.10 crores for the Q3, while it is Rs.61.59 crores for the nine months. Under Poultry Health Products division, it is Rs.1.24 crores for the Q3 and Rs.3.88 crores for the nine months. Under Large Animal Vaccine it is Rs.0.02 crores while it is Rs.0.06 crores for the nine months. Under Large Animal Health products, it is Rs.1.99 crores while it is Rs.5.38 crores for the nine months.

- Veena Patel:** This quarter is for Mr. Rajiv. Sir, you just mention about the situation of the Poultry Vaccine industry and you are seeing some kind of revival happening from mid of December. So what kind of growth can we look out for the coming quarter?
- Rajiv Gandhi:** Considering the past growth that we have had and what the industry has had I think in this quarter the industry should be back to its original strengths by February or so and we should be able to be back on stream and if you look at our own growth as far as the Poultry Vaccine is concerned which has been low at this point of time, I think we should ramp it up to around 15-20% in this quarter.
- Veena Patel:** Sir, you just mention to one of the earlier participants that major chunk of our exports is of the Poultry Vaccines currently. So these Poultry Vaccines are exporting to which countries?
- Rajiv Gandhi:** African mainly and certain Middle East countries and there are two even Southeast Asian countries.
- Veena Patel:** Coming to the Animal Vaccine business, we have Tender related business both from the Indian government as well as from the FAO. Has there been any kind of tenders flowing from the Indian government currently which is reflected in the numbers?
- Rajiv Gandhi:** As I did mention, the last quarter should be very interesting for us because all the tenders probably they would be maturing in this quarter. Jigar just read out the figures. Though it seems to be low but by the end of this year we should be able to honor the commitment which we had earlier given of 50% growth.
- Veena Patel:** I am just trying to understand the tenders which would flow in from the Indian government that will be supplied from Indian facility?
- Rajiv Gandhi:** That is exactly what I mentioned.
- Veena Patel:** You just mention about two of the tenders are coming from the FAO. Now, this should be supplied from the Nepal facility post getting the validations?
- Rajiv Gandhi:** Yes.
- Veena Patel:** Coming to the raw material cost also we have been seeing a lot of control on that aspect. So are you in a position to maintain the gross margins which we have done in this particular quarter?
- Rajiv Gandhi:** Yes, that is what we hope and we desire to and even improve them a little bit, but at the least we should be able to maintain these margins.
- Veena Patel:** Because we have significantly improved the margins compared to the previous quarter also?

- Rajiv Gandhi:** Yes.
- Veena Patel:** Coming to the point on the capitalization of the CAPEX. If I am not wrong, we were planning somewhere of CAPEX happening in the domestic facility with regard to inactive Vaccines. So is that CAPEX on-stream?
- Rajiv Gandhi:** It is on-stream in the sense that there are certain international opportunities that we have seen. Therefore, we are just trying to align those opportunities with the infrastructure that we create so that there is no additional alignment required once we build something and then we get orders later on. So that is the only reason we are a little bit slow in this. This Rs.17 crores which we had committed to spend which is already planned, the blue prints already ready, it could spill off a little bit in the first two months of the next financial year.
- Veena Patel:** Practically speaking about Nepal facility for this particular financial year, the contribution would be very minimal because we have to wait for the validations to come in when the commercial ...
- Rajiv Gandhi:** Yes, unfortunately.
- Veena Patel:** How much we have capitalized in the first nine months of the CAPEX?
- Jigar Shah:** In fact, we have not capitalized till today because the project is still under training phase, that is why.
- Veena Patel:** I am talking about the domestic facility. Is there any nominal CAPEX?
- Jigar Shah:** No.
- Veena Patel:** Rs.17 crores has been referring to the CAPEX that is planned for domestic expansion?
- Jigar Shah:** No, that we have capitalized, but that is also again in a piecemeal manner because there are so many projects under that Rs.17 crores projects.
- Veena Patel:** What would be our effective tax rate for FY16?
- Jigar Shah:** This year also we will be in MAT probably.
- Veena Patel:** Because you have some MAT credit still to be availed of?
- Jigar Shah:** Because of the R&D expenditure also.
- Veena Patel:** So how much R&D expenses have we budgeted for this year?

- Jigar Shah:** Around 5% of the turnover.
- Veena Patel:** For FY17 also once the Nepal facility kicks in, we will start getting some kind of tax holiday benefits also over there?
- Jigar Shah:** Yes, there is a 10-year tax holiday for that area where we have a plant.
- Veena Patel:** So what would be our tax rate for FY17 then?
- Jigar Shah:** Madam, that will be too early to say.
- Moderator:** Thank you. The next question is from the line of Sejraj Baria from East India Securities. Please go ahead.
- Sejraj Baria:** First, just a clarification; there is no Tender business contribution till nine months FY16?
- Rajiv Gandhi:** No. Most of the Tender business they have a condition that you need one-year completion before you participate in Tenders. Our one year got over in October. So therefore....
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question due to time constraint. I now hand the conference over to the management of Hester Biosciences for closing remarks. Over to you.
- Rajiv Gandhi:** Thank you, everybody for hearing me out and I hope I have been able to answer your questions. Sometimes there are certain questions for which the figure may not be ready with us on table, so there could be a little bit of request that we could even answer later on, but by and large we commit to be transparent towards answering all your questions. Our philosophy is that even if there are certain areas which show certain not say negative but things that are going slow or anything we would be wanting to be honest and share all that with you. Likewise, from your side if there are any suggestions, ideas or thoughts you are more than welcome to let them be known to us and we would definitely surely incorporate all of these thoughts and ideas into our business. Only one thing which I tell sometimes when I do discuss things with people that we as the management have certain business constraints while sometimes there are questions which are based on mathematical calculation, so there may not be a complete alignment all the time between mathematics and the practicality. Please do always keep that in mind. That is all. Thank you very much for being with us on the line.
- Moderator:** Thank you very much members of the management. Ladies and Gentlemen, on behalf of Trust Financial that concludes today's conference call. Thank you all for joining us and you may disconnect your lines now.