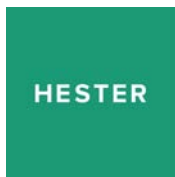




"Hester Biosciences Limited
Q1 FY20 Earnings Conference Call"

31 July 2019



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MANAGEMENT:

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LIMITED**

- Moderator:** Ladies and gentlemen, good day, and welcome to the Hester Biosciences Limited Q1 FY2020 Earnings Conference Call hosted by IIFL Securities 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. Rahul Jeevani from IIFL Securities. Thank you and over to you Mr. Jeevani!
- Rahul Jeevani:** Good day everyone. This is Rahul 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 and Managing Director, and Mr. Jigar Shah, Chief Financial Officer. I will now hand over the call to the Hester Management team for their opening remarks. Over to you Sir!
- Rajiv Gandhi:** Good afternoon to all of you and as always it is a pleasure talking to you for the results of Hester, the Q1 FY2020 results. In terms of sales, Q1 FY2020 versus Q1 FY2019 we closed at 11% higher in sales. In terms of net profit we grew by 1%. I am not getting in to the absolute figures at this point of time because I presume everybody has the figures in hand and when Jigar, our CFO talks on it, he will mention some figures and of course I am there to answer any questions that you might have. Giving a review on the Q1 functioning of the company, I would like to say that the results have been sort of satisfactory in terms of achieving our targets. Yes, there has been some issues in terms of sales on the poultry healthcare side because currently, I do not know how many of you all are aware, but there a big recession condition sort of in the poultry industry due to the maize prices having been shot up tremendously. Because of the maize prices having gone up, the buying power of the poultry farmers for all other things like medicines, health products, other things they have cut on that because they need to buy feed or need to produce their own feed. As you may be aware, in a poultry farm, 75% of the input cost is attributed to poultry feed and maize is the single largest component of feed, so that problem in the maize prices has actually lead down to

the overall poultry industry, which has also partly impacted our sales because amount receivables, we have been very strict on our receivables. I would not say strict, we have been clear on our policies and we have not allowed any deviation in that. There has been small deviation, but nothing much. So therefore the growth, if you say on the poultry segment itself has been very less at this point of time as compared to the animal healthcare division.

On the animal healthcare division, we have gone as per the targets and we had projected to have a 50% growth which we have achieved as far as the animal healthcare division is concerned and we hope to continue this growth and by end of Q2 or in Q3, we hope that the situation on the maize side improves, which would also then improve the poultry healthcare division of ours.

On the reduction of margin side, in which the sales grew by 11% while the net profit has grown only by 1%, I would attribute this to two things. One is the personal cost. We have recently taken up quite a few sales people because we want to now aggressively go on marketing side and cover additional territories which otherwise were sparsely covered or even not covered, so we have taken on many people notwithstanding the increments that we have given to the people so that has added on to the personal cost in Q1. Hope that will ultimately get distributed with higher sales in Q2, Q3, Q4 and that should also become reasonable. The other reason is that there has been a high depreciation cost which during the talk, our CFO will address that issue.

Coming to the Hester Nepal operations, there has been a growth in the topline, it has grown by 64%, but at the same time, there has been also a net loss in the Q1 FY2020. The issue continues in Nepal due to the poor tendering by FAO by the PPR vaccine. Every quarter we have been hoping that things improve. We feel that this should improve, the sales has gone up a little bit in the last quarter and I think in Q3, Q4 we will have good orders in hand as far as Nepal is concerned for PPR, besides the fact that we are now reasonably set in terms of our local marketing distribution network. A part of this cost can also be attributed towards setting up

the distribution network, hiring more people for local sales so all these things will definitely pay up in these coming quarters.

On the Texas Lifesciences issue, our progress seems to be reasonably well. We have grown in terms of topline as well as bottom line. It has also given a higher comfort level to Hester, our main parent company in itself in getting quality products at the right time. So with Texas, things are going as per schedule and as per our projection and we hope that this continues throughout this year.

Talking of Hester Africa, the progress at the movement to report is construction work is going on and due to the weather, there was a little bit of delay about up to 10-15 days we are late at this point of time. I thought we were late by 30 days, but doing a review we realized that we are late by 15 days from the original timeline that we have given. We are also doing perfectly well as far as the project cost is coming up to. There are no overruns etc. That is being seen at this point of time. We are reasonably confident that there will not be any overrun. At the same time, we are also working on creating the distribution network in Africa. Registrations are ongoing, lot of efforts are being put in making distributors so that once the goods start being available over there, we will be able to very easily sell up to the ground level, up to the poultry up to the dairy farm, up to the sheep goat farm level, so we have been working on that and probably reasonably good results should be seen in the third quarter that is what the feeling is.

Overall I would say it has been reasonably satisfactory. Yes, you might have reasons to ask that the net profit growth has not been up to sales growth. I would attribute it to on a quarter-to-quarter basis, yes we all analyze, we ourselves analyze, we are very conscious about it, but if we take a little longer period, I have all reasons to believe that all these figures will fall in line with our topline and bottom line growth and our mandate to improve the bottom line the least, at least keep it the way it was last year marginally in fact improve it, it still remains and we are very confident that there is no deviation to be in that. With that I will pass on the call to Jigar Shah, our CFO to talk a little on the financial figures and after that I will again there to take question.

Jigar Shah:

Good afternoon everyone, I am Jigar Shah CFO of the company. I intend to highlight some of the financials for the Q1 FY2020.

Going to the profitability side, the GP for this quarter is 69.13%, which was 67.09% in Q1 FY2019. At EBITDA level it is a 39.84%, which was 38.57% in Q1 FY2019. Now the main reason of decrease in the profit is one there is increase in the depreciation by 73 lakhs during this quarter, 2.33 Crores is the depreciation for this quarter which was 1.59 Crores in Q1 FY2019. Main reason for increase in this depreciation because of the capitalizing fixed assets during this period. Now coming to the second reason that is interest. Interest cost is 1 Crore 24 lakhs which was a 53 Crores in Q1 FY2019 and the same figure was 1.38 Crores in Q4 FY2019, so comparing to the Q4 FY2019 it is reduced, but comparing to Q1 FY2019 it has increased by figure it is Rs. 0.71 Crores during this quarter and one of the main reason for the decrease in the profit is the taxes and amount for this quarter is 4 Crores 86 lakhs which was 3.72 Crores, the main reason of increase in this taxation portion is because of in Q1 FY2019 we were in the MAT provision, so we are now in the absolute tax provision so that is the reason this profit after tax has reduced and it 23.09% in this quarter compared to 25%.

Now I intend to highlight some of the key financial ratios of the Q1 FY2020. ROE for Q1 FY2020 stands at 20.23% as against 24.87 in Q1 FY2019, while the same was 24.44% for whole FY2019. ROCE for Q1 FY2020 stands at 25.06% as against 28.81% in Q1. Q1 FY2019 while the same was 28.10 in FY2019. ROI for Q1 FY2020 stands at 15.16% as against 17.99% in Q1 FY2019, while the same is 18.25%. Nonannualized EPS for Q1 FY2020 is at Rs. 11.52 per share as against Rs.11.38 per share in Q1 FY2019 while the EPS for FY2019 is 51.55 per share.

Now coming to the standalone balance sheet analysis, inventory level stood at 110 days in Q1 FY2020 as against 101 days in Q1 FY2019 while the same was 102 days in FY2019. Total receivables are at 68 days in Q1 FY2020 as against 66 days in Q1 FY2019, while the same was 69 days in FY2019. Overall working capital cycle was for 74 days in Q1 FY2020 as against 87 days in Q1 FY2019 while the same was 108 days in whole FY2019. For this quarter, fixed asset turnover ratio is 1.70

times as against 1.57 times in Q1 FY2019 while the same was 1.69 times in FY2019. Company's standalone debt is Rs. 41.35 Crores in Q1 FY2020 as against Rs. 34.54 Crores in Q1 FY2019 while the same was 38.29 Crores in FY2019. Consolidated total debt is Rs. 83.73 Crores as against 51.74 Crores in Q1 FY2019 while the same was 81.66 Crores in FY2019. Company has spent Rs. 0.75 Crores on R&D expenditure during the Q1 FY2020 as against Rs. 0.93 Crores in Q1 FY2019 while the total spending in FY2019 is 3.29 Crores.

Now I will give some of the synopsis on Hester Nepal operation, total revenue for Q1 FY2020 is recorded at Rs. 2.39 Crores as against 1.46 Crores in Q1 FY2019 while the total sales in FY2019 was recorded Rs. 9.03 Crores. Company has registered 76.90% gross profit margin in Q1 FY2020 as against 73% in Q1 FY2019. EBITDA margin is also positive in Q1 FY2020. Company has registered net loss of 1.12 Crores in Q1 FY2020 which was 0.44 Crores in Q1 FY2019 while the total loss for FY2019 was Rs. 3.03 Crores. Total bank debt is Rs. 22.75 Crores in Q1 FY2020 as against Rs. 26.47 Crores in Q1 FY2019 while the total borrowing for FY2019 was Rs. 27 Crores.

Now coming to the standalone operation of Texas Lifesciences Private Limited, total revenue for Q1 FY2020 is recorded at 2.59 Crores as against 1.38 Crores in Q1 FY2019 while total revenue for FY2019 is Rs. 8.35 Crores. Company has registered a net profit of Rs. 0.21 Crores in Q1 FY2020 as against a net loss of 0.41 Crores in Q1 FY2019 while the total net profit is Rs. 0.42 Crores in FY2019. Total net worth of the company is Rs. 4.83 Crores at Q1 FY2020 as against Rs. 4.30 Crores at Q1 FY2019 while the same was Rs. 4.63 Crores in FY2019. That completes my presentation. I am handing over to Mr. Gandhi for question and answer round.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Prakash Kapadia from Anived Portfolio Managers Private Limited. Please go ahead.

Prakash Kapadia: Thanks for taking my question. Based on history when do you know farmer start spending on healthcare products after maize prices fall from the peak at a certain percentage or post few quarters, end and product price increases, if you could share some perspective?

Rajiv Gandhi: Actually the difference between their cost and the end product price, right now the maize prices went up, right now it is the Shravan month were again the consumption of non-vegetarian in general goes down, so what happens is it is a necessity for them to vaccinate the animals actually if you go to see in some countries there is a law that they have to vaccinate the animal, here as the law is not there at the time of extreme financial crisis they try to do this, the current situation is something which is an unheard situation for many, many years, the end product price compared to the maize price. I would not say that a farmer, there is no scientific model or logic that he applies on that, it is simple having money to do something and not having money to do something that is all.

Prakash Kapadia: And this muted price is because of this festivity or in India as you said the Shravan part?

Rajiv Gandhi: Yes Shravan month every year, the problem of maize has been on going on for the last four months, so this is not something Shravan, I am not exactly aware of this Hindu calendar month when it started, but the maize price issue has been going on for the last four months or something where there is a dire problem in the poultry industry and to add on to it is the lesser consumption of meat.

Prakash Kapadia: Understood. Sir also if you could give us some perspective of the sales for the ramp up which you mentioned in the opening remarks and if you could give us some sense of current geographies which are we strongest, which are we weakest and what has been the ramp up or which territories are we are focusing on?

Rajiv Gandhi: I would not have the exact figure of the sales personnel right now with me, while I am on the call, we could always offline. I could give you the details but what I vaguely have an idea is that we have increased our sales force from around 90 to 100 to 120 people and in terms of geographical focus concentration, we are

reasonably strong in South India, we are reasonably strong in West India, on the North and Northeast is where we have ramped up our sales activities hiring more people to take on to get into a higher sales volume.

Prakash Kapadia: Last question from my side. Recent budget has given a level of 400 Crores turnover, we will have an 25% tax rate, so over the next few years, do we expect lower tax rate because you know our size is I think less 200 Crores so it will be 3-4 years we will take to reach 400 Crores so we can expect a 25% tax rate for the company as a whole?

Rajiv Gandhi: We hope to first of all break that 400 Crores benchmark as early as possible. Our worry is that income and the sales and not the tax, but we will take as it comes. I am sure we would reach the 400 Crores mark before the tax laws further change and further reductions are made.

Prakash Kapadia: Over the next 3 years if everything goes well could we look at that sales figure?

Rajiv Gandhi: A much higher than that.

Prakash Kapadia: I will come back with some more questions.

Rajiv Gandhi: Thank you

Moderator: Thank you. The next question is from the line of Harsh Saraswat from Girik Capital. Please go ahead.

Harsh Saraswat: Hi Sir, I just wanted to ask the revenue break up if you can provide state wise, like what are the top few states, which contribute to the revenue?

Rajiv Gandhi: It is very difficult to provide the state wise things right now and you are more than welcome to have an offline discussion with me, what is in public domain I am more than happy and more than willing to share with you, but to again repeat our strength more at the movement relative to other areas in Western India and Southern India we are strong. We have got an extremely good presence in

Karnataka, in Tamil Nadu, in Maharashtra, in Telangana, Andhra Pradesh and of course Gujarat.

Harsh Saraswat: So I just wanted to ask few questions on animal health side. What are the major competitors with whom we compete on the product side, like who are also selling the same product, would Virbac be one of them?

Rajiv Gandhi: Virbac is India's number one animal health company who have a very huge turnover. So in a sense yes, we would compete with all the animal health products in India, Zydus, Intas, so there are quite a few companies the list is very big, but on the vaccine side, the competition is restricted to very few players.

Harsh Saraswat: So Sir when I look at Virbac margins so they are like just half of ours, like their EBITDA would be around 20-22% and we are doing around 38 to 40% any particular reasons why it is that, is it because of backward integration or something else?

Rajiv Gandhi: The reason is that one is that we are in to vaccines Virbac is not into vaccines. Point number two, our selection of product is such that we do not want to compromise on the bottom line, in fact lesser growth on the topline is acceptable to us, but compromising on the bottom line is something that we would not do and therefore all these things make a big difference. See the animal healthcare business is a very huge business so there are many types of products, there are some are like commodities and on the other hand it is a vaccines. So we are more at the other end rather than at the commodity level so therefore our gross margins always going to remain high, be rest assured that it will never come down to those levels.

Harsh Saraswat: Fair enough Sir, thank you so much.

Rajiv Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Viraj Mahadeviya from IIFL Asset Management Company. Please go ahead.

Viraj Mahadeviya: Hi Rajiv bhai, congratulations on a stable set of results. Couple of questions from my end. Are you in track for the African plant in terms of one commercial production to start in March 21, second is the capital cost of 128 Crores and thirdly is the Hester contribution for this plant through debt and equity?

Rajiv Gandhi: Okay one is we are on track at the movement to rollout the first product in the beginning of 2021. To answer it, yes. Question number two was?

Viraj Mahadeviya: Capital cost of 128 Crores

Rajiv Gandhi: Yes and the cost of debt that was your question?

Viraj Mahadeviya: Yes first is the overall cost of the project of 128 Crores, is that likely

Rajiv Gandhi: We are very within are we are extremely sure to be on the budget the way we have planned. The project is financed by the Bill and Melinda Gates Foundation and the rate of interest is well defined. It is a soft loan and things are on track where our rate of interest is 3%.

Viraj Mahadeviya: On the debt equity mix for the 128 Crores?

Rajiv Gandhi: The debt equity mix is 4 million is our equity and the rest is 4 million grant and 10 is our loan the debt. So you can say it is 8:10.

Viraj Mahadeviya: Right 8:10 and the 10 costing 3%.

Rajiv Gandhi: Yes.

Viraj Mahadeviya: Understood. Next question I have is on page 23 of the annual report you state that you will distribute 400000 thermostable PPR vaccines in Nepal, is thermostable PPR vaccine ready for both the strains, the Nigerian as well as Indian Sungri?

Rajiv Gandhi: Yes it is.

Viraj Mahadeviya: And has Hester started marking its ability to make the thermostable given that that is fairly unique with global players?

Rajiv Gandhi: Yes it has.

Viraj Mahadeviya: Can you share a little bit around the pricing and cost differential between thermostable and non thermostable, just to give us a sense?

Rajiv Gandhi: I would say that the thermostable vaccine the selling price is little higher than the conventional normal vaccine, I think that is about it. It would not be appropriate for me to talk on the pricing of our product etc., on this call.

Viraj Mahadeviya: When you say little higher it is 10% or much more or?

Rajiv Gandhi: Could be a little higher than that.

Viraj Mahadeviya: Cost?

Rajiv Gandhi: More or less, I think thermostable would be a little higher.

Viraj Mahadeviya: A little higher, single digit higher?

Rajiv Gandhi: I would not really want to get into these details, please pardon me for that.

Viraj Mahadeviya: Not at all. You mention a grant income of 5.28 Crores what does this pertain to?

Rajiv Gandhi: You are talking about Nepal?

Viraj Mahadeviya: Yes it is a 5.28 Crores grant stated?

Rajiv Gandhi: Yes that was a grant which was agreed up on to be the Netherlands Government had committed to us and the grant came at this point. Just a minute, I will give to our CFO, he will just talk to you on that.

Jigar Shah: Sir it is an amortization the grant we have received I think two financial years before in Nepal from Netherlands Government.

Viraj Mahadeviya: So this is the amortization?

Jigar Shah: Yes.

Viraj Mahadeviya: Is tax at the full rate?

Jigar Shah: Currently we are in tax holiday area, so we are not seeing any tax.

Viraj Mahadeviya: Rajiv Bhai we state that we will make FMD at Nepal through collaboration with the Department of Livestock's Services at Nepal, which markets will be then serviced?

Rajiv Gandhi: At the movement it is Nepal itself nothing more than that.

Viraj Mahadeviya: Okay because obviously India has a big opportunity in FMD, which the government has announced?

Rajiv Gandhi: India has a big opportunity in FMD, we are exploring but we have yet to really put our full heart and soul in that because we are not yet getting the right way to get into that market, but yes it is a thought in the back of our mind.

Viraj Mahadeviya: And could we supply that potentially out of the Nepal facility or we will have to replicate that in India?

Rajiv Gandhi: We could supply out of Nepal, but we are right now not really looking at importing of vaccine from Nepal to India.

Viraj Mahadeviya: Okay and then we have, it states on page 25 that we have distributed feed supplements, do we have a own feed supplements and can you share details of the type of feed supplements that we have?

Rajiv Gandhi: We have our full range of feed supplements, they are probably listed on our website also in terms of our products and they are feed supplements, growth promoters, but probably some vitamin and mineral premixes etc, etc.

Viraj Mahadeviya: Okay. Thank you very much that is from my side.

- Rajiv Gandhi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Keyur Shah from Emkay Global Financial Services. Please go ahead.
- Keyur Shah:** Sir you mention loss recorded in Nepal business and I could not quite catch the reason that was mentioned. Can you please repeat it?
- Rajiv Gandhi:** It is because our sales has not developed so far, we have not been able to get the tendered business so therefore we need to service the whole company and therefore the loss that we are currently incurring, which I think should turnaround very fast once even a few orders come in our hand.
- Keyur Shah:** Okay you mentioned that you would not like to stretch your balance sheet by taking up higher receivables, but although your working capital days has increased quite a bit?
- Rajiv Gandhi:** I told you right now there is problem in the poultry and therefore we have been compelled to do it. There are customer that are with us.....
- Keyur Shah:** But you are trying to keep it as low as possible?
- Rajiv Gandhi:** Yes, but we try to keep it as much in control but there are some decisions which are based on qualitative reasons rather than quantitative reasons.
- Keyur Shah:** And can you give some outlook for next year or the current year?
- Rajiv Gandhi:** Current year I think we should be reasonably well on track. Exports should give us a bigger boost as against what happened last year, of course last year we made up the sales by domestic, but this year we hope to make sure that while the targets of the exports are met, the domestic targets are also met and we feel that we should be as per our forecast of our budgets.
- Keyur Shah:** Can you share your forecast?

- Rajiv Gandhi:** We have probably committed at least a 20% growth at the bear minimum and we hope to definitely secure that.
- Keyur Shah:** On export side?
- Rajiv Gandhi:** Overall company side, export is more than 20%, it could be near to 80%.
- Keyur Shah:** Okay very well, Thank you and all the best.
- Rajiv Gandhi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Srinath V from Bellwether Capital Private Limited. Please go ahead.
- Srinath V:** Hi Sir, just wanted to find out the union cabinet had cleared disease eradication program for about 13,500 Crores for foot and mouth disease as well as Brucella, so I just want to find out if this program has started and are we looking to participate in the Brucella side of this program and what would be the size and scale and when do think this will ramp up and what kind of impact could this program have to our numbers or like most of the government programs this will largely be in paper?
- Rajiv Gandhi:** Talking to the government officials, I have reasons to believe that this program would be implemented with the true spirit as what it was announced at the time of the union budget. This includes two diseases, FMD foot and mouth disease and Brucella, both are in cattle; the budget for FMD the bigger in value and lesser in value for Brucella. We would fully qualify to participate in this opportunity for disease immunization, disease eradication program launched by the Government of India and we hope that it would have a extremely good positive impact on our sales. At this point, probably the government they are all working out on how to implement it etc, but nonetheless there are small tender quantities already being asked by tender by all the various state governments, we are active participants in it and we also have been getting most of the orders at this point of time.

- Srinath V:** That could be for the Brucella right?
- Rajiv Gandhi:** My whole focus is Brucella not FMD.
- Srinath V:** What would be the size out of this 13300 Crores what would be the Brucella part of the budget, any idea?
- Rajiv Gandhi:** It could be approximately on year-on-year basis. Out of 13000 Crores you can take it as Brucella should be approximately a 1000 Crores or something.
- Srinath V:** What would be competitive landscape in that particular product Sir. It would be a two, three player market or a significantly larger number of people tendering, just a flavor of how the competition is in the tendering market?
- Rajiv Gandhi:** At the movement, there are three people in the market and it includes us.
- Srinath V:** Who would the other two be Sir, if you could just give names?
- Rajiv Gandhi:** One is Indian Immunologicals, a company owned by NDDB and then there is one Sanvita.
- Srinath V:** Okay and we are not looking to tender into the foot and mouth part of this?
- Rajiv Gandhi:** We have a very strong desire. Let us see how it works out for us. We are working on it, but I am not able to really, there is the desire that is all that I can say.
- Srinath V:** Originally we were not that in the FMD market, is it to do with biologics or is the pricing in the market is traditionally been very poor because of India immuno or?
- Rajiv Gandhi:** Very poor you have understood it perfectly right. The pricing has been very poor around Rs. 7 to 8 price dose, international prices are Rs. 12 to 13 a dose, so that is also one of the hesitations that we have.

- Srinath V:** Okay. Just wanted to find out how the veterinary social business in India is doing, if you could give some kind of numbers as well as qualitative feedback and outlook on the business for the next one year?
- Rajiv Gandhi:** The VSB division we are probably the only company that are involved in the VSB division and this activity is being going on in Jharkhand, Chhattisgarh, Odisha, UP and Bihar and we have been getting quite encouraging results as far as this division is concerned because it gives besides the turnover which is of course very small, but it gives us a lot of satisfaction that we are addressing a very big rural issue and better animal health means better income for the poor families in the villages and that leads to a higher prosperity. In fact it has helped in deriving income up to Rs. 5000 to Rs. 10000 a month for certain people who have been going around and giving the vaccine, enlightening people about the need for the vaccine, the use of the vaccine and all these things.
- Srinath V:** So where would the topline be for the current quarter and do we plan to add a couple of more states in kind of scale this up given that the model has been around for quite sometime?
- Rajiv Gandhi:** The total turnover of our veterinary social, I think it is 1.08 Crores.
- Srinath V:** Okay. Do we plan to add more states?
- Rajiv Gandhi:** The point is it is that one Crores is adding a lot to the social system and the economic system in the country that is something which is making us proud and we are able to do this business and still achieve our bottom line.
- Srinath V:** Just last one Sir on Nepal. What is the outlook on the PPR tenders, how many of them have are pipe lined currently where you see that some outcome either a win or loss of the tender, whatever an outline is likely to be seen in the next three to six months. If you could just give us a view on what is that tendering pipeline for PPR?

- Rajiv Gandhi:** There are few tenders, which we had already applied and in fact we have got 100% of those tenders, small tenders and now there are new tenders that are expected to come in the next one month's time. As on today, there is no tender which we have applied and we are yet to get the result either there are tenders which we have won and supplies have yet to go or there are tenders that are yet to come.
- Srinath V:** Okay but do you see kind of traction improving in the later part of this year?
- Rajiv Gandhi:** Yes definitely.
- Srinath V:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from White Oak Capital Management. Please go ahead.
- Manoj Garg:** Thanks for taking my question and congratulations Rajiv to have a decent set of numbers even in a difficult environment.
- Rajiv Gandhi:** Thank you.
- Manoj Garg:** Just would like to understand Rajiv when we look our portfolio on the vaccine side what are the wide spaces or you think that in terms of portfolio, which are the vaccines we are looking to develop over the next few years given the overall size of the opportunity in the market?
- Rajiv Gandhi:** You mean to say new vaccine development?
- Manoj Garg:** Yes new vaccine development?
- Rajiv Gandhi:** There are few vaccines on the large animal side that we are trying to work on at this point of time because I think immunization of large animals is definitely taken up for very strongly and seriously by the Government of India so we are even trying to develop hemorrhagic septicemia, blackwater and there are one or two other vaccines which we hope to launch in this financial year. None of these

products are such that we would be the first to launch, but we would be there in the market also for those vaccines.

Manoj Garg: When you look at in terms of the overall opportunities both in India as well as in the international market, how big those vaccines could be in terms of scale and size?

Rajiv Gandhi: If you really go to see Brucella and TPR they could be of record size, I mean the FAO documents talk of billions of dollars to be spent only on vaccine procurement, forget about administration cost. Brucella is something which has become a very important for the Government of India because an animal with Brucella, you cannot drink the milk from the cow or the buffalo which contracts Brucellosis, so these are extremely worldwide and in India big ticket items in days to come.

Manoj Garg: I completely understand, so if you look at in terms of FAO tender, obviously they have released the document in 2017 and even after two years also I think we are not seeing the kind of scale up in terms of they coming with the tenders and all those things, which initially we all have anticipated, so anything which you have been able to pickup from those guys like what are apprehensions and when do you really this whole thing picking up?

Rajiv Gandhi: There are no apprehensions; it is a project by FAO. FAO is dependent on funding from members nations of the United Nations, so all this is an exercise, which is actually beyond the technicality of the disease or the spreading of the disease or anything to do with the disease. It is pure simple getting money to buy the vaccine and to supply them and try to immunize the animal.

Manoj Garg: How do we see this funding environment improving like what does this contingent to?

Rajiv Gandhi: My knowledge on the funding pattern of United Nations or FAO, I do not have much knowledge on that but talking to people at FAO continuously following up with them, they all are very optimistic that is all that I can say.

- Manoj Garg:** This is just last question for Jigar. I think you have made public announcement in terms of Jigar moving up and probably he is likely to start his own consultancy kind of, is that the only reason if you can understand from Jigar out there?
- Jigar Shah:** Yes Sir it is the only reason. In fact I have a dream from the beginning to do my practice so with permission of Rajiv Sir, I am moving ahead and I will be always associated with Hester and Hester Group.
- Manoj Garg:** Sure Jigar. Wish you all the best and thank you very much.
- Jigar Shah:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Alisha Mahawla from Avendus Wealth Management. Please go ahead.
- Alisha Mahawla:** Hello Sir, thank you for taking my question. Sir firstly I wanted to understand that this 11% revenue growth that you have in this quarter, is this more of a volume growth or has it also been from price increase taken?
- Rajiv Gandhi:** Our prices have not increased much. Every year the price increase are very nominal 2%, 3%, 4%, 5% so you can be rest assured that there is an actual growth in terms of doses rather than just value growth in terms of revenue.
- Alisha Mahawla:** Is it fair to understand that most of this will come from the large animal healthcare business or is it more from the vaccine business that is coming?
- Rajiv Gandhi:** The growth?
- Alisha Mahawla:** The volume?
- Rajiv Gandhi:** The volume growth on the poultry side it has been, I would say, it is equal in both the cases, little bit on the more on the vaccine side than the animal health care.

- Alisha Mahawla:** Sir and Sir my last question is that I think that in your press release you have mentioned that you are considering some increase in capacity at Texas Lifesciences; can you share some details on that?
- Rajiv Gandhi:** What we have done is that we are planning an capacity expansion at Texas Lifesciences in order to address our own requirement at Hester and now having reached a point where we have been able to standardize products quality, scheduling etc, might as well also look at businesses in Texas as an independent business to try to do work for other companies who might want to procure quality products.
- Alisha Mahawla:** Okay is there some capacity which you already identified or how much you are looking to increase and by when it is expected to come on screen or anything like that?
- Rajiv Gandhi:** We have had plans Madam, but right now while I am on the call, I do not have those details with me, because I was more equipped with the Hester issues rather than Texas, but we are planning to make this expansion probably in this financial year itself, but these expansion figures and all are not to the tune of, I mean nothing would go beyond 4-5 Crores.
- Alisha Mahawla:** Okay so is it safe to assume that the Indian capacity fully utilized, Hester India?
- Rajiv Gandhi:** Hester India produces only vaccines, Texas produces only health products. There is no overlapping between the two. Hester, because it does not produce therefore we have Texas.
- Alisha Mahawla:** Understood, okay thank you for the clarification.
- Rajiv Gandhi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity Advisors Private Limited. Please go ahead.

Anirudh Shetty: This is Anirudh from his team. I just wanted to clarify on one thing, when you said we had aspiring for at least 20% growth, this was growth at a consol level including Nepal or just standalone?

Rajiv Gandhi: Standalone.

Anirudh Shetty: So that is 20% standalone. You also mentioned that there were a couple of orders that flown into from FAO side and you have won all of them, do you have a sense of how many other participants were there in that program and what was the cost advantage we have with these guys?

Rajiv Gandhi: There is no detail that was given on who are the other participants, what is the cost advantage or was there other reasons for awarding, there are no such details given by FAO, when they award a tender, not only for animal vaccine, even if they are ordering tractors or they are ordering computers or anything under FAO tenders.

Anirudh Shetty: So that 1000 Crores opportunity regarding the Brucella domestic eradication program, is that annually or cumulatively over a five year period?

Rajiv Gandhi: It is cumulative.

Anirudh Shetty: Sir one last question from my side. It seems as a large animal vaccine business is far more profitable simply with the price point is higher than the poultry vaccine and standing today we are around 39%-40% EBITDA margin with high revenues skew towards poultry so just want to get a sense of how exactly, how profitable is this large animal vaccine business on an EBITDA basis on much larger revenue base?

Rajiv Gandhi: There are two things. One is, if you look at the actual profitability in terms of gross margins etc., they should be more or less the same or a little more or whatever, but when there is tender business, it is direct business that is done from the company so the cost of sales and all those other expenses are far less in a tender business than what they are in a trade business.

- Anirudh Shetty:** Got it and our large animal vaccine, is that more tender driven or more private market?
- Rajiv Gandhi:** At the movement tender driven but we are also trying to make them and educate people, enlighten them that if the government does not give them free through a tender you should still use them, but this is a long drawn exercise.
- Anirudh Shetty:** Got it. Sir there is one final question from my end. You known we have done a very commendable job in terms of improving our working capital and especially our inventory days which now states in FY2020 around 100 days, I just wanted to understand what is the nature of this business that explains why it is so inventory intensive?
- Rajiv Gandhi:** Because each batch takes a longer time to produce, I mean some of the vaccines take 45 days from day of first raw material is started to be use till the final product is out for sale.
- Anirudh Shetty:** Okay got it. Thank you so much Sir. Appreciated.
- Moderator:** Sir you have any followup questions?
- Anirudh Shetty:** No, no thank you that is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Jain from Gormal One LLP. Please go ahead.
- Manish Jain:** Hi I wanted to on the thermostable vaccine we have newcastle now, you mentioned PPR, any other which have been added to the thermostable list?
- Rajiv Gandhi:** No, nothing else is added to that and we do not have any intention to add any more to the thermostable list at this point of time.
- Manish Jain:** Great and you mentioned for cattle HAS blackwater are these are only two you plan to add or any more additions plans?

- Rajiv Gandhi:** These are two to three more vaccines even beyond these to that we would like to get into Anthrax. We are working on it at this point of time, rather than giving detailed name, I have given you three names, but we are working on a few.
- Manish Jain:** My last question was on net cash because in March we had seen significant cash generation as well, so Jigar gave 83.73 Crores of consolidated debt, how much is the net cash?
- Rajiv Gandhi:** Can we just talk to you offline on this because we are not actually prepared to give an answer to this, but nonetheless, this is an answer, which we should and we would be able to give you.
- Manish Jain:** Okay I will join back the queue.
- Moderator:** Thank you very much. Ladies and gentlemen, due to time constraint that was the last question for the day. I would now hand the conference to the management for closing comments.
- Rajiv Gandhi:** Yes as always it has been good to talk and answer your question, present the results of Hester. There are many questions that I have not been able to answer, one due to my not having those details with me and two, I have restricted myself to answer because the answers are not in public domain so I apologize I could not give few answers, but overall, at any point of time, please do connect with us offline and we will be more than happy to share information with you. You are more than welcome to visit our plant and I thank you all once again like as in every quarter it is always a pleasure talking to all of you and please do even e-mail us on any suggestion etc., on anything, any thoughts, ideas that you have on the company and we would more than be willing to hear you out, read out those things and try to implement whatever we can. Thank you.
- Moderator:** Thank you very much. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.