



HESTER

“Hester Biosciences Limited Q1 FY16 Results Conference Call”

July 22, 2015



HESTER

TRUST GROUP



In partnership.
With trust.



CHORUS CALL®

**MANAGEMENT: MR. RAJIV GANDHI – CEO & MANAGING DIRECTOR,
HESTER BIOSCIENCES LIMITED
MR. JIGAR SHAH – CHIEF FINANCIAL OFFICER,
HESTER BIOSCIENCES LIMITED**

Moderator:

Ladies and Gentleman, Good Day and Welcome to the Hester Biosciences Q1 FY16 Results Conference Call hosted by Trust Financial. We have with us today, Mr. Rajiv Gandhi — Managing Director and Mr. Jigar Shah — CFO. 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. This conference call may contain certain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of the future performance and involve risks and uncertainties that are difficult to predict.

I now hand the conference over to the management of Hester Biosciences. Thank you and over to you.

Rajiv Gandhi:

Good Afternoon, everybody. This is Rajiv Gandhi — CEO & Managing Director of Hester Biosciences, and with me is Jigar Shah — our CFO. I would like to begin by just giving a little brief on the business segments that we are in vis-à-vis developments, etc., in the current scenario and then go on to addressing a few issues one-by-one.

Talking about Vaccines and Medicines in this sphere of the Veterinary domain, the world now is shifting more towards preventive medication rather than curative medication as what it is happening on the human side. Therefore, the need and the importance of Vaccines have been increasing on year-by-year not only in India, but it is so happening all across the globe. On the Vaccine side, there have been recent developments like new Recombinant Vaccines which have now been introduced in the Veterinary domain like what it is on the human domain, and these Recombinant Vaccines are more or less the future of vaccines, one, because they are easier in terms of handling the actual microorganism while manufacturing and therefore that is the biosecurity hazard which otherwise is there in the conventional vaccine, it reduces with Recombinant Vaccines, so therefore Recombinant Vaccines is now gearing up, it is becoming more and more important. And secondly, any Recombinant Vaccine, it would protect at least two diseases, therefore in one administration you could have protection of two or more microorganisms. Another area of vaccines which is gaining importance is localized vaccines. Each area on this earth has specific diseases, specific strains like South America would have its own typical strains, so would Africa, so would the Asian continent, etc. So, the need for having localized vaccines has gone up and as per FAO norms, there are certain microorganisms which are not allowed to be handled in areas where those strains or those microorganisms are not prevalent.

Coming on to the Medicine side, the use of antibiotics is surely going down and the use of enzymes, probiotics is slowly gaining more importance and therefore like in human side, on the veterinary side also, it is the same, and the similar thing applies for the Poultry and the

Large Animal for Vaccines as well as on the medicine side. So, this is just a little brief on Medicines and Vaccines as far as the Veterinary domain is concerned.

Coming on to Specific Diseases, I would like to first talk on the PPR Disease which is prevalent in sheep and goat, and this disease is mainly found in the African Subcontinent, the South East Asian area and the Middle East. This is not prevalent in Europe or the United states or in Australia. A few minor cases have been recently identified in South America, but it is at a very small stage and they are still trying to make sure that PPR does not spread over there. FAO has taken up a mandate to eradicate PPR disease from this earth. This is the third disease that has been taken up for eradication. Two earlier once taken up have already been eradicated — Small Pox in human and Rinderpest in Cattle. FAO and OIE that is the World Organization for Animal Health together have embarked on this ambitious program wherein they have planned to eradicate this disease in 15-years' time. PPR has a document available, it is in public domain on their ways and means to begin the eradication program, and how it will achieve this eradication in 15-years. The global expenditure towards eradication of PPR is estimated to be around US\$9 billion, out of which Vaccine alone contributes to US\$7.5 billion. The PPR Vaccine is to be given to sheep and goat and this vaccine should be repeated every year. As statistics stand today and as the current situation on PPR is today, right now PPR has not gathered bigger importance neither in India, nor in the African subcontinents, the two biggest areas where the PPR disease is prevalent is the goat and sheep farming is reasonable scattered in these areas. So the biggest challenge in the PPR Vaccine administration is the delivery system and the distribution for the PPR Vaccine, which has to be given a lot of focus in order to reach down the line to the small some backyard, some disorganized goat and sheep farmers across the Indian subcontinent as well as in Africa. There have been meetings regularly held which have been organized by OIE as well as by FAO, the last such meeting was held three months ago in Ivory Coast where we participated... in fact, we were the only private organization to be invited in that conference and we are very much involved with FAO and OIE in their program and we have regular updates from them on the PPR issue.

Another area that is of importance as far as FAO is concerned, the backyard poultry, and cattle. These population they are not taken in any statistical count because by the sheer definition it being backyard, these are not given general importance by commercial organizations, but to give you an example in India, the commercial broiler population being 1.2 million, the backyard poultry population is 600 million, around 50% of what it is and in no statistics and in no company forecast is this population considered, likewise in Africa to the backyard population is very high, there are not any statistics available in it and cattle and sheep more or less are in the backyard or the unorganized sector. So these are the areas in which the thrust is going to be there as far as vaccines is concerned. On the PPR Vaccine front, I would like to say that Hester has geared up towards manufacturing PPR Vaccine from the Indian strain in India and our Nepal plant which is to commence since September this year, we would be producing the PPR Vaccine from the Nigerian strain. World over PPR Vaccine is used with the Nigerian

strain, while India it is used with the Sunguri strain; Sunguri strain was isolated in India while the Nigerian strain was isolated somewhere in Nigeria. We are the only company at the moment in the world geared up to manufacture PPR from both the vaccines, thereby having an ability to address the full population for vaccination of PPR Vaccine. Currently, the world prices as even mentioned in the document released by FAO and OIE jointly, it shows the price of this vaccine as high as 10 US cents while our selling price in India is at the moment approximately around anything between 2.5 to 3.5 cents, that is around Rs.2 per dose as against more than Rs.6 a dose which is currently the international price. All our profitability forecasts are based on our selling prices between Rs.2 to Rs.3, they are not based on Rs.6 calculation. This is just to give you an idea on our forecasting.

Next point I would like to address is our Nepal plant. We hope to start the production in September 2015. We are hopeful that in the last week of September, we would get the commercial license to start manufacturing Vaccine, in fact we have already got a document which is required before the actual commencing of production for trial production, etc., for the PPR vaccine from the drug authorities in Nepal and we are confident that we will convert that test license in to a commercial manufacturing license. Nepal facility, as already mentioned to you earlier, is in its full capacity should be able to give us a turnover of around Rs.50 crores. In one calendar year once we begin production in 12-months' time, we hope to achieve a turnover of approximately Rs.10 crores from the Nepal plant.

Coming on to the Hester's R&D Updates: Currently, we are working very strongly on developing Recombinant Vaccines. We hope that in a year's time, we would have 2 to 3 Recombinant Vaccines developed by our own internal R&D department and we would be able to take patterns for both these Recombinant Vaccines and we would be able to market them. As things stand now, we are reasonably advanced towards preparation of the Vaccine. The more time taken for these Vaccines is the clinical test, the test in the field, and therefore a lot of time in the next coming year, year-and-a-half would be going towards the testing of these Vaccines in the laboratory as well as in the field.

Another area where Hester is focusing very strongly is on the Diagnostics. We have advanced quite a bit on developing our own diagnostics, though we have not mentioned anywhere in our reports, etc., but we already have commercial license to manufacture five veterinary diagnostics, but we are trying to develop a few more diagnostics, so that we can address and we can offer a basket of diagnostics to the veterinary domain, which is poultry as well as cattle.

The expenditure on the R&D, we have one is the CAPEX and one is on a year-to-year basis link to the sales. On year-to-year basis we would be spending between 2-4% of our sales on R&D expenses and we are looking at the CAPEX of Rs.10 crores towards these R&D projects towards purchasing of certain sophisticated equipments.

Global Business Updates from Hester: Currently, we have products registered in 13-countries already. Totally, there are 79 Vaccines which have been registered in 13 countries. By 79, I do not mean 79 individual, it could be 1 Vaccine even registered in all the 13-countries so therefore by that we have between 6 and 8 Vaccines registered in each of these 13 countries and there is an ongoing registration process going on in 23 countries and totally files that we have put in totally in these 23 countries is 137, which also includes repetition of products in each of these countries. We have started putting a lot of focus on the African market towards our distribution. We have appointed distribution in various countries mainly in Southern part of Africa as well as Eastern Africa. We have already registered a company by the name of Hester Biosciences Africa in Kenya. What we intend to do is create our own depot in one of the African countries, have our own sub-depots where either it could be completely Hester-owned or it could be in partnership with a local agency and have stock points in these various countries by way of which we can have our distribution very efficient all across each of these countries. The current scenario in Africa, if you read various reports which are time-to-time published on OIE as well as by certain NGOs including the Gates Foundation, there are two issues which are mainly to be addressed for the African continent — one is availability of Vaccines and Drugs at current prevailing international markets and Authentic Drugs and Vaccines. There is a lot of counterfeit activity going on in the Continent of Africa, as well as the drugs which are genuine which are being sold, they are sold at extremely high prices. What we want to do is we want to enter into the African continent and try to get Africa at par with international distribution norms, pricing norms, availability norms, etc., So it is our endeavor to take this further and in days and years to come, hopefully, we would have independent identities in each of these African countries mainly Southern as well as Eastern... and when I say in future I am not talking of very far away, I am talking of in a period of three years we should be present with our own set up in at least 10 to 12 of these African countries in East and South.

Coming to our Capacity Utilization: We produce Live as well as Inactivated Vaccines. Our current capacity on Live Vaccine has reached around 50% and the Inactivated capacity has reached 95% to 100%. When we constructed the plant in the year 2007, the expansion plan, we had based it on certain forecast, the certain market trends and presumptions. There have been changes in the market trend in the last 7-8- years in the disease pattern, thereby increasing the use of Inactivated Vaccines in the poultry and therefore we have reached a near 200% capacity while we have spare capacity on the Live Vaccines. We have already committed an expenditure in this year to make up to around Rs.17 crores towards increasing our capacity, mainly for the Inactivated Vaccines and this money has already been planned for, budgeted for, and it would come from internal accruals as well as from bank limits which have already been sanctioned and it has been unutilized by us. Live Vaccines we intend to increase our international focus through live vaccines. The nature of the African market is such where the use of Live Vaccines is much more higher than the use of Inactivated Vaccines and therefore we would put a lot of thrust on the Live Vaccines in the whole of African continent. Overall, I

would like to say that in the Q1 Results which we have declared that we have had an all-time high of quarterly results, we have done a little over Rs.24 crores in the first quarter in this year, we hope to grow our business by 20% to 25% as against last year, the balance business that we need to do less than Rs.100 crores, we hope to split it up into the three coming quarters and we are extremely confident that we would be able to achieve this forecasted turnover as what we have made in this financial year.

I would now request Jigar to give you the Financial Highlights of the First Quarter and then I would be happy to take questions or address certain questions that you would have. Thank you.

Jigar Shah:

Good Afternoon, everybody. I am Jigar Shah — CFO of the company. I will discuss the Unaudited Financial Results of Q1FY16. As all of you are aware about the company's four divisional operation — Poultry Vaccine, Poultry Health Products, Large Animal Vaccine, Large Animal Health Products. Under Poultry Vaccine division, company has booked sales of Rs.21.70 crores while under the Poultry Health Products sales booked at Rs.1.26 crores. In this division, we have already crossed total sales of previous years in Q1 itself. Overall, 5% growth has been noticed in the Poultry division. Production and marketing of Large Animal Vaccine has been started in March 2015 and recorded at Rs.0.03 crores. We believe with our understanding of market and quality of products Large Animal Vaccine would be a major growth driver of our business in long run. Under the Large Animal Health Products sales has been recorded at Rs.1.55 crores for Q1 FY16 as compared to Rs.1.36 crores of Q1 FY15.

Looking to the Export and Domestic sales: Company has recorded total export sales of Rs.2.14 crores for Q1 FY16, which is 42% of FY15 total export sales, whereas total Domestic sales has been recorded at Rs.22.40 crores.

Now coming to the consolidated sales and profitability of the company: Consolidated sales in the Q1 FY16 was Rs.24.53 crores as against Rs.23.20 crores of corresponding period, thereby achieving growth of 5%. EBITDA stood at 33.34% as against 29.06% of FY15. The main reason of increasing EBITDA is due to reduction in operating cost and we are confident that the same trend will continue for the rest quarters. We have earned net profit of Rs.4.66 crores that is 19.01% of sales as against Rs.4.13 crores in Q4 of FY15 that is 17.67% of sales, while the corresponding period net profit was Rs.4.34 crores at Rs.18.61 crores of sales. In the Poultry division net profit was booked at 20.62% of sales while it was 18.43% in the FY15. Under the Large Animal Health division, there is a substantial improvement; the loss in this Q1 FY16 has been booked at Rs.7 lakhs as against the loss of Rs.26 lakhs in the corresponding earlier Q1 FY15. Large Animal Health division has reached near the breakeven point. The main factor affecting our improved margin are better inventory management, strict credit control on sales and reduction in the sales and distribution expenses.

Now coming to the Balance Sheet Analysis for the Q1 FY16: We have successfully reduced our inventory level up to 108-days in Q1 FY16 as compared to 116-days for FY15. Our net working capital cycle was 80-days in FY15 has been reduced to 62-days as on 30th June 2015. Total debt was Rs.37.75 crores at FY15 which has reduced by Rs.4.79 crores and stood at Rs.32.96 crores at Q1 FY16. Earnings per share for the Q1 FY16 is Rs.5.48 per share as compared to Rs.17.14 for FY15. That completes my presentation. Thank you, everyone.

Rajiv Gandhi: I am open to taking questions. Just one sentence that I would want to add is that our strategy is to chase sales, which improves our profitability and we have taken it up as a mandate to better our profitability in the coming years.

Moderator: Ladies and Gentlemen, we will now begin the Question-and-Answer Session. Our first question is in the line of Ujjwal Shah from Quest Investments. Please go ahead.

Ujjwal Shah: Just wanted to understand the opportunity which would be available in the African markets for the PPR Vaccine. So is PPR Vaccine currently being sold in the African markets, what would be the market size of the current ones which are being sold?

Rajiv Gandhi: PPR Vaccine is currently being sold in the African market. There are a few government labs which are producing the PPR Vaccine and there is one private player also in Africa that is manufacturing this Vaccine. There is shortage of PPR Vaccine on one side and two is that there is a poor distribution system. Both these things put together have raised the prices of the PPR Vaccine. So if we look it in terms of Doses and if we look the demand in term of value there is a very big difference because the current prices are extremely high. Having said that the current manufacturing capacity of PPR Vaccine is very poor in Africa, most of these government labs none of them are giving any statistics on what they are producing and how much they can produce, there is not any data available, the fact is that FAO now has started putting tenders out in the market from other people outside Africa and we have also been getting tenders and we have been quoting in then and we have got one tender and we hope to take up this tender business more aggressively. To answer your question, there is not any specific data available as far as PPR Vaccine current production capacity available in Africa.

Ujjwal Shah: So, in terms of tenders, we have already won one tender, is that what you are saying?

Rajiv Gandhi: Yes, we have already participated and we have already made one supply.

Ujjwal Shah: Sir, what would be the size of the tender and usually the tenders are for a longer timeframe, if I not mistaken for a year or maybe five years as well?

Rajiv Gandhi: The tenders are for supplies to be made in two-to-three-months' time and depends upon the tender values could be as low as \$2000 and it could be as high as even \$100,000, US\$500,000, it depends upon the country and the area where they have targeted.

- Ujjwal Shah:** Sir, coming back to our Nepal facility in terms of size how bigger it would be as compared to our current facility?
- Rajiv Gandhi:** It would be much smaller than our current facility. The total investment over there is around Rs.35 to 36-crores and the total turnover projected from there at full capacity would be approximately Rs.50-crores. So it is one-fourth of what it is over here.
- Ujjwal Shah:** Is it such that the expansions over there, Brownfield expansions can be carried out over there? And what kind of a timeframe we can expand our facilities if at all the demand picks up in a big way?
- Rajiv Gandhi:** If the demand picks up in a big way, we would start expansion at our land available itself that we have over there and in the long term also if you could set up a plant in Africa to address African-specific diseases, so we would have a PPR manufacturing facility in Nepal, and then if there is an expansion needed we may do it over there, which would take less than a year's time to go on stream the expansion, we could double it or triple it, we could go easily three times our capacity, we could easily make 300 million doses of PPR if needed to expand in Nepal itself.
- Ujjwal Shah:** In terms of this timeframe that they have given out of 15 years, usually the peak sales if I am not mistaken would happen at around 7th or 8th year because the current year would be the year of an investment where they would try and find the exact market and create a distribution network?
- Rajiv Gandhi:** Partly true what you say, that the peak would reach after a few years, and it could even spill beyond 15-years the exact eradication program, it is not necessary that it goes so time-bound because it is a biological and a disease that you are handling. Yes, but it would rise slowly, gradually, and then it would peak at around 6 to 7-years' time, I would tend to agree with you, without really having precise statistics or the mode of the thing that they would take up on a year-to-year basis, because they are also in the stage of finalizing this. They have made the broader blueprint and now the detailed blueprint on a year-to-year basis is still being made, and the PPR Vaccine is to be administered once a year to the sheep or the goat.
- Moderator:** Thank you. Our next question from the line of Dhiresh Pathak from Goldman Sachs. Please go ahead.
- Dhiresh Pathak:** You have been talking about 20% to 25% sales growth. So why is this quarter slow on growth?
- Rajiv Gandhi:** I would just like to tell on this matter, last year we had sales of Rs.90 crores, and if you go to see our best quarter was Q1 last year incidentally for some disease reasons, etc., there was a spurt in the sale in Q1. Now, one is that we are comparing between Q1 of last year and Q1 of this year, and in fact the Q2, Q3, were all less and Q4 was same as Q1. So we are now again on

an upward building trend this year taking Q4 and taking it further and we are confident that in the next three quarters, we will be able to push up the sales of the Q2, Q3, and Q4. Another thing is that these Large Animal Vaccines, we have just started. There is a lot of focus that is also being given to the PPR Vaccine, to the Goat Pox Vaccine, the licenses which we got only in the month of March. Therefore, we are confident that in these quarters, we will get these businesses which will add up and take our business further. So, that is my answer to you.

Dhires Pathak:

If I hear you correctly, what you are saying is that Q1 of last year was a high base, and therefore the growth in Q1 of this year looks low, although the underlying growth of Poultry Vaccine in India is 15% to 20% and that is what you would have achieved this quarter as well had you not had some one-off sales in first quarter of last year?

Rajiv Gandhi:

No, what happens is, one is that we are comparing Q1 and Q1, so which is one of the reasons why the percentage shows 5% growth and not more. Another thing is that we have been focusing very strongly on the product mix to increase our profitability and we have been extremely very strict as far as our amount receivables is concerned, because though we want to maintain a high growth rate we do not want to compromise, in fact, in Q1, we have reduced our working capital cycle. So we are trying to play between sales as well as the credit and the working capital cycle. We do not want to tilt it in a way that in order to get a good sale, there is a little bit of a tilt away from our mandate to increase our profitability. Given the choice we could have even had a better sale if we would have even given credit as what we had given last year, we have reduced the number of credit days. Since the last two or three years, we have been reducing our credit period and this is what exactly we have been doing. So we would want to keep this under tight and with these circumstances also show a sizable growth. So somewhere we have to compromise at some time. Being the first quarter, we thought let us be as strict and as conservative on it and we will take it further.

Dhires Pathak:

Then coming back to the PPR opportunity in Africa. You said on Vaccine itself these government agencies would spend about \$7.5 billion over time. Once let us say eradicated, after that the opportunity just goes away or every year whatever population of sheep and goat exist, every year there would be a routine Vaccine opportunity as well?

Rajiv Gandhi:

Once a disease is eradicated, it is not there on earth, so that virus is not to be handled, this virus is destroyed from all the manufacturers end and one cannot handle the virus, it is business is over as far as that Vaccine is concerned. It does not lead to a risk of suddenly getting a business level down to somewhere again we would be out of business suddenly with a huge capacity. What happens is, eradicating it from say maybe 100 countries, this eradication happens slowly and steadily. So it does not happen all at a time, and it does not end all at a time, there could be like, for example, ten countries in Africa, maybe they would have been designated free of PPR maybe 8-9 years down the line, some in the 14th year, some in the 15th year, there could be a spillover. So as and when these countries get the PPR out of it

vaccination also stop in those countries. So a gradual process of moving. And if you look at it historically even with the eradication of Rinderpest for which there was a vaccine, smallpox for which there was a vaccine, it has not happened that anybody has gone out of business, there are new emerging diseases, there are changes in the strains etc., it is an ongoing process, and it would not hamper or it would not render us without business.

Dhires Pathak: And just to understand, you said at full capacity it will do Rs.50 crores, and you said you are working on Rs.2 per dose, so that would mean that 25 crores doses per year is the capacity, is that the way to think roughly?

Rajiv Gandhi: I would not want to link the money and the thing. So if we could keep our capacity independently for the world market we are talking of at the moment producing in Nepal, because they use the Nigerian strain, nobody uses the Indian strain over there. So if you go to see in Nepal, we would be having 10 crores doses of manufacturing immediately we can triple it in a short notice, say within a year's time, we can increase it to 3x.

Dhires Pathak: Then probably at its peak when this program is going on, it would be fair to say that one dose per sheep or goat, so whatever is the entire population of sheep and goat in Africa, that would probably be the requirement, right, of those dosages?

Rajiv Gandhi: Yes, it should be that theoretically.

Moderator: Thank you. Our next question is from the line of Brijesh Kasera from Edelweiss. Please go ahead.

Brijesh Kasera: In the press release, you mentioned a couple of Poultry Vaccinations that you have launched recently. Could you throw some light on that please?

Rajiv Gandhi: One is the Salmonella Vaccine, which is a Live Vaccine, and the other is Inclusion Body Hepatitis Vaccine, more commonly known as the Litchi disease. So these are the two Vaccines that we have introduced. These are not the first time that these vaccines have been introduced, but, of course, Salmonella Vaccine is one where the Government of India had disallowed the use of Salmonella Vaccine, it has just been recently that the government has allowed the use of Salmonella Vaccine and therefore we would be one of the first in the country to have Live Salmonella Vaccine in the market. IBH Vaccine has been used for the last probably 5-8-years' time, and we just started this product at this point of time because of certain other priorities that we had.

Brijesh Kasera: What would be the market for both these?

Rajiv Gandhi: I have mentioned the conservative market of Rs.2 crores both the Vaccines put together.

- Brijesh Kasera:** Any revenues that you have booked for PPR on India sales?
- Rajiv Gandhi:** We have booked around Rs.3-4 lakhs so far.
- Brijesh Kasera:** If you could let me know the debt number again in the company for Q1?
- Rajiv Gandhi:** The debt amount is Rs.32.96 crores as on Q1, and it was Rs.32.33 crores in Q1 of the FY15, while it was Rs.37.75 crores as on 31st March 2015.
- Brijesh Kasera:** Sir, what is the size of the Poultry Vaccination, and Large Animal Vaccination in Africa? So India we have around 40 million for Poultry and 60 million for Large Animal Vaccinations.
- Rajiv Gandhi:** The size of Africa, again, there are not any detailed statistics available, because the gap between the quantity of material and the value is so different and so varied in Africa that at this point of time we do not have these exact figures which we could highlight and give you because there is a very big gap between the quantities that are there and the prices at which those quantities are there and notwithstanding the acute shortages that are over there.
- Brijesh Kasera:** In the volume terms also we would not be able to give a rough estimate?
- Rajiv Gandhi:** We have worked out things for the African continent based on the population and country wise, we actually have that data, I am not having it right now ready with me, but I can definitely share this data with you and with all the other people who are on the call.
- Moderator:** Thank you. Our next question is from the line of Abhishek Sharma from IIFL. Please go ahead.
- Abhishek Sharma:** I wanted to know what kind of growth rates are you anticipating in the base Poultry Vaccine business non PPR, during this year and going forward, what could be a long term growth rate that we could think of? And second question is that apart from the Poultry Vaccine business what do you think could become your second largest business in three years' time and what would be driving that growth?
- Rajiv Gandhi:** First, let me address the Poultry Vaccine Issue; in India, we definitely are looking at a growth rate anything at 15% at this point of time as far as just Poultry Vaccines is concerned. As far as Exports is concerned, we are looking at an over 100% growth rate on a year-to-year basis for a few years continuously for Poultry Vaccine. If you really take the statistics of any Animal Health company, out of the four divisions that we have, the large Animal Health division would always be the biggest and the Vaccine divisions would be the smallest, they would be #3 and #4, depending whether Poultry or Large Animal. In the long run, our Large Animal Health business definitely should have the biggest turnover as far as the divisions are concerned.

- Abhishek Sharma:** What kind of product portfolio and...?
- Rajiv Gandhi:** Product portfolio would include Medicines, Feed Additives, and we also have Disinfectants. So these are the three areas which we are looking to drive the growth. Feed Additives are one area because they are highly priced in and in fact there are some curative medicines also which are highly priced. In terms of value, these would take a lead. In terms of market penetration, it would be our ability to compete and penetrate into the market is what would count.
- Abhishek Sharma:** Typically, the Large Animal Health would employ the same distribution channel that you employ in the Poultry Vaccine currently or would it be a distribution system mechanism that you will have to create from scratch?
- Rajiv Gandhi:** Same warehouse, same delivery channel.
- Moderator:** Thank you. Our next question is from the line Sunil Shah from Axis Securities. Please go ahead.
- Sunil Shah:** Just one question, which is the apprehension that poultry, cattle, and animal health is not a big priority, and even the distribution channels, and cold storages which are required. So what kind of help we get from foundations and NGOs, etc., so what kind of role they play to really incentivize or grow this market?
- Rajiv Gandhi:** To answer your question, the first part of the question is that Animal Vaccines are extremely important because they are given to increase the production in animals either it is milk, wool, meat, eggs. So therefore the cost effectiveness of these products are extremely important. Animal Health is an ancillary business industry for the main dairy, the poultry, sheep, cattle. So it is an extremely important factor. As far as the distribution channel is concerned, cold chain is required all across even in human medicines, vaccines, and also the same thing is required in animal. One difference is in the animal side, it is more rural in nature as against the human. So there is a challenge and one has to overcome that challenge. There are many NGOs who are working towards helping companies and helping the backyard people to get the vaccines and medicines available at their end. We are also working with a Scotland-based NGO by the name of GALVmed, wherein they are helping us in creating a distribution network in three states in India, that is in Chhattisgarh, Jharkhand, as well as Odisha, In fact, we have just commenced that and we would be making detailed notes and press note on these activities that we would be doing with them and they help us in creating a distribution network and through that these vaccines and medicines would be reached at the end user, mainly the backyard people. This is also very much strongly happening in the whole African continent.
- Sunil Shah:** Sir, then how is the competitive scenario, meaning, any private guys worldwide, what is the scene there, and if products are in great demand then more supplies and the price coming down, so does it happen, how does it work?

- Rajiv Gandhi:** You are talking on the chicken, poultry, egg, meat, I have not understood.
- Sunil Shah:** The Vaccines that we provide to the Poultry worldwide, as well as on the Large Animals, that is a huge market, then there would be many other peers, competitors, also in other geographies of the world working towards that. So if there are more suppliers, do we see the price pressure over a period of time, how does that scenario work?
- Rajiv Gandhi:** If you take the total Animal Vaccine manufacturers in the world, all put together, not counting a company having two plants or three plants, taking that as one entity, you will not find more than 20 to 25-people across the globe manufacturing Animal Biologicals, leave aside the government laboratories, because government laboratories would be innumerable more, but none of them really at it, there are a few good ones, but otherwise there are not any. So this is the nature of business. Whether it is human or veterinary there is always a good pricing structure to the Biologicals. Ultimately, yes, there is a pressure to sell and there would be competition and there could be reasons for prices to go down but one within the framework has to be more competitive and cost effective and continue the business, and today, even after being extremely competitive in India, we are able to even increase our profitability and continue the business, we would try to follow the same model all across.
- Moderator:** Thank you. Our next question is from the line of Bobby Jairam from Frunze Investments. Please go ahead.
- Bobby Jairam:** What are the competitive barriers to entry in this business and how do you compete against the MNCs, are not there any questions about your quality being a small company from India?
- Rajiv Gandhi:** There could be doubts created from any small company, maybe Hester or anybody, but at the end of the day, Animal Vaccines are more of an industrial nature, they are not like human or pet where there are emotions, once we work hard and prove that our Vaccine is able to give the same result as what any other Vaccine is able to give and then those barriers definitely slide down.
- Bobby Jairam:** What is to stop other small companies like yourself entering this business, what are the barriers to entry?
- Rajiv Gandhi:** Vaccine business definitely has got a deeper science towards manufacturing Vaccines, two is availability of the strain in order to make these Vaccines, the companies are becoming fewer and fewer worldwide, there have been mergers and acquisitions in the last 15-years, and the big players have become very big. So the access and the availability even for the seed viruses have gone down tremendously. So this is also a very big barrier to get into this business, apart from the R&D which is also required now to be done as far as Biologicals is concerned. These are barriers which can be overcome. On a discussion standpoint, yes, but then had it been so easy there would have been as many biological producers as Health products or Medicine

producers, but the fact that it has not happened, it definitely shows that there is something more towards Vaccines than what it would be for Medicines or Health Products.

Bobby Jairam: Since your business is solely dependent on government spend, how do you see that — is that a disadvantage?

Rajiv Gandhi: In today's turnover supplying on tender business has not been more than 5%; point #2, that we would be very keen to supply to government tenders in India, in Africa, but we have a firm desire ourselves to reach the poultry farms, cattle, dairy, etc, and try to create the demand and sell it also directly to the end users. We firmly believe that trying to create a private market for all these Vaccines, it would definitely yield us good results.

Moderator: Thank you. Our next question is from the line of Akshay Banjate from Rubicon Capital. Please go ahead.

Akshay Banjate: Sir, I wanted to understand from you, what is the CAPEX intensity for future Brownfield expansion say per 100 million doses?

Rajiv Gandhi: Doses for any Vaccines, there is no mathematical formula to really correlate the number of doses with the capital expenditure, to give you an example, we sell Poultry Vaccines in 200 dose, 500 dose vials, 1000, 2000, 5000, and 10,000 vial size. If we produce 500 dose size and we produce 1000 dose size separately, the capacity to produce the number of vials would be the same for both, while in the number of doses, the 1000 vial doses would produce double the quantity to that of the 500 dose. So there is not a direct correlation between doses and the actual expenditure, and also there are different vaccines, which require different processes, and different capital structures. So to correlate this would be extremely difficult for us.

Moderator: We will take our next question which is from the line of Rahul Jain from Prabhudas Lilladher. Please go ahead.

Rahul Jain: Sir, one of the press media releases which I saw for March '15, which stated you had mentioned that you expect to cross a turnover of about Rs.200 crores for FY16-17 and what I get from the call is we are looking at around 20 to 25% growth for FY16, which would mean roughly from Rs.90 crores of turnover to about Rs.110 to Rs.115 crores. So do we see a huge growth coming in FY17, and if yes, that is going to come through what, may I understand that?

Rajiv Gandhi: The product range that we have is Vaccines and Healthcare Products. Vaccines are all manufactured by us, Health Products we get them toll manufactured as per our quality standards, formulations, etc. The forecast primarily are on the Vaccines side, we have been talking on the Poultry Vaccines, we have been talking on the PPR Vaccines, etc. The Health Products turnover would add to it, and thereby we would have an exponential growth in terms of turnover, in fact, two years ago in our Annual Report we have mentioned our internal

objective and our desire to reach Rs.1,000 crores turnover in the next five years. So, we are actually preparing a blueprint on how we can achieve that as what we have told in five years. So in order to take it further to a five-year exponential growth in terms of growing 10x from what we are now, we definitely are reasonably prepared to take the turnover beyond Rs.200 crores in the next financial year.

Rahul Jain: So I can take this as a vision statement, that you would want to be around Rs.1,000 crores company in five years?

Rajiv Gandhi: We would want to be, yes, you can take that, I mentioned it in writing in my Annual Report two years ago.

Rahul Jain: So we are still on target to reach somewhere near Rs.200 crores for FY16-17 is what I understand?

Rajiv Gandhi: Yes, the whole idea is to institutionalize the business and take it to a level, there are companies that have 2 billion and 4 billion turnover also in this segment and it is a dream and an objective to reach somewhere up there at some point of time.

Rahul Jain: In terms of competition, whom do we compare ourselves with? Of course as you mentioned that our aspiration is to become a very large company, you must be looking for much bigger companies, but in terms of competition, say in India, who are the other companies in our similar space?

Rajiv Gandhi: Yes, similar space, Poultry Vaccine, Venkys are in the similar space, Indian Immunologicals are in the large Animal Vaccines space, then we have Zoetis, we have Virbac, we have MSD, these are the foreign companies also present in India in the Animal Health sphere.

Moderator: Thank you. The next question is from the line of Veena Patel from iWealth Management. Please go ahead.

Veena Patel: Sir, I actually missed out the revenue break-up across our various business segments.

Jigar Shah: The turnover of the Poultry Vaccines division for the quarter is Rs.21.70 crores, Poultry Health Product it is Rs.1.26 crores, LH Vaccines Rs.0.03 crores and LH Health Product Rs.1.55 crores and total Rs.24.53 crores.

Veena Patel: Just getting back to the question asked by the other participants on the Animal Vaccine business, we got the approval for two vaccines – the PPR as well as Goat Pox. Out of that, have we commercialized the operations for PPR Vaccines?

Rajiv Gandhi: Yes.

- Veena Patel:** And we have won one tender?
- Rajiv Gandhi:** No, we have even made sales, it is not just the tender business, there are sales even beyond the tender and we have even supplied in one tender as well as we have made supplies in India also. So that is what it is.
- Veena Patel:** The number that is getting reflected in this particular quarter of Rs.3 lakhs of sales in the Animal Vaccine division, it is only with regard to one tender that we have already supplied?
- Rajiv Gandhi:** One tender which we would have supplied and maybe that includes the other local **(Inaudible)** **(technical difficulty) 62:34-62:36** that is going through Nepal. The amount of Rs.3 lakhs sales that we have done it includes the small tender as well as a non-tender business also, it includes both. Tender sizes are not specific, it could be as fall as 50,000 also.
- Veena Patel:** The one tender that we have already received, what is the size of that tender?
- Rajiv Gandhi:** I do not know whether it would be appropriate for me to really give exact details of tenders that we fill in and all, it is like giving specific...
- Veena Patel:** No, because I have just been going through your press release where you have mentioned that you have got manufacturing license for two more Vaccines.
- Rajiv Gandhi:** You are talking of PPR or are you talking of this...I am a bit confused.
- Veena Patel:** No-no, whatever the discussion we had initially was revolving around the PPR Vaccine but again I am referring to the press release which is mentioning the detail of around 20 million from the two new Vaccines that we have got the manufacturing license. So, putting all the four Vaccines together, what kind of revenue we can see for the next two years?
- Rajiv Gandhi:** These two Vaccines I anyway define that this is Rs.2 crores and then for the PPR and for the Goat Pox we have just started marketing, we are in the process of creating a demand and participating in tenders. If we are lucky and competitive we could get even supply to Rs.30, 40, 50 crores or we could get anything less than that, it all depends upon our ability to get the orders through the tenders that are floated and it is not necessary that tenders are on LI, tenders floated by FAO are not necessary given to the lowest bidder, they have their own process on how do they award the contracts, could be splitting between some, could be giving to one, it is a methodology that they have.
- Veena Patel:** We have been participating for the tenders both in the Indian government's eradication program as well as FAOs for the African region for the PPR and the Goat Pox?

- Rajiv Gandhi:** Yes, in fact, there are certain tenders which we have already participated, the results are even yet to come out or so.
- Veena Patel:** Speaking about the CAPEX for FY16, you just mention about we are already running at full capacity for Inactive Vaccine and there you like to expand more. So, what kind of CAPEX you are planning?
- Rajiv Gandhi:** Rs.17 crores is what we have already planned and budgeted.
- Veena Patel:** So that will be spent for this year and that...?
- Rajiv Gandhi:** Yes, it should be spent by December itself.
- Veena Patel:** Then the capacity will be on stream by Jan 2016?
- Rajiv Gandhi:** Yes, it will be.
- Veena Patel:** As far as the Nepal facility is concerned, we have done with major part of our CAPEX?
- Rajiv Gandhi:** Yeah, we have done the CAPEX ma'am.
- Veena Patel:** You again in the previous commentary mentioned about the R&D equipments that you will be setting up for the future such purpose. How much of the expenses going towards this?
- Rajiv Gandhi:** What we have at the moment planned is the CAPEX of Rs.10 crores towards capital expenditure and on an ongoing basis year-to-year between 2% to 4% of our sales should be spent towards R&D.
- Veena Patel:** This Rs.10 crores on the capital expenditure will be made in this particular financial year itself?
- Rajiv Gandhi:** No, we will try to spend it in this year or next year.
- Moderator:** Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.
- Hiren Dasani:** Can you also mention the cost of production of your PPR Vaccine? You said Rs.2-3 is your selling price.
- Rajiv Gandhi:** I think what we can go by is that what our gross margins are and based on that one could calculate but I would not be in a position to give you our cost of production being sensitive information, I would not be in a position to give you those figures.

- Hiren Dasani:** It will be like 80% gross margin?
- Rajiv Gandhi:** As our balance sheet shows 70%, you could take it we could be something around that.
- Hiren Dasani:** Because this will be primarily through FAO tenders, there will hardly be any marketing cost related...?
- Rajiv Gandhi:** As I just mentioned to one of the questions we are also trying to create a private market. It is not necessary that only the government takes up the cause of eradication. What happens is when the enlightenment comes into the small farmers, the back yard people, they themselves would also try to jump into the thing to protect their animals and there is definitely going to be demand even by the private sector. Disease Eradication program is not necessarily only headed by governments or by FAO.
- Hiren Dasani:** In the tenders that you are participating for FAO, there must have been some registration required, some certification?
- Rajiv Gandhi:** No, they do not require registrations, they require WHO GMP which we have.
- Hiren Dasani:** Do you not have then a data in terms of which companies are competing with you and what their capacities are for PPR?
- Rajiv Gandhi:** No, we have slight idea of who all are the other competitors and yes, we do keep that in mind.
- Hiren Dasani:** The innovator companies which we normally hear about like the Zoetis, Merial and all, they are not competing in this, they do not have capacities...?
- Rajiv Gandhi:** Zoetis is not into this PPR Vaccine at this point of time.
- Hiren Dasani:** But other MNC companies like...?
- Rajiv Gandhi:** MSD is in India, they have a small plant in Pune.
- Hiren Dasani:** Also, just to understand, for example, let us say, whatever your largest selling Poultry Vaccine is in India, how is that priced versus Zoetis Vaccine in India, can you just compare the pricing?
- Rajiv Gandhi:** I would say that Zoetis prices its Vaccines to our pricing in India. Today, the Indian producers have nearly around 90% market share. So the international companies in India try to price their Vaccines at the level of the Indian companies.
- Moderator:** Thank you. The next question is from the line of Manish Jain from Sage 1 Investment. Please go ahead.

- Manish Jain:** This is for Jigar. I just wanted to know that your EBITDA margins have risen very sharply from March '15 18.5% to 28% in June quarter and I see that employee cost, SG&A and depreciation have declined sharply. Can you just give some reasons for the same? In contrast, gross margin has declined compared to March quarter.
- Rajiv Gandhi:** As far as the employee cost is concerned, we have done a rationalization between the two divisions, etc., What happens is that earlier when we started a Large Animal Health division what we did is that we picked up people for those divisions, etc., Slowly as we mature then we try to rationalize the whole operations so that there are no overlapping, etc., So, all these things put together has helped us in our cost reduction. And the distribution and logistics cost has also gone down substantially in the last 6-months' time. The reason for gross margins being lower, there has been a slight increase in raw material on the Poultry Vaccine side. What happens is there is a demand need for certain Vaccines. Certain Vaccines sometimes used in a quarter are deriving lesser margin for us, some higher. So depending on the product mix, there could be a shift a little bit here and there between a quarter-to-quarter depending upon the product range that was sold in that quarter.
- Moderator:** Thank you. The next question is from the line of Vaishali Parkar Kumar from Bank of Baroda Capital. Please go ahead.
- Vaishali P Kumar:** Actually, what kind of market size will be there for Large Animal Vaccine in India?
- Rajiv Gandhi:** In India, the Large Animal Vaccines should be to the tune of approximately Rs.600 crores or something like that.
- Vaishali P Kumar:** This is at present the market size...?
- Rajiv Gandhi:** This is not an addressable market size for Hester, because Hester does not produce Foot-and-Mouth-disease, FMD Vaccine is one of the big ticket items as far as Large Animal Vaccines is concerned, we are not in that segment. You asked for the total market, so I gave you the total market.
- Vaishali P Kumar:** In which we are playing what would be the market size?
- Rajiv Gandhi:** The Vaccines that we have gotten into these are emerging markets and slowly by way of awareness by government programs, the demand for PPR and Goat Pox would increase. We are the first company in India to manufacture and market Goat Pox. So, we are working towards creating a demand and for PPR the demand would come automatically because of the disease eradication programs.
- Vaishali P Kumar:** We aspire to have Rs.200 crores kind of sales in next 2-years. So which segment will be the major contributor in this?

- Rajiv Gandhi:** As I mentioned a little earlier to somebody out of the four divisions, Vaccine divisions of any Animal Health company contribute less in their sales as compared to the Health Products division. Right now, our 95% of our business is coming from Vaccine. So effectively, this business would anyway grow on but our Health Products business would also take a substantial growth in these coming years.
- Vaishali P Kumar:** This is mainly outsourced business, right?
- Rajiv Gandhi:** Outsourced word I would not know whether we would use that word, there is a lone license manufacturing, wherein everything is ours, from raw material to formulation, quality control, production, supervision.
- Moderator:** Thank you. The next question is from the line of Ujjwal Shah from Quest Investments. Please go ahead.
- Ujjwal Shah:** Just coming back to the numbers that you mentioned sir, in terms of growth from currently around 100 to 200 to 2000 in the next 5-years, in terms of product profile, what are the investments that we are making and which are the new segments where we are targeting going forward which can propel this kind of growth?
- Rajiv Gandhi:** The new segment that we are targeting is Diagnostics. So that is also business which is emerging. On the Vaccine side as mentioned we are looking at Recombinant Vaccines but a big chunk of business would come from the Health Product segment which is the medicine, feed additives, the disinfectants. The sales from this would have a very big contribution.
- Ujjwal Shah:** In each of this three sub-segments that you mentioned, do you already have products or are they in the pipeline and R&D is going on, how many products are there, if you can just throw up some light?
- Rajiv Gandhi:** At the moment, on the Health Product side, we have not embarked on any R&D, we are looking at international demand and then based on that we are launching our products, though we do have a desire to get into R&D, but at this moment there is no specific planning that we have done for R&D in that section.
- Ujjwal Shah:** In terms of product profile, we already have some portfolio for our Health products?
- Rajiv Gandhi:** Yes, of course, we have range for Poultry as well as Large Animal. We are selling these products. We did Rs.5 crores turnover in the Large Animal segment last year.
- Ujjwal Shah:** In the same strain from Rs.5 crores if we have to take it to Rs.50 crores or Rs.100 crores, we might need more products and increase our portfolio bouquet.

- Rajiv Gandhi:** There are two ways that we are looking at it – one is the product portfolio and the geographical reach. Our geographical reach is extremely low in this segment. And we are looking at not only India, we are looking internationally to take this segment also further. So, all in put together, we are working hard towards reaching our objective.
- Moderator:** Thank you. The next question is from the line of Chetan Thakkar from ASK Investment. Please go ahead.
- Chetan Thakkar:** Sir, I just wanted to understand on a per cattle basis, how many doses of PPR Vaccine are required?
- Rajiv Gandhi:** PPR is for sheep and goat and one vaccine per year.
- Chetan Thakkar:** On the Health Products segment that you just mentioned, so we are essentially targeting an exponential growth in that segment to reach our targets, so in that sense FY16 what would be the growth on the base that we have for Health Products segments already?
- Rajiv Gandhi:** We have envisaged growth of around 80% in this financial year.
- Chetan Thakkar:** Last year what was the revenue for this?
- Rajiv Gandhi:** A little over Rs.5 crores I think so.
- Chetan Thakkar:** The major chunk of the growth would follow in '17?
- Rajiv Gandhi:** Yes, because by that time what would happen is that we would also have established a reasonable good base for international business in Africa. Registration norms in Health Products are less stringent to that of Vaccines. Our star products are Vaccines, and on the backbone of Vaccines, these products would also ride.
- Chetan Thakkar:** It will be the same distribution channel?
- Rajiv Gandhi:** Yes, absolutely, which are existing in any case.
- Moderator:** Thank you. The next question is from the line of Krish Shanbhag from Pride Capital. Please go ahead.
- Krish Shanbhag:** My questions are related to your financials. Can you just tell me why your tax rate got reduced this quarter?
- Jigar Shah:** You are aware about our approval from DSIR, so we are getting a benefit of R&D expenditure, so the Rs.10 crores CAPEX in the R&D or on a revenue side around Rs.2 crores that will give

a benefit into the taxation provision and all, for this financial year we are into the MAT, that is why the provisions are less.

Krish Shanbhag: Why has the depreciation come down quarter-on-quarter?

Jigar Shah: If you have seen our last quarter audited results as on 31st March we have given a nod, we have changed our working of depreciation method from WDV to straight line method and we have reasonably explained the reason for that and that is why this will remain continuously for all the quarters.

Krish Shanbhag: Last clarification is on your exports; you said that your export sales is about Rs.2.14 crores this quarter, is that right?

Jigar Shah: Yes, Rs.2.14 crores is right.

Krish Shanbhag: That is around 10% of the sales?

Jigar Shah: Yes, 24.53, 10% is right.

Moderator: Thank you. The next question is from the line of Urvi Bhatt from IIFL. Please go ahead.

Urvi Bhatt: Can you please tell me what kind of other vaccines will you be looking to introduce apart from the two new for which you have got the license?

Rajiv Gandhi: There are five more vaccines already in the pipeline that we should be registering in this financial year and we are also working on a few additional Vaccines and these Vaccines are both Poultry as well as Cattle Vaccines put together.

Urvi Bhatt: As we go further, we are looking to scale on the Large Animal side. So can you help me understand the margin profile in both Vaccines and the Large Animal Health products?

Rajiv Gandhi: Vaccines would be more profitable but the turnovers would come more from the Health Product. So, in a way, a larger turnover would compensate for a little lesser margin than the Vaccines. And the Vaccine margins are known to you because most of our revenues till date are coming from Vaccines.

Urvi Bhatt: So the Large Animal Vaccines would be similar to the Poultry?

Rajiv Gandhi: Yes, Vaccines all similar.

Urvi Bhatt: The Health products would be little less than the Biologicals?

- Rajiv Gandhi:** Yes, but more turnover.
- Moderator:** Thank you. The next is a follow up question from the line of Rahul Jain from Prabhudas Lilladher. Please go ahead.
- Rahul Jain:** In our journey from Rs.110 crores to Rs.200 crores and further from Rs.200 crores to around Rs.2,000 crores in 5-6-years, what could be the total amount of CAPEX or can I understand that as you mentioned Rs.17 crores CAPEX and Rs.10 crores R&D, will that be sufficient to achieve Rs.200 crores for FY17?
- Rajiv Gandhi:** Yes, it will, definitely.
- Rahul Jain:** Going for Rs.100 crores, what kind of further CAPEX would be required and would you tend to raise equity?
- Rajiv Gandhi:** This is an objective, it is an aspiration and there are many loose ends on all the sites to how to take it further. To give you a simple example, in the year 2006, we constructed expansion based on certain market demand at that point of time, ultimately, we landed up with near 200% capacity on Killed Vaccines right now, while on Live, we are at 50% capacity. So for me to give you this figure is difficult, we have to prepare our own roadmap which we are preparing and I think it would evolve over a period of time rather than for me to be able to give you anything very concrete or even near to concrete.
- Rahul Jain:** In terms of margin profile, your margin what I have got is, for last year it was 31.3% for the first quarter, this time we are at 33.34%, but in the last year for the balance 9-months it was 28.71% and if I recollect well sometimes earlier part of the call Jigar bhai mention that for the balance of FY16 that we would like to maintain a similar margin trajectory as in Q1, is that correct?
- Rajiv Gandhi:** Correct.
- Rahul Jain:** Going forward, what could be the steady state margin profile for our company given the fact you already mentioned into a previous question that Health Products would be lower than Vaccines business?
- Rajiv Gandhi:** But I also mentioned that Health Products would give a bigger turnover.
- Rahul Jain:** Of course, I am sure that, you have already mentioned that to me when you mentioned how that Rs.200 crores will come. So...

- Rajiv Gandhi:** I think we would still want to improve our margins as to what we have even got on Q1, that is what our endeavor is. This I am looking at a combined business of Animal Health Products as well as Biological. That is what we are looking at.
- Rahul Jain:** Are you saying that in FY17 also we could be somewhere near 30-33%?
- Rajiv Gandhi:** Yes, definitely.
- Rahul Jain:** In spite of having higher Health Products?
- Rajiv Gandhi:** Yes, we should be.
- Rahul Jain:** Jigar bhai, the tax rate currently you mention about R&D benefits but what will be the steady state tax rates for our company say in FY17-18 – we will continue to be around 20% or more?
- Jigar Shah:** Yes, we will continue in the MAT only.
- Moderator:** Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.
- C Srihari:** As I understand your total capacity is 4.8 billion doses?
- Rajiv Gandhi:** Yes, in a way you can say 4.8 billion, but if there is a change in the demand situation in terms of Vaccine as well as in terms of dose sizes, our current plant could also produce easily up to 6 billion and a little more.
- C Srihari:** Basically, I wanted to know the split between Live Vaccine and Inactivated Vaccine?
- Rajiv Gandhi:** The Live Vaccines definitely are more than the Inactivated Vaccines. Approximately 500 million to 600 million at this point of time would be the killed and the rest would be live. The Live Vaccines are more always and the price is less while the Inactivated Vaccines are more costlier and they are lesser produced.
- C Srihari:** So basically the inactivated capacity that you are doubling right now?
- Rajiv Gandhi:** Yes.
- C Srihari:** Yes, that will go through during the current fiscal?
- Rajiv Gandhi:** Yes, by December, we should be ready with it.

- C Srihari:** Vis-à-vis the Nepal unit, you are saying the optimal top line would be Rs.50 crores approximately, is that for the entity or is that your share... it is a joint venture, right?
- Rajiv Gandhi:** Yes, but is a turnover of the company. I did not understand. It is Hester Biosciences Nepal has probable turnover at full capacity.
- C Srihari:** It is not a 50-50 joint venture?
- Rajiv Gandhi:** No-no, it is a 65-35, but being a joint venture is not connected with the turnover, I am not understanding your question sir.
- C Srihari:** No, if your share is 65% and the top line is Rs.50 crores for the unit then your share would be around Rs.32.5 crores, is that right?
- Rajiv Gandhi:** The profit will be distributed, not the turnover. The turnover is Rs.50 crores of the entity.
- C Srihari:** So to the extent of bottom line that will be shared you mean to say?
- Rajiv Gandhi:** Naturally, yes, the profits would be taken as dividend by both the partners as per the equity.
- C Srihari:** For the PPR tender that you mentioned for which you made supplies, this was for which country?
- Rajiv Gandhi:** I would prefer not to disclose these details for our own internal business reasons and I hope you can understand that.
- C Srihari:** No, what I am driving at is basically right now we would be manufacturing only the Indian strain?
- Rajiv Gandhi:** Yes.
- C Srihari:** So logically it has to be for the Asian market?
- Rajiv Gandhi:** There are some private people if they want to take the Indian strain and if their government allows they can take that also.
- C Srihari:** But definitely it would not be the Nigerian strain because you are not yet manufacturing it?
- Rajiv Gandhi:** No, not the Nigerian strain the Indian strain.
- Moderator:** Thank you. Ladies and Gentlemen, we will take our last question now which is from the line of Tushar Manudhane from India Nivesh. Please go ahead.

- Tushar Manudhane:** Just with respect to this Animal Health segment, where you are guiding for about close to Rs.50 crores turnover for FY17, for Rs.50 crores turnover also, is it fair to assume that it would remain as a (toll) 90:55 manufacturing?
- Rajiv Gandhi:** Yes, at the moment, we get it done on loan license basis.
- Tushar Manudhane:** So given the capital employed is so small, a very minimal CAPEX I guess for this segment currently, so fair to assume that production is going to be from toll manufacturing?
- Rajiv Gandhi:** From loan licensing, yes, that is what we are doing at the moment, but there are thoughts and ideas in the event of this business reaching a certain level and for us to ensure and to assure a quality not that others make bad quality or anything of that sort, but there could be a reason wherein we could have everything in-house but at the moment it is just a far off thought, there is no implementation towards that.
- Tushar Manudhane:** So, the reason to ask was that, even if it is going to be toll manufacturing you are guiding for similar kind of margin for FY17. So, just wanted to understand like even if it is toll manufacture, still you would be able to enjoy 30% kind of margin?
- Rajiv Gandhi:** Yes, absolutely.
- Tushar Manudhane:** What is the USP — is the manufacturing, is the distribution?
- Rajiv Gandhi:** Distribution and marketing would be the USP because as I mentioned we are not taking up any IP products which we have our own IP, neither are we doing any R&D at this point of time on Large Animal Health Products, it is a market penetration and the distribution and the reach to a larger market which includes the export that would be the driving force.
- Tushar Manudhane:** How easy or difficult is it for penetrating the market in terms of increasing the reach expanding?
- Rajiv Gandhi:** The fact that we have to work hard for it and then we hope to be there. So, it is up to the companies to take. It is definitely not easy. There are certain things like entry barriers but having established a good relationship as well as prestige for our company by selling Poultry Vaccines and Large Animal Vaccines, we have reasons to believe that the confidence for us would also spill on to the Large Animal and with a better distribution system we should be able to get business in those divisions.
- Tushar Manudhane:** The other MNC players who are well established in this market, is that the business model they follow?
- Rajiv Gandhi:** Yes.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the conference over to the management for closing comments. Over to you.

Rajiv Gandhi: Thank you, all for being so patient and hearing me out. I hope I have been able to answer most of your questions. If there have been questions which we would have not been answered to your satisfaction, feel free to send us an e-mail and we will try our best to give you the answers and these questions not only give you an insight but they also help us, it also polishes us towards understanding of how to take things further and it creates an insight within us also. Thank you very much.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Trust Financial, that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.