



HESTER

“Hester Biosciences Limited Q3 FY2018
Earnings Conference Call”

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Moderator: Good day ladies and gentlemen and a very warm welcome to the Hester Biosciences Limited Q3 FY2018 earnings conference call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal 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. Abhishek Sharma from IIFL Capital Limited. Thank you and over to you Sir!

Abhishek Sharma: Thanks and good day everyone. This is Abhishek from IIFL Institutional Equities. I thank the Hester Management Team for giving us the opportunity to host this call. From Hester, we have with us today Mr. Rajiv Gandhi, CEO & Managing Director and Mr. Jigar Shah, Chief Financial Officer. I will now hand over the call to the Hester Management for their remarks, which would be followed by Q&A. Over to you Sir!

Rajiv Gandhi: Thank you. Good afternoon everybody. As always it is pleasure connecting with all of you, interacting with all of you and here I am today discussing and presenting the Q3 results of our company Hester Biosciences. To begin with on the sales side we have recorded a sale in this quarter at 31.92 Crores, which is up by 10%. On a nine-month cumulative we have recorded a sale of 97.77 Crores up by 9%. Net profit 6.5 in the quarter up 12 and 21.54 for the nine months ended up by 21%.

Now talking a little bit about the business outlay in the last quarter. Our sales in the poultry division have gone up by a little over 9% while the large animal division has grown at 22%. We did forecast a little higher sales totally, but for various reasons this is what we have achieved in the quarter. On the domestic, the domestic sales grew by around 10, 10.5% while the export grew at 17.62%. The exports too have been a little lesser than the budgeted at the beginning of the year or even at the beginning of the quarter, but now looking at things to take further or the reasons for the current sales that is what we have achieved, as mentioned in the last quarter there had to be done a little bit of a product rationalization in terms of the mix towards the sale due to the pressures of the export business as well as the domestic business, so last time there was a little bit of suffering on the export side. While having achieved reasonable rationalization in this quarter taking it further we are very sure that in fact the expanded capacity should be in production in the next five to 10 days, so that would give us a lot of relief in trying to make sure that we have the products more for the domestic as well as for the export. Our vaccines on the large animal side, the PPR and Brucella have been doing reasonably well. The dependency being more on the tender

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business, we definitely see a big surge that would come up in Q4, normally these tender businesses they come around mid in the year that is in Q2 and then again they come up in Q4 as you would have seen our Q2 did have a substantial jump in terms of sales specifically for the large animal vaccine.

On the Nepal side, there has been a little slow less than the forecasted growth. There have been no internal reasons whatsoever now for us to put on record for reasons for not having the sales of course that we received the authorization for local sales as late as just a few days ago. We are dependent on international tenders and yes there has been a delay, but we do not see any concern over whether how would this go on, yes a few quarters may be one more quarter could still go a little slow, but with a local sales now coming up slowly we would be able to build up the business and then wait for the big boost that we should get as far as exporting the PPR vaccine specifically. We have started our diagnostic division in the last quarter. The sales achieved from that have not been of any major reportable amounts; therefore, at the moment we have clubbed the diagnostics within the vaccine sales of the poultry and of the large animal, but in itself it is extremely small amount of sales that we have done.

On the international business side, the Africa project we have moved a little further on the Africa project, we have completed our marketing research, we have completed looking into various issues in Tanzania and we are definitely coming closer towards our consideration for setting up a manufacturing unit in Tanzania, probably within a month or two we would definitely have the final decision, which would again be conveyed to you as soon as we are moving in that direction. As mentioned we are addressing our capacity issues in Ahmedabad and probably in this quarter having getting higher business expectation from the tender side and of course with the steady growth in poultry we hope that we close at a little higher growth than what we have shown in the nine months cumulatively ended so far. So with this I will hand over the call to Jigar Shah who will talk precisely on the financials with figures and after that I would be open and ready to take questions from all of you. Over to Jigar!

Jigar Shah:

Good afternoon everyone. I am Jigar Shah, CFO of the Hester. I will discuss unaudited financial results of Q3 FY2018 and nine months ended FY2018. The company's operations are divided into four business verticals, poultry vaccines, poultry health products, large animal vaccines, large animal health products.

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Under the poultry vaccines division, company has booked sales of Rs.25.71 Crores in Q3 FY2018 as against Rs.23.62 Crores in Q3 FY2017. While sales for the nine months ended FY2018 has been recorded at Rs.76.56 Crores as against Rs.76.30 Crores in nine months ended FY2017. Under the poultry health products division sales booked at Rs.1.23 Crores in Q3 FY2018 as against Rs.1.04 Crores in Q3 FY2017. Sales for the nine months ended FY2018 has been recorded at Rs.4.37 Crores as against Rs.2.53 Crores in nine months ended FY2017.

Under poultry division overall 9.28% growth has been achieved in Q3 FY2018 as against Q3 FY2017 while 2.67% growth is recorded in nine months ended FY2018. Under the large animal vaccine division, company has booked sales of Rs.1.85 Crores in Q3 FY2018 as against Rs.1.91 Crores sales in Q3 FY2017. Sales for the nine months ended FY2018 has been recorded at Rs.7.74 Crores as against Rs.2.35 Crores sales in nine months ended FY2017. Under the large animal health product division, company has booked sales of Rs.2.71 Crores in Q3 FY2018 as against Rs.1.82 Crores in Q3 FY2017. Whereas sales for the nine months ended FY2018 has been recorded at Rs.7.30 Crores as against Rs.6.72 Crores in nine months ended FY2017. Under the large animal division overall 22.05% growth is registered in Q3 FY2018 as against Q3 FY2017 whilst 65.90% growth is recorded in nine months ended FY2018.

Now coming to the total sales and the profitability of the company. Total sales in Q3 FY2018 is recorded at Rs.31.92 Crores as against Rs.29.09 Crores in Q3 FY2017 thereby company has achieved a growth of 9.73% in Q3 FY2018 as against Q3 FY2017. Total sales for the nine months ended FY2018 is recorded at Rs.97.77 Crores as against Rs.89.98 Crores in nine months ended FY2017 thereby company has achieved a growth of 8.65%. Company's total domestic sales is Rs.29.22 Crores in Q3 FY2018 as against Rs.26.45 Crores in Q3 FY2017 while total domestic sales for the nine months ended FY2018 is Rs.87.06 Crores as against Rs.78.96 Crores in nine months ended FY2017. Company's total export sales is Rs.2.27 Crores in Q3 FY2018 as against Rs.1.93 Crores in Q3 FY2017 while total export sales for the nine months ended FY2018 is Rs.8.92 Crores as against Rs.8.93 Crores in nine months ended FY2017. EBITDA is achieved at 39.50% of total sales for Q3 FY2018 as against 32.39% in Q3 FY2017 while in the nine months ended FY2018 EBITDA is achieved at 39.32% as against 32.66% in nine months ended FY2017. Net profit is achieved at 20.36% of total sales for Q3 FY2018 as against 20.01% of total sales of Q3 FY2017 while in the nine months ended FY2018 net profit is achieved at 22.04% of total sales as against 19.81% in nine months ended FY2017.

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Now coming to the balance sheet analysis, our inventory level stood at 105 days in both Q3 FY2018 and Q3 FY2017 while the same is 102 in both the case of nine months ended FY2018-FY2017. Total receivables are for 87 days in Q3 FY2018 as against 73 days in Q3 FY2017 while the same is 86 days in nine months ended FY2018 as against 71 days in nine months ended FY2017. Overall working capital cycle was for 72 days in Q3 FY2018 as against 89 days in Q3 FY2017 while same was 72 days for the nine months ended FY2018 as against 84 days in nine months ended FY2017. Our fixed asset turnover in Q3 FY2018 stood at 1.37 as against 1.46 times in Q3 FY2017 for the nine months of FY2018 it is 1.40 times as against 1.50 times in a nine months ended FY2017. Company's total debt is Rs.42.83 Crores at nine months ended FY2018 as against Rs.30.51 Crores at nine months ended FY2017. Company has invested Rs.6.32 Crores in capex in Q3 FY2018 while for the nine months this figure is Rs.14.68 Crores.

Now coming to the key financial ratios, ROE for the Q3 FY2018 stands at 18.99% as against 20.24% in Q3 FY2017 while the same stand at 20.92% in the nine months ended FY2018 as against 20.61% in the nine months ended FY2017. ROCE for the Q3 FY2018 stands at 25.90% as against 22.79% in Q3 FY2017 while the same stands at 26.24% in the nine months ended FY2018 as against 23.62% in the nine months ended FY2017. ROI for the Q3 FY2018 stands at 12.21% as against 13.82% in Q3 FY2017 while the same stands at 13.45% in the nine months ended FY2018 as against 14.08% in the nine months ended FY2017. Non-annualized EPS for Q3 FY2018 is at Rs.7.64 per share as against Rs.6.84 per share in Q3 FY2017. Non-annualized EPS for the nine months ended FY2018 is Rs.25.33 per share as against Rs.20.96 per share in nine months ended FY2017.

Now coming to the standalone results of the Hester's Nepal operation, the total revenue for the Q3 FY2018 is recorded at Rs.0.37 Crores while the same is Rs.0.99 Crores at nine months ended FY2018. Total provision loss for the Q3 FY2018 is Rs.1.83 Crores while the same is Rs.5.06 Crores at nine months ended FY2018. Hence total accumulated loss till the nine months ended FY2018 is Rs.7.29 Crores. Total debt in Nepal is Rs.26.70 Crores at the nine months ended FY2018 as against Rs.26.52 Crores for the nine months ended FY2017. That is completed my presentation. Thank you everyone. I am handing over to Mr. Gandhi.

Rajiv Gandhi:

I am back on line. We can take questions now.

Moderator:

Sure Sir. Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Chetan Gandhi from Gandhi Securities. Please go ahead.

Chetan Gandhi: Sorry I got connected late. Can you please elaborate on the status of tender business in India and in export market for both vaccine Brucella and PPR?

Rajiv Gandhi: Brucella and PPR in India now the states are already tendering and business has started coming in and it is going to become routine flow from this year onwards. Internationally PPR tender is yet to pickup and we hope that this thing happens soon in the next one or two quarters.

Chetan Gandhi: Alright Sir. My next question is Sir. In last concall you had stated that we will be starting phase two program for the rural poultry program?

Rajiv Gandhi: Yes.

Chetan Gandhi: What is the status of that and whether we are eyeing in more states in India and also outside the country?

Rajiv Gandhi: Yes good question and I must say that I did not cover this aspect in my earlier talk presentation so thank you for asking this. As you are aware we completed as it is termed as the world's biggest backyard poultry immunization program in Chhattisgarh, Jharkhand and Odisha. The first phase has ended, the program still continues with the great success of this project. We as a company are now starting a division, which will look at the backyard animals and we are going to take that as an independent division as a profit head and we will grow this not only in these three states, but we are looking at other states like UP and Bihar. The turnovers from this division yes, they do not become a major contributing factor to the topline, but it definitely gives us a great exposure in terms of company name, it also helps us to build a great distribution network on whose backbone we could ultimately even sell more products in days to come, though at this point of time we have just restricted ourselves to the initial mandate of vaccine and two animal health products. The vaccine being the thermotolerant Newcastle disease vaccine in fact when Mr. Bill Gates was in India last month he mentioned our name in his speech about our development of the Newcastle disease vaccine. To answer your question in one line we are very happy with this business and we are going to grow this business as a specific division in the company.

Chetan Gandhi: Can we see the similar program in other countries outside India?

- Rajiv Gandhi:** Yes, we are also, we have committed to do such, create a network and supply vaccines at the moment in Tanzania, Uganda and Malawi. We have committed this to the Gates Foundation and we are already trying in the process of creating a network over there of course being international business registrations, etc., therefore it takes a little longer time, but we are in the process of doing this, we are also working on a project that we would commence in Nepal.
- Chetan Gandhi:** Sir, my last question is what is the timeline and status and total project cost for Tanzania, have you finalized on that?
- Rajiv Gandhi:** More or less we are heading towards completing and taking the project further. Once all these things gets finalized probably it should take around two months' time. We would specifically make an announcement and talk to everybody on that project. At this point of time, I am not in a position to give details of this project.
- Chetan Gandhi:** Sure Sir. Thank you very much Sir.
- Moderator:** Thank you. We will take the next question from the line of Manjeet Buaria from Solidarity Investment. Please go ahead.
- Manish Gupta:** This is Manish Gupta here from Solidarity. So the first question Sir was is my understanding correct that if you did not have capacity constraint, your growth would have been far higher this quarter?
- Rajiv Gandhi:** Yes and even in the last quarter.
- Manish Gupta:** Okay Sir. The second question was on the large animal business, is not focus on this business domestically only on tenders or are we also trying to sell to the private sector?
- Rajiv Gandhi:** Our day-to-day focus is on the private sector, because tendered business does not require a day-to-day focus. We have marketing network which is only focusing on the private sector.
- Manish Gupta:** And Sir what would be the split of sales at present between private sector and tender?
- Rajiv Gandhi:** It should be approximately around 60-40, 60% would be private, 40% would be tender. I am not very accurate on this figure because I was not sitting with these figures in my hand but I think more or less as what I mentioned.

Manish Gupta: Okay and Sir on the tender business given that it is a lot reliant on government funding, do you see this as having a lot of volatility quarter-on-quarter or do you think that you did mention that this is seasonal in Q2 and Q4 but you know would we have quarter where one would expect a lot of growth here and another quarter where tenders did not come, so there was no revenue or do you think the demand would be fairly evenly distributed here?

Rajiv Gandhi: The demand in terms of tender would never be evenly distributed not for our vaccine, not for any products more or less when the government is buying on any vaccine for that matter and we have taken it up on ourselves to give equal importance to the private as well as to the tender so ultimately our focus is on both. We do not want to be with the situation wherein we see swing a good swing or a bad swing, even a good swing it is always nice to have upward swing but then that sometimes derails our production planning and all these things. So we will try to make sure that the private sector business on the large animal side grows evenly all across the year.

Manish Gupta: Got it Sir and my last question was what is the breakeven point for the Nepal plant?

Rajiv Gandhi: Breakeven point I think I had once answered this question I am not absolutely sure but I think it should be approximately our sales of around Rs. 20 Crores to Rs.25 Crores.

Manish Gupta: What is the fixed cost right now in Nepal that we are carrying?

Rajiv Gandhi: I do not have the exact figures I think I can talk to you later on offline, but we did mention on the accumulated losses etc of Nepal.

Manish Gupta: No problem Sir, we will take it offline. Thank you very much.

Moderator: Thank you. We will take the next question from the line of Harsh Kapadia, Individual Investor. Please go ahead.

Harsh Kapadia: Is there any update on the QIP?

Rajiv Gandhi: No, there is no update on the QIP in fact we had taken the permission from the board and that permission has already expired. So if at all there is anything needs to be done, we would have to go again to the board.

Harsh Kapadia: But do you see any equity raising happenings for the Africa plant?

Rajiv Gandhi: We do not see any equity...yes we might require, we will rather require equity that is the whole thing that we are yet structuring the whole project etc., so once in the next two months when things are clear and finalized, we shall definitely come back and discuss on these issues.

Harsh Kapadia: Just one last question, you had mentioned that your guidance for the profit growth would be in the range of around 30%, now if the equity raising does happen on this expanded capital, do you still see that the EPS growth could be in the 30% range?

Rajiv Gandhi: Point number one, if we increase our capital I think could we address this issue when we take a decision if at all to increase the capital because whenever if at all we do take a decision to increase the capital it would be after a lot of internal thinking as well as not deviating from a commitment of profitability which we have given to all the shareholders.

Harsh Kapadia: Thank you.

Moderator: Thank you. The next question is from the line of Srinath V from Bellwether Capital. Please go ahead.

Srinath V: Sir when I was looking at the numbers I found that this current year sales growth, the incremental sales has come at a significantly higher operating margin than the historic numbers. So, I just wanted to understand what has been the key trigger for the incremental sale coming at a far superior margin?

Rajiv Gandhi: Yes, what your observation is absolutely precise and more so if you compare Q2 against Q3 you would probably be seeing some oscillation from left to right, right to left whatever you call it. On a year-on-year basis I think it would be a better way at the moment to look at the whole thing because our product mix while we are putting in efforts on the tender business, on the vaccine so whenever the product mix swings towards biologicals or towards products where we have higher efficiencies and better margin, it does go up as against sometimes going down a little bit I think taking an average would be more appropriate rather than completely going by a quarter bottom line that you would see in our results.

Srinath V: Especially in large animal both actually throughout the year all the three quarters the margins, so I just wanted to understand is there a kind of development cost that we incurred in the last two years in that business and the kind of development cost is kind of easing off and that is the reason why margins are going up or is it a complete mix-driven gains in margins?

- Rajiv Gandhi:** I think yes one of course once the products are standardized in terms of when the adaptation is better and standardized, definitely efficiency is do creep in. We have been trying to rationalize our production, planning etc., to make sure that batch to batch, there is a minimum profitability achieved in terms of gross margin etc. So all this put together, it could happen that sometimes any of these factors could play around but yes as time goes by and with batch sizes going up, I mean we are improving.
- Srinath V:** So you feel that this kind of trend could persist going forward?
- Rajiv Gandhi:** To tell you that it can go on persisting forward and going on and on and on increasing I think that could be wrong to say because ultimately at sometime my profitability would be higher than the selling price at some point of time in line so that is never going to be the case. I think we should stabilize soon at margin but that stability has to come at this or at a higher level let me put it that way.
- Srinath V:** Okay, Sir I just wanted to understand what is the potential for the backyard business in the large animal space, given that we have already setup distribution for poultry backyard in I think three states. Could you be kind enough to highlight if the same network could be used for the large animals also?
- Rajiv Gandhi:** The large animal as well as the poultry backyard animal, the same network, it is being used rather and will be used. So there is no reason for it to really be different. Government statistics show while the population in organized poultry is over a billion chicken in the backyard, it is 600 to 700 million so that can give you the idea of potential of backyard in terms of poultry. In terms of cattle most of the animal are today in backyard and if not backyard, there are in a splintered way for example people have 5 cows, 8 cows, 10 cows, 20 cows. You do not see as many big dairy farms in the country as what you see in poultry. Therefore that is anyway fragmented. So we are addressing the full spectrum of cattle population in a way.
- Srinath V:** Okay and when you say 60 is private and 40 is tendering, this backyard business would form part of this 60, I am guessing?
- Rajiv Gandhi:** At the moment backyard is part of it from the first quarter or may be in March or may be in April, we will actually officially have it as an independent division. And the name of the division is going to be Corporate Social Business Division.

Srinath V: Wow fantastic Sir. Just one question Sir when are we likely to see the breakeven because the last person have asked about the breakeven when do you see timeline for breakeven in Nepal. Do you feel that could happen by 2019 or we would need to wait till 2020 for that event Sir?

Rajiv Gandhi: We wish it happens in the next financial year. I think there are high chances for it to happen because as per the forecast definitely, but the way it is going a little slow may be it could be extended at this point. It is not in my hand but having said that we are now increasing our presence in terms of domestic sales in Nepal. Just last week, we have got authorization for selling the vaccines within Nepal. Earlier that issued permission only for export, now they have given us permission also for local selling. So that will also now start adding to our sales and at some point of time, we will also start addressing the private market worldwide for the PPR vaccine also. It is not necessary that everything sold has to and will be sold through a tender. So we are even trying to make sure that there is no too much dependency on any one mode of sales however big or how much ever big, we had thought and the basis of which we have set up the project, but we will work towards getting the breakeven point even without higher sales through the tender.

Srinath V: Thank you Sir. It was very informative.

Rajiv Gandhi: Thank you.

Moderator: Thank you. We will take the next question from the line of Afzal Mohammed from Karvy Stock Broking. Please go ahead.

Afzal Mohammed: Sir how many states in India are participating in the domestic Brucella and PPR vaccine?

Rajiv Gandhi: I am not sure of the number myself but I think it should be at least 12 or 15 states would already have been participating.

Afzal Mohammed: This was in Q3, the third quarter?

Rajiv Gandhi: It would have been over the period of last few years. We are talking about where we have supplied or tendering process it has even started before we started the vaccine.

Afzal Mohammed: Okay the states to which you are supplying?

Rajiv Gandhi: Yes.

- Afzal Mohammed:** Okay, so you expect this to increase going forward in the next financial year?
- Rajiv Gandhi:** Yes because PPR has been taken up for worldwide eradication and India is an active participant in that so in line with the worldwide policy to eradicate PPR disease every state in the country would be actively involved for immunizing and then ultimately eradicating the disease and Brucella is a disease which has gained a lot of importance in recent times because of the awareness at the farmer level and therefore Brucella has also emerged as an economically important disease more so because it being a zoonotic disease, it could be transmitted from the cattle to the human being.
- Afzal Mohammed:** Okay Sir, are you doing anything to create more awareness or spread awareness any program...?
- Rajiv Gandhi:** Sorry could you repeat?
- Afzal Mohammed:** Are you doing any program to spread the awareness regarding Brucella?
- Rajiv Gandhi:** The government is doing a lot towards spreading this awareness. We do it in a small manner. I would not say that we are actively into promoting but yes we definitely have a literature in various languages etc., and we tried to push it. At the end of the day, it is our product and we definitely need to achieve sales but we do not have those massive disease awareness programs because that I think the government would be more equipped to do that.
- Afzal Mohammed:** Okay Sir next question what is the reason behind the slow pickup of FAO tenders, the PPR tenders internationally?
- Rajiv Gandhi:** If I knew that I would have pushed and would have resolved the issues at even FAO or United Nation level but unfortunately there have been regular meetings I attended specifically PPR meeting, which was held at the FAO headquarters in Rome, it was just held probably three to four weeks ago and all are working towards it and all the manufacturer head gathered etc., and see it is a system that they have to go through it is a participation of countries it is getting funding from the countries, etc., etc. The detailed intricacies would not be really known to me or any private sector supplier because FAO, PPR is one of the product their into so many other tendering activity etc., so I think it is a process and we hope and we all have expressed our request to expedite that matter.
- Afzal Mohammed:** Okay Sir, what would your capex be in FY2019?

- Rajiv Gandhi:** At the moment, Tanzania is in our mind. If at all we go onto the project, chances seems high besides that we do not see any capex to be done. We have enough capacity in Nepal. We have marginally improved our capacity already in the plant near Ahmedabad in Mehsana and we do not think we will do any capex besides the Tanzania project.
- Afzal Mohammed:** Okay Sir Tanzania plant will manufacture both large animal vaccine and poultry vaccine or...?
- Rajiv Gandhi:** It will mainly for the large animal, non-poultry vaccines, a few poultry vaccines and all the vaccines would be such which are not produced in India or in Nepal except one vaccine PPR which would be produced in India, in Nepal as well as Tanzania. The rest would be all African-specific diseases for which vaccines, some of them do not even have any vaccines and some are in acute shortage.
- Afzal Mohammed:** Okay any expected cost, any figure in mind for Tanzania plant?
- Rajiv Gandhi:** I would not... of course because of the planning that we are in, there are some figures already in our sheets, in our mind, in the forecast, but it would be more appropriate for me to come up with all this in detailed note once everything is okayed by our board and then take it up.
- Afzal Mohammed:** Correct, Sir how much is the consolidated debt?
- Rajiv Gandhi:** Consolidated debt is Rs.60.18 Crores.
- Afzal Mohammed:** Any expected debt trajectory going forward in the next year will increase?
- Rajiv Gandhi:** Nothing. As I told you there is no capital expenditure that we hope to do over here, whatever we do, it would be done in Tanzania which the Tanzanian project would again, we would try to raise the money over there. There may be minor capital expenditures up to say anything Rs.2, Rs.3 Crores could be here and there for certain issues etc., and there could be some unplanned activity that could come up for which we could spend nothing that is planned at the moment.
- Moderator:** Participants are requested to limit their questions to two per participant, time permitting you may come back in the queue for followup. We have next question from the line of Manoj Garg from White Oak Capital. Please go ahead.

Manoj Garg: Rajiv if you look at for the nine months you have an EBITDA margin of around 39% and as you alluded, I think answering a previous participant's question that you hope to either maintain or have a little better margins going forward from here on so do we think this probably as a new normal from here on?

Rajiv Gandhi: Sorry, the last sentence can you repeat?

Manoj Garg: Can we think that this 39% kind of EBITDA margin is at least a new normal from here on and then there will be a further improvement?

Rajiv Gandhi: You could take it between 36 to 40, you can keep that as a band because trying to give a precise figure of 39 and then there is a swing and then so I think more so in biological, where there the cost of production varies for many reasons because it is not a process like you mix in two raw materials and there is a process loss of 1%. It is not like that it is on the virus yield, the bacteria yield so there are but we could be in a range as what within range plus, minus to what we are right now, for sure.

Manoj Garg: Okay fair enough that is helpful and second thing if you look at poultry vaccine business and I think nine months could be a fair time period to compare, given there were some disruptions in the first quarter because of GST and all but last nine months, I think the poultry vaccine business is more or less at the same level where it was last year, and given like in one of the con call, you commented that the market is going between 15%, 20%, could you just give some color on this that is it the capacity which is probably impacting the growth or you are seeing some other reasons for this more kind of...?

Rajiv Gandhi: I do not think I would have mentioned that poultry industry is growing at 15% to 20%, I do not think I would have mentioned. If at all I would have mentioned it would have not been right or it was misunderstood what I said so it is not growing at 15% to 20% and we see poultry after having 30%-35% market share, there is going to be a little bit of flatter growth than what you think could be because I mean we have reasonable good market share and I think our growth of around 9% should be commensurate or a little more than the growth of the poultry industry for sure.

Moderator: Thank you. We will take the next question from the line of Yogansh Jeswani, Individual Investor. Please go ahead.

Yogansh Jeswani: You mentioned about the Ahmedabad capacity expansion, can you share the figure, how much is that capacity expansion?

- Rajiv Gandhi:** In terms of doses?
- Yogansh Jeswani:** Yes Sir.
- Rajiv Gandhi:** I wish I had kept that figure with me, I do not have it, what we have done is the, the expanded capacity has been mainly gone towards removing the bottlenecks in the whole pipeline. In some cases, we had a little more capacity, some places there was a bottleneck so we have actually in removing the bottleneck in itself, there has been any increase in capacity, but I do not have that figure right now on my hand at this point of time. I need to look into it and give you this answer offline.
- Yogansh Jeswani:** Sure Sir and Sir may be there is any rough percentage volume in terms of 10%, 20%?
- Rajiv Gandhi:** I think we showed have an increment of at least 20% for sure I mean undoubtedly. I think just a moment, this Jigar just mentioned pulled out the piece of paper. It is good that is sitting with more papers than required. We have increased our capacity between 800 million to 1 billion doses which is around 30%, 35% of our capacity.
- Yogansh Jeswani:** Okay so we are increasing by 30% to 35%.
- Rajiv Gandhi:** Your voice is muffing, I am not able to hear it clearly?
- Yogansh Jeswani:** Sir secondly I will again draw back your attention on the margin side so as you mentioned like on an blended EBITDA basis 36% to 40% can be maintained but what I want to understand is on the large animal front, this quarter we clocked around 80% operating margin as compared to 50% in the previous quarter and around 40-odd % in the Q3 of FY2017, so it is a significant jump of say 30%-40% so what exactly happen or how much variance can it have going forward because as you said biosimilars cost in production such thing varies but this is a very big gap right, this time it moved in our favour 40% plus next time it might go 40% minus, is that a possibility?
- Rajiv Gandhi:** I need to go through this a little bit myself, but I think just a minute, I think sometimes what happens is it depends upon yes, as I mentioned to you there is an yield issue, sometimes there are in place of one vaccine we produce the other vaccine we get better yield, sometimes everything happens positively in the fronts and then there is a shooting up of margin, even if there is shooting up of a high margin in one quarter to or even further matter going down, I do not think we should take this in isolation at all because ultimately the water will finds its own level and this level is somewhere, which I have just already

mentioned to you and secondly the segment contributes a very less amount also in business. So I think let us take what we have committed or what we think is happening right now on an average rather than on an absolute basis of a high or an absolute basis of a low.

Moderator: Thank you. We have the next question from the line of Manish Jain from SageOne Investment. Please go ahead.

Manish Jain: I just had two questions, one is on your corporate website states that you all already have presence in 22 export markets with 12 more markets being developed by you all, so when do you see the 36 markets contributing equivalent to your current domestic sales?

Rajiv Gandhi: These international markets the dots that you would have seen on the map if I am not mistaken right in the presentation, now even if when we say we are present over there it could be that we have just registered a product, which makes us put our flag over there. It may not necessarily have been converted into business or this business would have been of around US \$5000, \$2000, or \$8000 to \$10000, but with the map that we have which is seen on our website the one that you are referring to, I think this in considering that we are also selling biologicals, which is our main thrust area, I think give us were two years' time and you could be rest assured that our international business should out beat the local business in two to three years' time.

Manish Jain: Perfect that is great and second question was actually for Jigar. Jigar on working capital status do you see room to improve the working capital from the current levels?

Jigar Shah: Yes, in fact the debtors number is up by I think 10 to 15 days, but that is actually because in the last two weeks we go a bigger order and the bigger sale in booked in the last two to three weeks, so if we average out that trend then we will definitely have an improvement in this working capital because of this debtors number, otherwise inventory there is increase in the inventory because we have even buildup the stock also for the large animal to supply the regular demand.

Manish Jain: Great and my last question to Jigar again was, I see that your consolidated debt from September quarter to December quarter has declined, can you just give the absolute quantum, how much it has declined?

Jigar Shah: It is not decline. In September quarter for India, it is a 42.83, which was at 30.51 in the Q3. In Nepal it is a 26.70 for this Q3, which was at 26.52.

Manish Jain: No, I think in September 2017 consolidated debt seems to have declined to December 2017, is that the case?

Jigar Shah: Consolidated debt is 47.75 in Q3 FY2017, now it is 60.18.

Rajiv Gandhi: I will join back the queue.

Moderator: Thank you. We will take the next question from the line of Manish Gupta from Solidarity Investments. Please go ahead.

Manish Gupta: Sir, one question we had was when you mentioned you look at private market for the large animal vaccine, if you could just explain what is covered in this private market, is it like cooperatives like Amul, etc., whom you go after or are the standalone commercial dairy farmers, just want to get the sense about this market is?

Rajiv Gandhi: Any non-government tender is private business in our term, so if there is a dairy that is as a cooperative buying the vaccines, which again our chances are less because these cooperative dairies they will educate the farmers to buy the vaccine and vaccinate or use certain medicines for certain diseases as a curative etc., so ultimately more so more the buying is done by the farmer themselves. There are big dairy companies in the country who would buy everything for themselves directly for us, so all non-government business is private.

Manish Gupta: Size of this Brucella and the PPR vaccines in India you have to split between government and non-government as you define it, are they equivalent size or it is government 80% and private 20% any sense on that?

Rajiv Gandhi: At the moment, it would be government around 70% to 80% and private would be the balance, but this is an emerging market and these trends the way they have changed in poultry over the period of years as the industry consolidates we will see the changes happening in India also.

Manish Gupta: Last question to the previous participant's question you alluded that in two to three years the international business should be somewhere around where the domestic business is, so do you mean the domestic total India or just the large animal vaccine of India, I kind of missed that?

Rajiv Gandhi: No, our desire is or what we want to achieve is India sales equal to international sales.

- Manish Gupta:** Thank you.
- Moderator:** Thank you. We will take the next question from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** Thank you for taking my questions. Sir, in the Ahmedabad plant the inactive capacity is the billion doses, the active capacity is another four billion right, total capacity is five billion?
- Rajiv Gandhi:** Yes.
- Dheeresh Pathak:** And both are running at 100% utilization?
- Rajiv Gandhi:** No, both are not running. We reached the capacity on the inactivated to near 100%, which we have expanded. We still have capacity on the live vaccines, but that capacity issue can also be well managed because while the building and everything else is there just one or two equipment if they are resized from what they are today we could definitely have an increment increase in the live vaccines capacity.
- Dheeresh Pathak:** So at 800 million dosages you are running at 100%, now you have increase to two billion in the inactive side?
- Rajiv Gandhi:** The inactivated vaccine, it has now gone up by 800 million. We have increased the capacity to 800 million additional, so on the total capacity there has been a 20% to 25%, but on an inactivated it is higher increment. It is a little less than doubling the capacity.
- Dheeresh Pathak:** Inactive you have double the capacity. I thought earlier you said 800 million to a billion dosages you are increased inactive?
- Rajiv Gandhi:** Yes, that is the additional capacity created now.
- Dheeresh Pathak:** Inactive has been doubled?
- Rajiv Gandhi:** Inactive has doubled, I would not use the word doubled and in biologicals, this capacity term is a very subjective term because if we take batches of 100 doses, let me give a more clearer example, if we take a batch size of 500 doses as against 1000 the same bottles, the same time, the same space everything it is just that the number of doses are half, so there is a lot of subjectivity if everything is used to produce at the best possible dose size the larger in fact our capacity would be up by another 60% to 70%. Yes, this is on the average what

we sell based on that, so if we improve the product mix, which we have been doing for the last two years, so effectively our inherent capacity is increasing without increasing any actual capacity in terms of hardware.

Dheeresh Pathak: Correct, so going forward we are not constraint for capacity like you have mentioned?

Rajiv Gandhi: No, there is no constraint either way or that is not an issue for us. The issue is in time we need to make those minor changes here and there and expand the capacity.

Dheeresh Pathak: Because earlier in the call you have said that we could have grown higher had we has more capacity, so now going ahead forward?

Rajiv Gandhi: Yes, but what happens is sometime you do not envisage your business and you do it and then it is on hindsight that if we had capacity, but that was never envisaged at the time, now if it comes suddenly we cannot really just suddenly have something ready all of a sudden.

Dheeresh Pathak: Understood and in the results you have mentioned trading sales of 4.4 Crores for the quarter, so those are mainly in the health products, poultry and large animal?

Rajiv Gandhi: I have never used the word trading at all.

Dheeresh Pathak: You have published results if you look there is manufacturing sales in trading sales.

Rajiv Gandhi: Now this what we have termed as trading sales over here is we have actually outsourced some material, some health products, which we have outsourced, but soon would be now getting them to be manufactured by our own sales.

Dheeresh Pathak: This is across both poultry and large animal right?

Rajiv Gandhi: Yes and it is nothing to do with vaccines, it is only health product.

Dheeresh Pathak: Large animal vaccines are all made in-house?

Rajiv Gandhi: Absolutely, no vaccines are outsourced or traded or nothing of that sort.

Dheeresh Pathak: If you look at segment results the large animal margins, EBIT margins are 80% this quarter, so these are like look abnormally higher margins, will they be one-off sort of pricing gain sitting in there or what is its potential gain, because you have almost 50% of the large

animal business is health products, which are outsourced, you cannot be making 80% margin on trading sales right?

Rajiv Gandhi: These are the margins which are reflected are our true margin. I have not understood.

Dheeresh Pathak: I am asking that 80% margin we have reported for the large animal segment, 50% of the sales in large animal segment is large animal health products where you are saying we are not manufacturing ourselves, we are outsourcing right?

Rajiv Gandhi: But then we can always have a markup even if it is a trading item. It is something like we have created, we have invested on the brand and we are selling all these products on our Hester brand, not a single of these health products is sold as a generic product.

Dheeresh Pathak: Why do not we see similar margins on the poultry side then, because poultry is your original business, bigger business you would have better brands in poultry why are not we seeing the same?

Rajiv Gandhi: I have an answer to that. Poultry business is more consolidated in the country, the large animal cattle, sheep, goat business is more splinter, so there is a higher realization because of the efforts that we are putting in the market on brand creating, on reaching the products up to the end level, etc., so therefore there is a difference between the margins on the poultry side and on the large animal side.

Moderator: Thank you very much. That was the last question. I now hand the conference over to management for their closing comments.

Rajiv Gandhi: Thank you all for patiently hearing me and asking me the questions. As always these question rather than me of course giving you information they enlighten me and we also make active notes sometime on some of the question they really make us do some introspection thinking, etc., and then it helps us for our own management and as always it has been nice talking to you all and if there are any unanswered questions kindly direct them to us. We shall address them on an offline basis and looking forward to again catching up with you all in the next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Capital Limited that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.