



HESTER

“Hester Biosciences Limited
Q3 FY2019 Conference Call”

29 January 2019



HESTER



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Moderator: Good day, ladies and gentlemen, welcome to the Hester Biosciences Limited Q3 FY2019 Earnings Conference Call, hosted by IIFL Capital Limited. 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 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: 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 Team for their remarks. Over to you Sir!

Rajiv Gandhi: Good afternoon everybody. As always it is a pleasure to be on this conference call with all of you. With me is Jigar Shah, our CFO.

I will start by giving just a short more on the qualitative side note on Hester and then I will pass on the call to Jigar. In fact we have made a little change in the format from what we have been always doing. We have made our press note a little bit more elaborate with all the figures already released through the press note, so that one round of communications gets over even before we all come on to this call.

Talking about our Q3 and the nine months results, the results have been satisfying for us as part of the management and for everybody at Hester. Though our sales was achieved up to 94% as against the forecast as budgeted but on the bottom line, we have definitely done much better than what we had ourselves expected and we have improved the bottom line reasonably well and as what I have always been talking on every conference call, it has always been our endeavor to improve the bottom line and in this last quarter and in the nine months gone by we have improved the bottom line and the attribution goes to mainly three reasons as there have been always, one is a better product mix, we have been continuously realigning our products, we have been rationalizing the product mix what we should be marketing, what we should be producing, how we should be producing and looking at the profitability chart of each of these products, we have been rationalizing the whole product mix and even in the last quarter we have successfully been able to rationalize the product mix, which has contributed to better profit margin.

As you are aware, most of our products we have different dose packs on the vaccine side, we have vaccine from 100 to 200, 500, 1000, 2000, 5000 and 10000-dose packing. So it is very important for us to make sure that the right product mix is manufactured, the marketing team is also in sync so that ultimately we improve the profitability by choosing the best product mix for production, better inventory control, we have always be working and trying to ensure that the inventory levels are more optimum for the type of the business that we are in and with the big range of products. That is the second reason.

The cost of production we have now internally made towards the costing of our product we have divided the cost on to two, one are the actual production cost and one is the engineering side that is the energies used for producing and we are trying to optimize at both the levels in terms of energy, we are trying to get a reduction in the cost of energy by reducing the production cycles optimally etc., and on towards the product, our production team is continuously working to improve the yield as you aware vaccines are such it is not like a simple formulation that you blend two or three items together and there is a 1% or 2% or 3% process loss and then there is a formulated products, it is not so. The efficiency of the people in the production team is very important because the yield has to come from the raw material and then the finished product is made, so we have been working on all these things and all these things added all these three reasons added together have definitely improved our bottom line. This is so far for Hester India.

Talking about Hester Nepal, we have now embarked on creating a very strong marketing and distribution network in Nepal. As you all are aware, the Nepal plant was constructed with a prime objective of manufacturing and supplying the PPR vaccine, worldwide under the FAO tenders. PPR has been taken up for disease eradication worldwide. These tenders unfortunately have been going slow and therefore, there has been a reasonable slowdown on the progress at the Nepal plant as against what we had thought it would be. Now in order to make the best out of the current situation we have now started developing a strong domestic distribution and marketing network within Nepal with which we are increasing our domestic sales, we are trying to remove the dependency from the tender business and we have also registered three more products in Nepal, which could be launched internationally, of course, it takes time for registration to happen at other places as well, so we are working hard to get out of the dependency of any one form of business.

In fact in my last annual report I did make a mention that last year there were quite a few learning and we definitely want to reduce dependencies either on a product or on a territory, so we are working towards that and I think in this calendar year we should be able to see some great positive results as far as Hester Nepal is concerned.

Texas Lifesciences, which is a company where Hester has 55% equity and we are slowly transferring all our health products, the non-vaccine products to be manufactured at Texas Lifesciences in a way so that we are in control of the quality as well as in control of the supply schedule. This has been going on reasonably well. This whole exercise of ours has led to great success in our savvy control of quality and we are now not facing the earlier problems in terms of timely delivery from other vendors etc., and the business, the standalone balance sheet of Texas Lifesciences has also reasonably improved, the business is growing up in leaps and bounds and we are sure that in the coming months with our animal health product division growing this manufacturing facility at Texas Lifesciences would also grow as fast in proportion to what Hester India would be growing and of course we have got the WHO GMP, so we have now embarked on registering the health products even in other countries mainly in the African continent and we hope that within three to six months' time we should have registered a few products from Texas Lifesciences directly, which could be marketed in the whole of the African continent.

Our project in Hester Africa as we call it, as you all aware we are selling up a manufacturing unit in Tanzania to manufacture vaccines against animal diseases, which are mainly found in the African continent. The project is going on as per schedule. At the moment, the construction has commenced and by the end of 2020 we should be able to roll out the first commercial vaccine out of Hester Africa.

A little note on the veterinary social business division that we have embarked on in India, this is coming back to Hester India. We have started this division with a specific objective immunize backyard poultry and backyard cattle, sheep, goat in Rural India wherein we have created a team which goes out, educates the farmers, villagers on how to improve the production of their backyard animals.

This division is also reasonably picking up in India. Just to give you a little bit of statistics on the poultry sides, the population of poultry is around 1.2 billion to 1.4 billion in India while that of rural poultry alone is approximately 600 to 700 million, which is more than half of what is in the organized sector. Everybody focused on the organised sector, we have also started to focus on this backyard on the unorganized sector for not only poultry but also for the cattle.

Overall just to sum up, we have had a good quarter, we have had reasonably a good nine-month ended period the last quarter we hope that we maintain the trend in terms of profitability in terms of the topline and take the business further.

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One more area last I would like to address is the export have not grown as what we had anticipated, but efforts are being put in to neutralize the impact of not getting the PPR tenders, which I just mentioned to you. I think by this years' time, we will make sure that exports also rise, but somehow we are putting the pressure on domestic sales as well and making sure that we do meet the topline as what we had committed internally to ourselves. With that I would like to give the phone to Jigar who will just talk about a few financials of the company.

Jigar Shah:

Good afternoon everyone. I am Jigar Shah, CFO of the company and I intend to highlight some of the key financials.

Poultry healthcare division grew by 13.63% in Q3 FY2019 as compared to Q3 FY2018 while comparing nine months FY2019 with nine months FY2018 growth rate is 14.93%. Animal healthcare division grew by 126% in Q3 FY2019 as compared to Q3 FY2018.

While comparing nine months FY2019 with nine-month FY2018 growth rate is 66.87%. Domestic sales grew by 52.68% in Q3 FY2019 as against Q3 FY2018 while comparing nine months FY2019 with nine-months FY2018 growth rate is 26.48%.

Exports grew by 27.88% in Q3 FY2019 as against Q3 FY2018 and same grew by 30.42% in nine months versus the company gross profit margin increased by 5% in Q3 FY2019 and 2.06% in nine months FY2019. Company's EBITDA margin increased by 4.72% in Q3 FY2019 and 0.64% in nine months FY2019. Net profit margin increased by 8.18% in Q3 FY2019 and 3.68% in nine months FY2019.

ROE of the company for Q3 FY2019 stands at 28.38% as against 18.98% in Q3 FY2018 while the same is 28.24% for nine months 2019 as against 23.60% in nine months FY2018. ROCE for Q3 FY2019 stands at 31.13% as against 25.90% in Q3 FY2018 while the same is 27.24% in nine months FY2019 as against 26.31% in nine months FY2018.

ROI for the Q3 FY2019 stands at 19.28% as against 12.21% in Q3 FY2018 while the same is 17.06% for nine months FY2019 as against 13.48% in nine months FY2018. Non-annualized EPS for Q3 FY2018 is at Rs.13.94 per share as against Rs.7.64 per share in Q3 FY2018 while the same is Rs.37 per share for nine months FY2019 as against Rs.25.33 per share in nine months FY2018. I am handing over to Mr. Gandhi for questions and answer round.

Rajiv Gandhi:

I now await questions from everybody.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** Jigar, can you please share your consolidated debt in INR for December as well as March 2018?
- Jigar Shah:** You want a consolidated basis?
- Ketan Gandhi:** Yes.
- Jigar Shah:** Consolidated date for the Q3 FY2019 is Rs.68.77 Crores while the same for nine months is Rs.68.77 Crores is against the same.
- Ketan Gandhi:** Okay and is it possible for you to share the consolidated balance sheet on quarterly basis?
- Jigar Shah:** I think from April onwards we will give that consolidated not right now, but definitely from the next financial quarter.
- Ketan Gandhi:** Excellent and Sir what is the likely capex in FY2019 and FY2020 in Tanzania and non-Tanzania?
- Jigar Shah:** In Tanzania, the project size is \$18 million which translates to around Rs.127 Crores out of that 4 million is going to be our equity that is Rs.28 Crores to Rs.30 Crores will be our equity so that is what the capital outlay is as far as Hester is concerned.
- Ketan Gandhi:** Sir how much we have already achieved in FY2019?
- Jigar Shah:** For Tanzania?
- Ketan Gandhi:** Yes.
- Jigar Shah:** Rs.15.95 Crores has already been invested in Tanzania. This is equity injection over there, but not utilization. The utilization is yet happening.
- Ketan Gandhi:** Are we getting committed from Bill & Melinda Gates Foundation as per schedule?
- Jigar Shah:** Yes.

- Ketan Gandhi:** Sir now on the quarter numbers, other expenses for this quarter is around Rs.9.6 Crores whereas the previous quarter that is September quarter it was around Rs.14.9 Crores. Is there any one-off in the September quarter I want to understand whether which will be the normal this quarter was the normal or September quarter was normal?
- Rajiv Gandhi:** No, I think this is normal and the one that we have incurred this time is the normal. In this quarter, the expenses that we are incurred, you are talking about the other income what is?
- Ketan Gandhi:** Other expense only line number G in the total expenses?
- Jigar Shah:** Yes it is a normal expenditure for this quarter so we are also taking this a benchmark for further quarters also.
- Ketan Gandhi:** Can we looking at this, can we say that achievement of this quarter sales and profitability can be repeated in the March quarter?
- Rajiv Gandhi:** You can take that has a yes as an affirmative answer from me.
- Ketan Gandhi:** One last question that Nepal plant, what is the annual likely sales that we can breakeven at?
- Rajiv Gandhi:** Our break even in Nepal should come to approximately Rs.15 Crores to Rs.20 Crores around Rs.15 Crores.
- Ketan Gandhi:** Any timeline to achieve that? Any color on that?
- Rajiv Gandhi:** It should have already been achieved, but we have not achieved, we are working towards it. Hopefully in this calendar year, we hope to see substantial spurt so we are keeping our figures crossed.
- Ketan Gandhi:** If I may ask one more question. Sir under what scenario will you raise Rs.100 Crores by seeing more equity especially it seems your current debt equity is very low and looking at the current cash flows is around Rs.50 Crores annually so under what scenario will you raise?
- Rajiv Gandhi:** You are talking about the QIP?
- Ketan Gandhi:** Yes.

- Rajiv Gandhi:** We are looking at few opportunities in inorganic growth. There were some in hand, which did not fructify and we are still looking at few. We have taken the permission for QIP. If something happens then we would trigger that otherwise what is going on in this current scenario for organic growth at the moment this is the way we are going ahead without the QIP.
- Rajiv Gandhi:** Thank you very much Sir. That is all from my side.
- Moderator:** Thank you. The next question is from the line of Srinath V. from Bellwether Capital Private Limited. Please go ahead.
- Srinath V:** Congratulations on a good set of numbers. Just wanted flavor on the large animal business. What would be the tendering versus private market and going beyond that could you kind of explain what is the kind of customer in the private market in large animal because from the little I understand the large animal is highly fragmented in more backyard driven so could you first give the breakup between tendering and private market and after that also can I give flavor of the client profile in the private market space?
- Rajiv Gandhi:** At the moment, business that we have on the animal health, I think 60% in the private and 40% is tender. The market is fragmented. I fully agree with you. There are not too many organized dairy farms the way you have the poultry farm so more penetration is required on the animal healthcare division than on the poultry healthcare side and we have got host of the products and we are trying to penetrate the market. It is very much necessary to keep a balance between the private market and tender market because tender market is not based on any marketing activities. It is priced driven while we are always looking at the bottom line so we would definitely keep the focus on the private market, how much ever fragmented is and there is also something like brand loyalty in the private market so our focus is definitely of a private market.
- Srinath V:** Sir when you kind of define it as private market what is the size of these farmers that you are addressing. They would be having 40 hedge, 50 hedge, could you kind give a flavor kind of customer profile in this private market? And second question is on this how do you plan to kind of increase distribution given that it is fragmented our veterinary social responsibility side of it the creation of distribution of we can actually create a more granular private market distribution, can you just take us through how you thinking on the space?

- Rajiv Gandhi:** The animal healthcare division of ours, if you compare this division with the animal healthcare division of various other companies, point number one is 80% of the companies who are in poultry and animal health their animal health division is bigger and that of the poultry so the market on the animal healthcare side is far more bigger than what the market of the poultry is. Yes it is fragmented. Yes it is sort of rural. Yes it is disorganized everything is fine, but there is a big market for the animal healthcare product that is vaccines as well as non-vaccine the medicine etc., so we have marketing distribution network and we try to through our own sales personnel we try to create the demand and we try to sell it all across the country and I think the best way for any company animal would it be animal healthcare here would be more dependent on the private market. We cannot be dependent on the tenders.
- Srinath V:** I will come up for follow up for my next questions. I will get back to you. Thanks.
- Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.
- Ravi Naredi:** Congratulation to Rajiv Bhai for giving a very good fantastic result. Sir after full plant operation in Nepal and full production introducing in Nepal market, how much production we expect in turnover wise from Nepal and what type of margin you are expecting from Nepal?
- Rajiv Gandhi:** Margin would be same as what we are having in India. We had expected a turnover of around Rs.40 Crores to Rs.50 Crores in Nepal at full capacity. The way we are taking it further, we hope to at least touch around Rs.10 Crores on the domestic market within a year, year-and-a-half time wherein our annual yearly sale would be that much and besides that by that time, the export should also pickup, so overall we should be able to do reasonably okay from the Nepal plant. One must keep in mind that the Nepal plant was constructed with an objective for international tenders.
- Ravi Naredi:** Yes, because some additions we are not manufactured in India.
- Rajiv Gandhi:** So PPR vaccine cannot be manufactured in India for the international market, so that is the main objective, but as I said we are now also focusing on the trade business, we have registered many products and we will definitely try to get a good chunk of the local market itself.
- Ravi Naredi:** Thank you Sir.

- Moderator:** Thank you. The next question is from the line of Raj Mahadevya from Hester Biosciences. Please go ahead.
- Raj Mahadevya:** Mr. Gandhi congratulations particularly on the strong operating results. Question regarding your cost of materials consumed, you mentioned that this is on account of process improvements. I am keen to understand if this is on account of cost optimizations or yield improvements?
- Rajiv Gandhi:** It is both. I did make a mention that there are reason for improving the profitability. It could be attributed towards more energy utilization on improving the processes etc., as well as also towards improving the yield. So I would take it as a combination of both.
- Raj Mahadevya:** Understood and you believe this is sustainable going forward on an as needed basis?
- Rajiv Gandhi:** Yes. We have been able to achieve this there is no reason for us to again take a dip on this and we will make sure that this becomes the benchmark.
- Raj Mahadevya:** Excellent. Next question is regarding the Hester Nepal. I notice that the sales have grown roughly 3 to 3.5x from same quarter last year whereas the level of net profit on this case, net loss is the same is that because despite the higher revenues, you are spending more on SG&A and on product registrations in other markets?
- Rajiv Gandhi:** No, what happens is that once the business starts building up slowly, initially we would be operating with the skeleton infrastructure. Now as the business goes up there is some need that is required within the organization, so we start spending on that. Now this would be not only in our case, it could happen in many. When the revenue start coming you start spending on certain things, which otherwise you had held back, so now we are also spending on all these things, which are towards a strong infrastructure creation. The expenses that are there or not sort of on the variable side or something, it is towards building the infrastructure to make us ready for bigger sales for a bigger turnover. Please also understand that we are now addressing the fragmented domestic market of Nepal, so there also we need to spend in more which probably earlier was not budgeted.
- Raj Mahadevya:** Understood. You are saying that there is an element of fixed cost spend that is growing up plus a smaller element of variable cost spend, which is related to SG&A in the local Nepal market?
- Rajiv Gandhi:** Absolutely, perfect.

- Raj Mahadevya:** Great. Thank you very much. All the best.
- Moderator:** Thank you. The next question is from the line of Yogansh Jeswani an Individual Investor. Please go ahead.
- Yogansh Jeswani:** Thanks for the opportunity. Congratulations on a good set of results. Sir my question is again on animal segment. You have answered in partial about that these numbers are sustainable? So just wanted to get some more sense on this animal segment like earlier last year we did almost Rs.15 Crores sale for the whole year and in two quarters, we have clocked Rs.10 and Rs.11 Crores of sales. So can we assume this to be the new base and with these kinds of margins? That is the first part Sir.
- Rajiv Gandhi:** To answer your question is that the animal healthcare side, we had always strived to grow by more than 50% that has been our objective and we are working towards achieving that objective, so on a ninth-month cumulative we have grown at 66%, which is a little higher than what we had originally budgeted, but I think we are trying hard to keep up with this pace that we are setting at this point of time. The base is small so the percentage is big, but we are trying to make sure that the percentages remain the same even with the base going up.
- Yogansh Jeswani:** Sir, secondly like you mentioned in your presentation as well that there has been some rationalization in terms of inventory management and product mix, which has yielded some good results so again on animal healthcare, this growth that we are seeing, is it on the back of some significant kind of product concentration like one or two products of ours has taken off or is it spread out reasonably well?
- Rajiv Gandhi:** There are always products, which contribute big in any company, but it is not that our total sale is so lopsided that it is dependent on one or two products. We have a host of products and more or less the whole, the contribution is evenly spread, not absolutely evenly, yes, there is a little bit of a higher sale on one or two products that we have, but it is not so significant wherein it becomes a dangerous situation that we are a company dependent on only one or two or three products, it is not so.
- Yogansh Jeswani:** So it is safe to assume like the top products might not be 10% of the sale?
- Rajiv Gandhi:** No. I would want to give a specific comment on that, but we definitely have one or two products that contribute a little over 10% for sure.
- Yogansh Jeswani:** The growth is on the back of those two or the growth is spread out that is the second point I am trying to understand.

- Rajiv Gandhi:** Yes, absolutely.
- Yogansh Jeswani:** Understood, again on the animal healthcare front like you mentioned that you still see growing at similar pace at this increase base, so can you also give some more commentary on where this demand is coming from? Is there a new market that you are opening up or basically I am trying to understand where this growth is coming from, how are you so bullish on this segment?
- Rajiv Gandhi:** Our total turnover in nine months for the animal health division is Rs.25 Crores, which is a very small amount. There are companies who are doing much bigger turnovers in their company, so there is some potential for us to grow is reasonably high, the point is that this is still growing division for us and the potential is big, so I think there should not be problem in growing at this level and there is a wide market, so we are there, we will speech ourselves against the competition, one USP that we have is that we have vaccines for sheep and goat, we have PPR vaccine and the goat pox, on the cattle side, we have the Brucella vaccine, both these vaccines the Brucella and the PPR are extremely important, so that also helps us in generating sales of the other health products and the medicines.
- Yogansh Jeswani:** Sir one last question that I have it is basically a follow up, like you mentioned that there are other companies have very big sale turnover on the animal healthcare, so by the sense of it, we understand that we are very small player in this big market and being a small player have started clocking 40% kind of operating margins, so basically is this industry wide norm or is there something more to it in terms of our capabilities that as investors should know about and should we know care about?
- Rajiv Gandhi:** I would not really say it is an industry norm. There is nothing like in industry norm in this case. We are able to create products, we are able to generate products, add those prices and we are continuing to sell these products. I think you have to look at overall in the pharma industry, the GPs and all are reasonably okay all across any pharma companies.
- Yogansh Jeswani:** Fair enough Sir. That is it from my side. I will get it back in queue for any follow ups.
- Moderator:** Thank you. The next question is from the line of Ashutosh Garud from Avendus Wealth. Please go ahead.
- Ashutosh Garud:** Congratulations on good set of numbers. We have just recently started to see this company, so if you can just give us broad understanding of what are the capacities, which we have different locations may be and what is the total utilization levels currently and what are the maximum utilization levels, which we can achieve given the facilities which we have and

then maybe you can give more light on the total capex which were already doing and plan to do in the next couple of years.

Rajiv Gandhi: I will be a little brief on these things, because this might lead me for talking for too long, what we could do besides what I will just give you information you are free to contact us offline and then we can talk. Capacity utilization we have approximately 70%, so we have still 30% extra capacity as far as India plant is concerned because we have already commenced our expansion. In Nepal we are at a very low utilization, so we had full plant capacity more or less to go and Africa is yet to come to even be constructed, so we have enough capacities at both the places at this point of time; however, issue is to grow and increase the topline and maintain the bottom line. Capacity is not a constraint at this point of time.

Anita: You are saying that while you have capacity in Nepal and obviously Africa may be you can also touch upon Texas?

Rajiv Gandhi: Who is speaking? May I know who is asking the question?

Ashutosh Garud: She is with me. This is Ashutosh. This is Anita who is asking the follow up.

Rajiv Gandhi: On the Texas Lifesciences you are looking at you are talking about the capacity?

Anita: Yes.

Rajiv Gandhi: I do not have the figures right now at this point of time Madam. This is an unexpected question that has come to me. We could talk on this offline.

Anita: Okay Sir, not an issue. Thank you so much.

Moderator: Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.

Ayush Mittal: Good afternoon Sir. Congratulations on a superb performance yet again. My question is more about if you see about investment into Nepal plant, we have given quite a bit of time into it and money, so I want to understand what have been the key factors, why there has been such a huge delay in terms of getting optimum outcome that we have planned earlier?

Rajiv Gandhi: From the Nepal plant?

Ayush Mittal: Yes.

- Rajiv Gandhi:** I have time and again mentioned this but I do not mind repeating. The whole plant was set up with an objective to supply to the PPR vaccines, which would be bought under tenders from the FU that activity has been going on quite a bit slow at this point of time, therefore this delay. There is no other internal reason to which we can attribute this slow pace of progress at Nepal.
- Ayush Mittal:** If this thing remains slow, are we planning to bring in more new products apart from the Nepal market that you said that you are targeting, are we also planning to cater or evaluate of other products which can be exported from that facility in this product was commercialized?
- Rajiv Gandhi:** As part of the Hester management team, as the CEO Managing Director it is my responsibility to live up to the commitments, which we have make to ourselves to the shareholders and we will do everything to make sure that we do turnaround the whole situation as far as Nepal is concerned. We have already started looking at domestic market. We have already started registering more products, which could be exported in days to come and I am sure that in a year, year-and-a-half time, the PPR tender business would also pickup as much as it was supposed to have happened in 2017-2018 etc, so with all these things put together, it is a concern, but it is not situation wherein we feel that what do we do at this point of time. We are aimed at we will swim our way and come out of it.
- Ayush Mittal:** What I am trying to also understand is it because of the nature of the business that many often that we aspire to do much more, but we fall short on some of the things and also that we are putting a huge amount of investment in Africa, do you expect any such kind of delays to often our regulatory delay to take place?
- Rajiv Gandhi:** At the moment, we do not see any reason to have any delays. Regulatory delays could come up, we will have to tackle him at that time, but please keep in mind in Africa, we are in a country Tanzania where animal population is anyway one of the largest. Our exports if at all there are problems, I am not saying that there are problems, do not misunderstand me, if at all there are any delays on regulatory issues, there is a captive Tanzanian market which we will be able to cover. In Nepal, the domestic market is reasonably small.
- Ayush Mittal:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Jain from Gormal One. Please go ahead.
- Manish Jain:** On your backyard vaccination program, you all had started in Odisha, Jharkhand and Chhattisgarh, which other states have you made efforts to start in?

- Rajiv Gandhi:** U.P. and Bihar.
- Manish Jain:** Okay, so if one where to look at the top 10 states in India, in what timeframe can you be in the top 10 states in India?
- Rajiv Gandhi:** It would be at least 1, 2, 3, 4, 5 in this year. In two more years it would take us to cover 10 states in the country. The whole issue is that this is extreme rural marketing, rural distribution. Our ability to do things very fast is not so much there because penetration is very deep and rural and far away.
- Manish Jain:** Second question Jigar, can you provide working capital update as to how are you on working capital debtors, creditors in inventory days vis-à-vis March 2018?
- Jigar Shah:** On the working capital cycle, inventory days are 114 days for the Q3 FY2019 and for nine months, it is 116 days. On debtor's side, it is 68 days for Q3 FY2019 while it is 60 and in Q3 FY2018 it was 87 wherein Q3 FY2019 it is 68 days. In nine months FY2019, it is 69 while it was 85 in nine months FY2018, so it is quite an improvement in the latest turnover issue. Overall working capital cycle is 104 days for the Q3 FY2019 and mainly it has increased in the inventory days from 115. Now for nine months FY2019 it is 63 days, which was 113 days for nine months FY2018.
- Manish Jain:** One last question is on your capex, you highlighted that Tanzania will be around \$18 million and non-Tanzania capex in FY2019 and FY2020 will be how much?
- Rajiv Gandhi:** At this point of time, there is nothing absolutely fixed that has been planned. There are ideas, there are thoughts, which if they crystallize we would present them, but we have completed the expansion in Ahmedabad. In Nepal, we are not expanding, so there is no immediate need based on the current circumstances. We have enough spare capacity even in India at this point of time and Nepal of course we have still lot of capacity.
- Manish Jain:** Thanks. I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Manish Gupta from Solidarity Investment Advisors. Please go ahead.
- Manjit:** This is Manjit from Solidarity. I had two questions. The first one, there is a number in the domestic market in Nepal, what is the size of that market, your addressable market? And the second question was around the private animal market in India? Against the larger players in this market, which you mentioned, how does our distribution stack up today and the products,

which we are selling in competition with them is the pricing on par or are we selling them at a meaningful discount to these existing players?

Rajiv Gandhi: Your first question, can the Nepal market right you asked? The Nepal market again it is a market where figures are not very easily available and the same situation is in India, but I think the total vaccine market in Nepal itself should be approximately poultry vaccine should be Rs.15 Crores, the cattle market should be less than that and the animal health market should be very easily at least around 30 to 50 I mean more than that also. There are not any statistics available. In short, what I can say is that with the product mix that we have and the vaccines that we have at the moment our addressable market from the local production would be approximately Rs.15 Crores.

Manjit: The second question on the India animal markets?

Rajiv Gandhi: Yes, we do not have all those details statistics of the Indian market. What was the second part of your question?

Manjit: The products, which you are selling in competition with the larger players are we pricing them at a discount or are we on par with them and on distribution vis-à-vis these players where you are competing against how does one think about your distribution skill versus them today?

Rajiv Gandhi: I think on a distribution scale we are reasonably okay as par with everybody. There is not much. May be our market penetration is a bit less in some areas in the country so those are opportunities we are yet to exercise. In terms of pricing, we are all more or less the same. We may be higher in some products may be margins must be lower. The whole point is that all the sale is not just done on the price. It is also done on the quality, on the way we market the product. I do not say that others are producing bad quality and we are the best nothing of that sort, but every product has reason for which it is being sold, so we target along with that reason whether it is a growth promoter, whether it is an antibiotic, which had place it that and we sell it. There is no actual guide that if somebody is selling it at Rs.100 would we sell it at Rs.80, Rs.90, Rs.99 or Rs.110 nothing of that sort. What we feel it could sell considering the other products and then there is a plus and minus.

Manjit: Got it Sir and one final question on the private animal health market in vaccines right now is there any client concentration as in the top two to three customers contributing chunk of your revenues?

Rajiv Gandhi: No. On the animal health study you are talking?

- Manjit:** Yes.
- Rajiv Gandhi:** No. There is nothing of that sort. The market is so fragmented and we have spread it all across reasonably well.
- Manjit:** Thank you.
- Moderator:** Thank you. The next question is from the line of Amit Jain an individual investor. Please go ahead. The current participant seems to have dropped off. We will move on to the next participant that is from the line of Hasmit Ladhani from Progressive Share Brokers Private Limited. Please go ahead.
- Hasmit Ladhani:** Two questions one is can you just elaborate a bit on the trading sales business that we have and what sort of products or services are we trading?
- Rajiv Gandhi:** Which trading is this?
- Hasmit Ladhani:** That is a part we have segmentation so manufacturing sales, trading sales and the other operational income that we have so trading sales is somewhere around 53 million?
- Rajiv Gandhi:** Trading sales are those health products, which we will be acquiring from outside and branding it and selling it ourselves. That is reflected as the trading sale.
- Hasmit Ladhani:** We have products, which are for poultry as well as animal healthcare right?
- Rajiv Gandhi:** Yes absolutely.
- Hasmit Ladhani:** What sort of margins are we getting in these products that are traded across?
- Rajiv Gandhi:** I think this information is one being sensitive. Two is that at this level I am not exactly sure and even if I know I think we are getting into too much of detail for that margin and all and in any company as long as the GP margins and all are met the values, the way we try to take it further and in trading I think it would not particular for me to tell that we are buying it at Rs.100 and selling it at Rs.150 or Rs.102 or Rs.103 and there are so many products.
- Hasmit Ladhani:** Second question is related to the progress of the R&D procedure, which would be on the thermostable vaccines how far have we gone with the probably phase one, phase two or phase three?

- Rajiv Gandhi:** The thermostable vaccine of New Castle already launched PCR. It is under trial and it is under registration.
- Hasmit Ladhani:** Sir if I can just squeeze in one question what part of operations are we getting from Texas Lifesciences? Are we focusing on poultry over there?
- Rajiv Gandhi:** Both. That company for them whether it is poultry or cattle it is not relevant even for us to take a product from Texas is not relevant whether it is poultry or whether it is cattle. As and when our production capacity improves as and when the capability to produce the product is where we shift to Texas and then it becomes our own in house production.
- Hasmit Ladhani:** Texas it has become profitable very quickly as compared to Nepal plant that is where the question was actually?
- Rajiv Gandhi:** The reason is that it is in India where we had a sale of products, which were just transferred from production unit A belonging to somebody to production unit B, which belongs to us, so it was then in-house sale, which prompted us to actually take Texas. The objective of Texas was not to buy it and then build products and then sell.
- Hasmit Ladhani:** That makes sense. Thank you Sir. Thanks a lot.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhishek Sharma for his closing comments.
- Abhishek Sharma:** Thanks Lizaan. Rajiv Bhai any closing comments from your side.
- Rajiv Gandhi:** Nothing really as such, but it is always nice to answer questions. I was able to answer most of them. Some I was not able to answer. I am always open to talk offline to anybody who would want to and our objective is to express ourselves transparently and make sure that everybody is happy with the question and answer. Business everybody does, but if it is expressed well on what we are doing with our objective, I think it helps us in gaining confidence of all the shareholders and that is my objective.
- Abhishek Sharma:** Thanks Sir. Lizaan we can close the call.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.