



HESTER

“Hester Biosciences Limited Q4FY15 Results
Conference Call”

May 28, 2015



HESTER



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MODERATOR: **MR. TEJAS SARVAIYA – TRUST FINANCIAL CONSULTANCY SERVICES PVT. LTD**

Moderator:

Ladies and Gentlemen, Good Day, and Welcome to the Hester Biosciences Q4FY15 Results Conference Call hosted by Trust Financial Consultancy Services Private Limited. We have with us today, Mr. Rajiv Gandhi – Managing Director; and Mr. Jigar Shah – Chief Financial Officer. 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. This conference call may contain 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 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, sir.

Rajiv Gandhi:

Good Afternoon, Everybody. I am Rajiv Gandhi – CEO, Managing Director of Hester Biosciences and with me is our CFO, Jigar Shah. We both are glad to welcome all of you to this Hester’s First Ever Result Conference Call. We are very happy and excited to start this form of communication. Through this particular communication and through all such future communication, I assure you transparency and clarity and hope that this relationship grows and lasts forever.

This being the first communication and to put things in the right perspective, I would like to begin with a brief background of myself and then continue on to the brief of Hester Biosciences: My Background – I am the Founder of Hester Biosciences. My Academic Qualification is B.Com from Bombay University. Incidentally, I am born and brought up in Mumbai. After B.Com, I started my career being a Distributor of Veterinary Products based out of an office in Princess Street, Mumbai. I started the business under the name of Rajiv & Associates, a proprietary company and took up the Distribution of Veterinary products for Mumbai and Thane district. In a short time, I became One of India’s Leading Distributor for Poultry Health Products including becoming the #1 Distributor for Venkys for their Poultry Vaccines. Having an understanding of the Poultry Vaccine market as well as having higher aspirations, I ventured into manufacturing of the same in collaboration with an American partner, who took equity in lieu of technology. I raised money through an IPO in 1994 under the name of Hester Pharmaceuticals Limited to fund the manufacturing set up. The company Hester Pharmaceuticals Limited it was actually registered by me in 1987 with the hope that someday I would set up a business in the organized sector and we therefore resurrected that company and in 1994 we had the IPO. We rolled out the first Poultry Vaccine batch in the end of 1997. In 2003, we terminated the collaboration agreement with the American company and since then we are a 100% Indian company.

Now, let me give you a brief about the Company: As mentioned, we are a dedicated Animal Health company since 1997 and our product range include Vaccines and Health Products. We

are completely in the Animal segment, we have no products nor any business on the human side. We have four business divisions – Poultry Vaccine is the oldest division, then the Poultry Health Products, then the Large Animal Vaccines and the large Animal Health products. We have divided the business into Poultry and Large Animal. The Large Animal segment contains Species and Health Products and Vaccines again Cattle, Sheep and Goat and Buffalos. Out of the four divisions, the Poultry Vaccine division is the oldest which we started in 1997 and last year having reached a turnover of Rs.90 crores, our sales in the Poultry Vaccines division was Rs.82.72 crores which contributed 93% of our business. The Poultry Health Products division started last year, it contributed 77 lakhs which contributed 1% of the sales. Large Animal Vaccines division was started in March 2015 and there has been practically no contribution, there has been a sale of Re.1 lakh in the last financial year. So there is as good as no contribution last year. And on the Large Animal Health Products side, we did a turnover of Rs.5.41 crores contributing to 6% of the turnover.

In India, We are the Largest Independent Poultry Vaccine Manufacturer and Second Largest Overall Producer with the Market Share of 25 to 30% as far as Poultry Vaccines is concerned. The global market size of Animal Health is approximately 22 billion, while currently the Indian size is just 375 million but it is growing at a very fast pace. All Animal Healthcare Products have a long life and hence the company is not impacted by product cycle risks. Vaccines both Large Animal and Poultry are manufactured in-house while Health Products are outsourced.

Now, let me give you a brief of the domestic market size addressable opportunities and the growth drivers: As witnessed across the world, when the per capita income rises above USD1,000 to USD1,500, protein intake increases disproportionately. One of the major source of food protein across the world is chicken mainly due to its low cost of production and its wide availability. When we combine this mega trend with the young population of India, external opportunities become big having a non-linear growth curve. This was well substantiated last year when we breached the inflection point leading our growth rate to 30% in sales and 45% PAT growth. Total Poultry Vaccines market in India is around Rs.300-350 crores, growing at 15-20% p.a. Current numbers in isolation surely looks small, but as witnessed globally and in other sectors, once the inflection point is breached, external opportunity widens massively which as of today is tough to capture in numbers; to give you an example, the theoretical market size of Indian Animal Health market based on percentage population of total livestock should be USD1.56 billion in India as against just mention to you USD375 million. Hence, we expect the Indian market to touch 1 billion in the next 5 to 6-years.

In the Poultry Vaccine market, our major competitor is Venkys who have a 40% share, we come second at around 30% and the third is Indovax, a company based out of Hisar.

Now, looking at the international markets: Registration in countries is the key to exports. Registration takes a large amount of time in various countries and this process depends upon

country-to-country from 6-months to 3-years and that too after submission of all the documents and the document submission process in itself takes some time. But we have already started this process and today our products are already registered in 9-countries. The registration process becomes easier if we have WHO GMP certificate which we do have at the moment. Besides the WHO GMP, we have ISO 9001, OHSAS 14001, GLP. And further, we are also DSIR approved R&D centre. We are geared to export to around 20-countries in the next 2-years and expect our export sales of Rs.100 crores in the next 3 to 5-years. Besides having a manufacturing plant in India, we also have a manufacturing plant in Nepal. We have set up this Vaccine manufacturing plant in Nepal near Kathmandu at a total cost of Rs.36.3 crores with our equity contribution at Rs.9.24 crores and it will be commissioned in September 2015, earlier it was to happen in July-August, but due to the current earthquake situation, we foresee a delay of approximately 60-days in commencing the production over there. The Nepal plant will sell Vaccines to Pakistan, Middle East and Africa, thereby exports will contribute to 90% of the Nepal revenues. Nepal plant enjoys a 10-year tax holiday. For Financial Year '16, loss of Rs.2 crores is consolidated accounts, Financial Year '17 sales expected is to be Rs.15 crores and the profit margin would be 10% in this.

Looking at the global market also, we have tied up with an NGO GALVmed which is a Scotland-based NGO wherein with their collaboration we developed a Thermostable Newcastle Disease Vaccine. Newcastle Disease Vaccine is one of the most important Poultry diseases causing a lot of mortality as well as destroying the wealth of the poultry farmers across the world. We have developing in collaboration with GALVmed a Thermostable Newcastle Disease Vaccine ...basically, the world thermostable it means that this vaccine can be stored outside for 10-days, the normal storage pattern being 4-8 deg., and due to bad transportation if this vaccine is even kept up to 37 to 40 deg. for 10-days it would still not lose the potency. We have developed this vaccine specifically for vaccinating the backyard poultry in India as well as in Africa and through GALVmed which in turn is funded by the Bill Gates Foundation, we are developing a distribution channel in India, in Africa, under which we shall be distributing this vaccine all across.

On the Large Animal side, we have recently ventured into Large Animal Health Products as well as the Vaccines. The Vaccines division as I mentioned it just started last year, so hopefully, we should get a good business jump in this year as far as Large Animal Vaccines is concerned. Talking about Large Animal Vaccines, I would like to stress on one particular vaccine that is the PPR Vaccine. We have got the license to manufacture the PPR Vaccine in India and we would also be having this license in Nepal. PPR disease is now taken up by the United Nation's FAO in their Disease Eradication Program. This will be the third disease that would be eradicated from the earth, the first being small pox on human being, the second being rinderpest in cattle. FAO has taken up the eradication of PPR diseases and they have put between 15 and 25-years for this eradication of PPR disease. Now, this particular Vaccine would be manufactured by us in India using the Indian strain because India does not use the

strain which is used worldwide, which is the sunguri strain, that is the Indian strain. What we will be producing in Nepal will be the PPR Vaccine from the Nigerian strain which is used all across the world. India is the only country which does not use that strain. So, for the world market we will export from Nepal and for India we will manufacture this PPR Vaccine. As per United Nation FAO, they have allotted Rs.45,000 crores for the next 15-20 years for the eradication of PPR disease. This amount is specifically for Vaccines, the other amount is separate beyond the Vaccines. The opportunity in Large Animal Vaccines in India is nearly Rs.1,200 crores and it is growing at 15-20% and therefore, it is actually the 4x the size of the Poultry Health product market. On the Large Animal Health business, as I mention to you, we have done a business of little over Rs.5 crores in this year and we had acquired a company two years ago and we are now slowly stabilizing the growth and on a year-to-year basis at least for the next 2-years we foresee minimum of 100% growth in this particular division. If you do a study of all Animal Health companies across the globe, you would see that the largest division any company has would be the large Animal Health products and the smallest division any company would have would be the Poultry Vaccines division. If you see our business model, 93% of our sales have come from Poultry Vaccine and there is just Rs.5 crores sale from the Large Animal Health Products. So, this is just to give you an idea on how big and where the business can go as far as Hester Biosciences is concerned.

Looking into the entry barriers of Vaccines business, like the Human Vaccines, entry barriers in the Animal Vaccines are very high. The main entry barriers are technology; technology is not easily available. If you look at statistics around 15-years ago, 20-years ago or for that matter, even 10-years ago, there were more than 25 to 30 or even a few more than that Animal Biological manufacturing companies. Today, if you really look at the manufacturers of the Animal Vaccines you would be able to count them on your fingers, probably a few more they would definitely not go beyond 15-companies. Most of them have merged with the big companies and therefore, the technology availability, the ability to get technology is going down day-by-day. Plant certifications is as tough more or less as what it would be in Human Vaccines. The distribution network is also an important aspect because Vaccines are to be stored between 4 to 8 deg.C and some of the Vaccines which we manufacture have to be stored in liquid nitrogen at (-196) deg.C. So therefore, the distribution is also a key to this business. What we have done is we have established an extremely strong and robust distribution network. We have our depots at various locations in India. All these locations the Vaccines are supplied by our own cold chain, our own vans, therefore, we keep control of the cold chain which is again a very important aspect as far as Vaccines is concerned. So these factors have ensured less competition in this field, the entry barriers and resulting into the top three players in India, we have nearly 80% market share in Poultry Vaccines. India is one of the only countries incidentally where the imported vaccines have a 10 to 15% market share, the rest is Indian all across the globe in all the other countries, these multinationals which have around 90% to 95% of the market share.

Coming on to little specifics as far as Hester is concerned, most of the CAPEX initiatives are behind already and once the full capacity comes on stream it will be sufficient to achieve nearly 3x our current turnover that is going beyond Rs.250 crores. Total outflow of our CAPEX would be around Rs.28 crores up to financial year 2017.

Looking at our business model, the Animal Healthcare market especially Vaccines is a high gross margin and high operating leverage business. Fixed asset turnover of the industry hovers around 1.2x while we are working to have ours at around 1.5 to 1.6x in the next 3-years once our current capacity utilization increases beyond our current usage which is 65%, and also the Nepal plant would start functioning to near full capacity in the next 2-years. We expect to be able to achieve 25% sales CAGR over the next 3-years minimum and with high operating leverage, profit should grow higher than that. We are also working to bring our working capital down with better demand forecasting and strictly adhering to credit policies, the results of which have already been started showing. Maybe Jigar would have a few statistics on this, but we have become extremely strict on our stock position as well as on our payment situation. In the last 5-years, the number of days in terms of outstanding and the number of days inventory held it has come down drastically. Also, as capacity utilization increases and no incremental CAPEX required in medium-term we expect our ROEs to improve from current 16-17% to (+25%) over the next 3-years. We have had these figures many years ago when we had just started. So it is not something that this is what we are just projecting, but we have experienced this years ago. We should be able to sustain the high ROE for sure. Although, Hester has been in existence since many years, it is now we are seeing inflection point in the opportunity which is translating into sustainable high growth for the company. Combining above with the new product categories, catering to entire needs of Animal Pharma, addressable opportunity has expanded 4x to 1,200 crores. Exports too have opened up sizable opportunities for the company and we expect in 4-years that the export revenues would go up substantially and in years to come we foresee that the exports would surpass the local sales, that is within India. We have an objective to bring down the capital intensity of this business. We have already formulated a dividend payout policy also. I personally have reasons to believe that Hester shall create shareholder value over a long-term. I have the determination and I feel that we should definitely be able to do that.

With this I now complete my talk and I request Jigar Shah, our CFO, to take the discussions further. Thank you, all for listening to me.

Jigar Shah:

Good Afternoon, everybody. I am Jigar Shah – CFO of the company. It is my pleasure to have you all on our First Ever Result Discussion Concall. Let me take you through our Q4 and Financial Year '15 Results in the order of our four business divisions as explained by Rajiv Gandhi: We would be happy to answer all questions subsequently. We have a four segment – Poultry Vaccine, Poultry Health Products, Large Animal Vaccine and Large Animal Health Products. Now, under the Poultry Vaccine sales for the fourth quarter has increased by 9% as

compared to third quarter of FY15 as well as to the corresponding fourth quarter of the financial year '14. Sales for the year in this segment has shown a growth of 31% and sales was registered at Rs.84.61 crores as compared to Rs.64.49 crores in previous year. Net profit for the quarter has increased by 32% and stood at Rs.4.66 crores and for the full year we have achieved growth of 35% at Rs.15.60 crores.

Under Poultry Health Products, actually, we have recently initiated operating in this segment, hence the contribution was very negligible in the last financial year but we see good acceptance of our products in market which will give us contribution in coming years.

Under Large Animal Vaccine, production and marketing of Large Animal Vaccine has also been started in the month of March '15, hence its contribution to total revenue remains very negligible for FY15. But we believe with our understanding of market and quality of products, Large Animal Vaccine would be a major growth driver of our domestic and international business in the long run.

For Large Animal Health Products, we have entered into this market with acquisition of Innoves Animal Health Private Limited in FY13. We provide Health Products to Large Animal industry which comprises of cattle, buffalo, sheep and goat. The sale of this division in FY15 was Rs.5.42 crores compared to Rs.4.55 crores of FY14. We have incurred a loss in FY15 of Rs.1.01 crore compared to Rs.1.45 crores in FY14. We have a reason to believe that we will register cash profit in this current FY16. Sales in this division has been increased by 19% while there is a reduction in loss by 30% compared to last year.

Now, coming to overall figures and profitability: Consolidated sales in the fourth quarter was Rs.23.36 crores as against Rs.21.88 crores in Q3, thereby achieving growth of 7%. Sales for the whole year FY15 was recorded at Rs.90.04 crores as against Rs.69.05 crores for FY14, thereby achieving a growth of 30%. EBITDA stood at Rs.7.05 crores for Q4 as compared to Rs.6.33 crores for Q3 for FY15, it stood at Rs.26.17 crores as compared to Rs.25.35 crores for FY14. In percentage EBITDA for the Q4 is 30.18% compared to 28.93% in Q3. For whole year FY15, it was 29.06% as compared to 36.71% in FY14. The main reason of this yearly reduction in EBITDA are due to higher consumption of raw material because of price hike in some of the raw material cost and decrease in an inventory level. EBITDA for Q4 has been improved compared to Q3 and we are confident that this trend will continue. Tax outgo for the FY15 stood at Rs.4.07 crores compared to Rs.3.50 crores of the last year. We have MAT credit balance of Rs.3.52 crores which can be utilized for coming years. PAT for the fourth quarter stood at Rs.4.12 crores, that is 17.63% of the sales as against Rs.3.36 crores in Q3, that is 15.36% of the sales. Annual PAT stood at Rs.14.58 crores, that is 16.19% of the sales as compared to Rs.10.09 crores of FY14, that is 14.61% of the sales.

Coming to the balance sheet, our fixed asset turnover in the FY15 stood at 0.74x of the sales versus 0.92x of financial year '14. We have invested Rs.11.13 crores in FY15 on CAPEX and projecting Rs.16.87 crores for FY16 and Rs.3 crores in FY17. In totality, it will be Rs.28 crores up to FY17. This CAPEX is mainly projected to strengthen our production and quality control capacity. Our inventory level came down from 186-days for Financial Year '14 to 116-days for Financial Year '15, and debtors have remained steady at 73-days for both Financial Year '14 and Financial Year '15. We expect further reduction in our inventory level at 90-days and debtors at 60-days over the next 2-years. Working capital cycle was 109-days in FY13 which has reduced to 80-days in FY15.

Coming to the important ratios: Our ROC for the year stands at 12% versus 9% of the last year. With the financial leverage ROE is at 17% versus 13% of the last year. The proposed dividend for the year is Rs.3.10/share resulting into payout of 21.68% of profit after tax versus 19.68% of last year's profit after tax. Earnings per share for Q4 is Rs.4.85 per share compared to Rs.3.96 per share of Q3 and Rs.17.14 per share for FY15 compared to Rs.11.86 per share for FY14.

That completes my presentation. Thank you, everyone for listening me.

Moderator: Thank you very much. Participants, we will now begin with the question-and-answer session. The first question is from the line of Pritesh Cheddha from Emkay Global. Please go ahead.

Pritesh Cheddha: A few clarifications on your opening comment: We missed on the part of your argument of \$375 million to \$1.5 billion. So that was to do with the whole Vaccine and Animal Health market or it was just the Vaccine market in your interpretation?

Rajiv Gandhi: It does not include feed, Complete Animal Health business which includes Health Products, Medicines and Vaccines.

Pritesh Cheddha: So that market today is \$375 million but theoretically and arithmetically it should have been \$1.5 billion?

Rajiv Gandhi: Yes.

Pritesh Cheddha: Second, I was just jotting down the growth drivers. From your opening comments, is the interpretation right that the Poultry Vaccine in India should grow for you at about 15-20%, the Animal Health Vaccine because it was introduced last year should double in size in the interim, and third is you would start the Nepal plant this year?

Rajiv Gandhi: Poultry Vaccine, yes, the other is Animal Vaccines, it should go well beyond because last year we did negligible turnover in the Large Animal Vaccines. So this year we would put the base

line as far as the Large Animal Vaccines is concerned. The Large Animal Health Products I said should grow minimum double.

Pritesh Cheddha: Third, there were two things which you mentioned about Nepal plant and some numbers and you mentioned that exports business for you should be Rs.100 crores in the next 5-years. For Nepal, what kind of a number you have shed, if I recall you said about Rs.15 crores, I am not sure on that?

Rajiv Gandhi: In Nepal, at 100% capacity we should be doing a business of approximately Rs.50 crores.

Pritesh Cheddha: That you said would be in FY17?

Rajiv Gandhi: It would not reach 100% capacity at FY17, but it would be tending towards that. And one more thing is that besides Vaccine, in days to come in Nepal also, we would start the other divisions like Health Products, etc., which would add on to the turnover but taking everything conservatively we have not considered that part of the business at all today in our discussions.

Pritesh Cheddha: Nepal is for Poultry Vaccine?

Rajiv Gandhi: Poultry as well as Large Animal, I mention to you that the PPR Vaccine for world would be manufactured in Nepal, while for India PPR Vaccine which is for sheep and goat would be manufactured in India. Besides that there would be a few other vaccines also on the Poultry as well as on the Large Animal side that we would produce in Nepal. Basically, nothing that is allowed to be produced in India, would be produced in Nepal. All that Nepal would produce would be such Vaccines which are disallowed by the Indian government.

Pritesh Cheddha: Can you give the gross margin idea as to what should be a higher gross margin product and what would be a lower gross margin product, is Poultry Vaccine the gross margin product, if you could give the chronology?

Rajiv Gandhi: If you look at the Vaccines market, I think 30-40% we would have the gross margins, I think that should be common as far as Vaccines is concerned, that should not be too much difference between the Poultry Vaccine or the Large Animal Vaccines.

Pritesh Cheddha: The Animal Health and the Poultry Vaccine Products, the gross margin there?

Rajiv Gandhi: In the Animal Health business it would be 15-20%.

Pritesh Cheddha: So your gross margin calculation is revenue minus raw material, you are taking contribution margin?

- Rajiv Gandhi:** By your thing, our gross margin should be approximately between 60-70% as far as both the type of Vaccines are concerned, and for the Health Products it should be 45-50%.
- Moderator:** Thank you. The next question is from the line of Manish Jain from Sage One Investment Advisors. Please go ahead.
- Rajiv Gandhi:** On PPR if you can give some indication as to when do you expect sales to start in India?
- Jigar Shah:** We have already started the sales in India.
- Pritesh Cheddha:** What is the target market because you are doing it in a four states in India, that is the Newcastle?
- Rajiv Gandhi:** That is the Newcastle Thermostable. As far as the PPR Vaccines is concerned we have now started the distribution all across India and mainly it is the government institutes, there is a PPR eradication program embarked on by the Government of India. So that is where we have already started doing small volumes of business and probably in this first years' time we should be able to do approximately say Rs.7-10 crores of business.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** I just wanted to understand if you can briefly give a breakup of our existing Export business in terms of geographies?
- Rajiv Gandhi:** Our current Export business, we have last year in the total turnover of approximately Rs.90 crores, our Exports were Rs.5.05 crores was the Export business that we did and we have been exporting mainly to the African countries and to Vietnam. African countries if you want the names we have been exporting to Kenya, we have been exporting to Zambia, Botswana, Egypt. We have just recently got the registration in Egypt and therefore the business was extremely small in Botswana, in Egypt, all these registrations were just recently got. So therefore, this volume is not indicator of the one year sales as one would take it.
- Girish Raj:** You did mention that we plan to be present across 20 different countries worldwide. Can you give us an outlook where we have planned our registrations as of now?
- Rajiv Gandhi:** Our main area of focus right now is the African countries, because Africa the Vaccines are high in demand and there are many African countries we have taken up the registration besides that there are registration activities going on in certain East European countries as well as in Europe also we are trying to register in two countries.

- Girish Raj:** Just to get a outlook about the distribution of network that we have in India, can you just briefly tell us how it is done considering we are already one of the leading players on the Poultry side, how easy it would be for us to scale up our Animal Health side of business?
- Rajiv Gandhi:** The distribution cost that we have already incurred so far that distribution backbone would be used for distributing all the other division products. To just give you an idea on how we are currently distributing, we have our own depots in Chandigarh, Pune, Bengaluru, Coimbatore and Hyderabad, we have our cold rooms, we have own space godown area for storing the goods. All Vaccines are transported by our own refrigerated vans under 4-8 deg., and the one vaccine which is to be stored and transported in liquid nitrogen, that is sent across in liquid nitrogen. So our vans carry the material to these depots, they are stored over there, from there they are further distributed either to the actual user or to the sub-distributor by our own vans which are parked at these depots and even that further distribution is done in thermocol ice boxes... it is called an ice box, we do not put in ice, we have a liquid gel which keeps the Vaccines cold for more than approximately 60-hours so they are packed in those thermocol boxes with those packs and then they are further sent down.
- Moderator:** Thank you. The next question is from the line of Viswanathan Saravanan from Unify Capital. Please go ahead.
- Viswanathan Saravanan:** With Nepal becoming a seismically volatile zone, do we have any disaster recovery plans or are we trying to build any alternate sites because incrementally Nepal will become a key facility for our exports. So how are we diversifying it?
- Rajiv Gandhi:** We are yet to start the manufacturing in Nepal. So there is in a way one is that we have built the plant by taking into account the seismic zone that it is in, so that takes care as far as the building is concerned. There is no other plan as far as diversification is concerned because it was a conscious decision to go into Nepal and from Nepal we will export most of the Vaccines which would be sent by air, all Vaccines are delivered by air internationally so they would be sent by air, our plant is approximately 25 kms away from Kathmandu airport, so we would manage the logistics that way. As far as the earthquake is concerned, we have taken care by building it as per the seismic zone requirements over there, in fact, there has been no damage at our plant at this point of time and of course we have the insurance policy also where we are fully covered. There is no as such diversification...
- Viswanathan Saravanan:** At least in the future, do you see a need to have a location diversification because if it is a single site and all our exports are dependent on one site, do you think you will be able to manage this risk?
- Rajiv Gandhi:** It is a smaller site than India, looking at a very scenario where something would collapse or something would happen, we would look into it maybe after two years or three years, but at this

point of time to be honest we have not had action plan on how to handle a disaster because the current disaster situation has already been incorporated, we have not looked at beyond that. All exports are not to be done from Nepal, Indian exports will be bigger than the Nepalese exports, it is only those Vaccines which India is not allowed to produce, those will be exported from Nepal. So it is not that even something goes drastically wrong due to its geographical reason or any reason that we would be left without exporting. Indian exports would continue and at any point of time beginning from this year Indian exports would be bigger in number than what it would be from Nepal.

Moderator: Thank you. The next question is from the line of Neeta Shetty from Kotak Securities. Please go ahead.

Neeta Shetty: Just a couple of things actually: One is that you mention that the Poultry Vaccine market is around Rs.300 crores and that has been growing at 15-20% you said and you expect this market to be in the range of how much in the next 3-years you mention?

Rajiv Gandhi: In the sense, the growth rate of the market taking it at Rs.300 crores, 15-20% is that is what it would grow and the lease that we would grow is as much as what it grows besides taking share from other competitors.

Neeta Shetty: Secondly, on the inventory side, you mention that you had something like 180-odd days and you plan to get it down to 90-days. What is this drastic change leading to literally half of your inventory days and what are the industry standards there?

Rajiv Gandhi: If you see our last to last year balance sheet, where we had mentioned that there was a business line that got disconnected and we had to suddenly try to make up sales from other products, etc., What we did in our desire not to lose sales or not to have a dip or anything, in order not to have any adverse effect, we went on a very aggressive mode in terms of marketing and when one gets into an aggressive mode of marketing one needs to be prepared for every single rupee order that comes without it being gone. So to keep that in mind, the inventory levels were built up at a reasonably high level. Having gone through that phase, having stabilized ourselves again, now, we are again coming back to the normal regime, the normal routine of getting the inventory at a level which is manageable as well as which does not cost the company too much.

Neeta Shetty: So industry standards are also around 90-100-days and we are coming back to...?

Rajiv Gandhi: Yes.

Neeta Shetty: Just on the African markets, are these like government supplies or are these branded supplies that you would make?

- Rajiv Gandhi:** There would be government supplies wherein Vaccines are bought by each country's government, then there are FAO tenders that are floated for supplies to specific areas, it maybe in Africa, maybe in the Middle East, maybe in Western Asian countries, etc., and then there would be the private buyers. So these are the three types of customers that we would have for the Vaccines.
- Neeta Shetty:** How is the competitive scenario in those government supplies?
- Rajiv Gandhi:** The big companies have been selling at reasonable high prices. The pricing that we have considered is definitely much more competitive than the current prices prevailing in Africa and those prices need our current gross and net margins, they do not reduce, in fact, we are more than comfortable in the current gross margins.
- Neeta Shetty:** What is the opportunity size in these government supply markets for Africa?
- Rajiv Gandhi:** The government supplies come on an ad hoc basis, sometimes the requirements are huge, sometimes the requirements are a little bit less, but to give you an idea on the PPR Vaccines which is going to be our focus Vaccine, there the United Nations has taken it up on itself towards disease eradication and as I mention to you and we have also put it in our press note that United Nations has earmarked Rs.45,000 crores only for PPR Vaccine for the next 15-years. Your question is for Vaccine, but to take my answer a little further then to your question, the Animal Health Products industry is more or less on the private sector and that is where we would also be doing business and it is not that we are only dependent on government orders.
- Moderator:** Thank you. The next question is from the line of Kartik Mehta from Sushil Finance. Please go ahead.
- Kartik Mehta:** I just wanted to know the total CAPEX we would be spending in the next 1.5-2-years to take our top line 3x to the extent of Rs.250 crores that you...?
- Rajiv Gandhi:** As I mention to you our total CAPEX that we intend to do would be Rs.27-28 crores, that would then take us to the turnover as what you said to around Rs.250 crores. Sales-to-asset ratio, we want to take it to around 1.6, though the industry norm is 1.2.
- Kartik Mehta:** There is some misconnect or maybe I am assuming some wrong calculations; your tangible asset as on date is around Rs.58-59 crores, with that we are generating a top line of Rs.90 crores, it is roughly around a similar number what you are saying 1.5x, on that if we add CAPEX of let us say Rs.25-30 crores, an incremental turnover you are talking about Rs.250-90 crores, so it is roughly Rs.160 crores, Rs.160 crores divided by Rs.25, 6x incremental asset turnover you are talking about from the new CAPEX, and even if I have to average it out Rs.25 crores plus Rs.58 crores, it becomes Rs.83 crores on that if I apply 126 it becomes Rs.132 crores?

- Rajiv Gandhi:** Excuse me, I am talking about a total company turnover which includes four divisions that is Poultry Vaccines, Large Animal Vaccines, Poultry Health Products as well as Large Animal Health Products, all four put together, the Poultry Vaccines is what we manufacture, the Large Animal and the Poultry Health Products we outsource them and get them manufactured. So all that would also be included in our turnover beyond what we churn out only from our own asset base.
- Kartik Mehta:** So our own asset base would not be generating that Rs.240 crores, so it would be roughly Rs.140-150 crores and remaining Rs.100 crores would be out of ...?
- Rajiv Gandhi:** Yes, whatever that calculation comes, but this would be a combination of all the four divisions, not just the Vaccine. And secondly, one more thing is that on the Vaccine front also, depending upon the product demand the orders, there can be a big shift in terms of the capacity utilization in the change in the sales to asset turnover depending upon the product mix, today, our product mix is such where we are producing a lesser quantity like this ratio can only improve from the state that we are in at this point of time, for example, in exports, the average doze size in Poultry is approximately 2000 doze per vial, what today we are selling in India, our average doze vial is around 1,100 doze per vial. So if we improve that the ratio would also improve.
- Kartik Mehta:** So your margin mix is better in the case of exports, is it right to assume?
- Rajiv Gandhi:** The margin is better in larger doze size, yes, to what you say is partly true that it would be better in the larger but likewise it would also be over here when we convert slowly on to the larger doze sizes, our margin should improve because the Poultry industry as well as the Large Animal industry shifting towards becoming more institutionalized from what it was catered, definitely, Poultry is much faster, cattle is slow, but it is also shifting towards that.
- Kartik Mehta:** And sir just wanted to know, why few products are not allowed to make in India while Nepal is allowing it?
- Rajiv Gandhi:** It is not only Nepal or it is not only India, each country has its own policy regarding allowing to use or not to use or to handle certain virus and bacteria, therefore PPR Nigerian strain is not allowed in India, so likewise there may be some Vaccines which are not allowed in certain countries, for example, (FMD), Foot and Mouth Disease, we cannot manufacture what is allowed what is used in Africa neither in India nor in Nepal, so likewise each country and each zone have their own norms in allowing and disallowing.
- Moderator:** Thank you. Our next question is from the line of Jehan Bhadha from Motilal Oswal. Please go ahead.
- Jehan Bhadha:** Sir, I basically wanted to have a perspective on what is going to drive future growth. One thing is you said the Poultry Vaccines will grow at 15-20%, but going forward since you specialize in

Vaccines, so is the Animal Vaccine going to be the bigger growth driver or Animal Health Products?

Rajiv Gandhi: When I mentioned that our growth rate 15 to 20%, you are only looking at the Indian growth rate, now there are four divisions that we have and each of these divisions have two sub-divisions that is business within India and international business so totally four divisions and two so we are looking at eight total divisions, and therefore the volumes can definitely come in Health products and the margins would definitely come out of the biologicals.

Jehan Bhadha: So in essence sir say, whatever split we have that you said 93% coming from Poultry Vaccines in last year, so say 5-6-years down the line, what would you want your company sales mix to be, so approximately if you can highlight say what percentage will come from each of these four segments?

Rajiv Gandhi: I would not be able to exactly give a breakup of each of these segments, I might have to do a little bit of work and I would definitely work on that, but if you look at it in general, Animal Health companies, their Animal Healthcare division is always the largest and Poultry is always the smallest and in our case Poultry is the highest and internationally, we will definitely focus on Poultry Vaccine and Large Animal Vaccines because we feel that Africa is a good place to work in and expand our business because we are extremely competitive in this, we would always want to be known as a Vaccine company but have the Health Product business piggy back on the Vaccine which might also give a bigger turnover than the Vaccine business.

Jehan Bhadha: Sir, you also mentioned that developing a Vaccine there are certain anti-barrier, technology being the major one, so how equipped are we to cater to the Animal Vaccine in the market both domestically and exports?

Rajiv Gandhi: In my presentation, I did not touch on the R&D subject, we have a very good and a robust R&D center, and we are the only company in India which is working on recon development or recombinant vaccines. We were lucky at a time when we got all the seed viruses and all the materials that has now helped us become self-sufficient, we broke the collaboration in 2003 and since then we are a 100% Indian company, the vaccine which gives us the highest turnover that is a vaccine against Gumboro disease in Poultry is a Vaccine that we have developed in-house by isolating the virus and then making the vaccine from them. Basically, any vaccine that you make is giving a small portion of the disease into the host, whether it is Human or Animal. What our R&D does is and so the R&D of the big companies do, they isolate the microorganism and then make that into a vaccine and then sell the vaccine. So this is exactly the activity that we are doing and we would put a lot of thrust on this activity.

Jehan Bhadha: Sir, you also mentioned that besides India, all other major countries, these few big MNCs who dominate the market. So when we exports particularly Africa so how will we be able to

establish our distribution network with clients, governments and try to take market share away from these big MNCs who have proven themselves since many years in those markets?

Rajiv Gandhi:

One is that we will have to work hard to do it and two is that any Vaccine for animals besides the Vaccine for pets, there is no emotional involvement, it is basically Vaccines are given to the animal so that the animal produces more and makes it more profitable to the end user... a dairy farmer wants more milk, a poultry farmer wants more eggs and more meat on to the broilers. So the most cost effective vaccine would be their choice. So we would have to work towards it and try to create a demand, try to prove to them commercially that how our vaccine could work better to them in terms of cost and then try to sell. That is one aspect. The second aspect is that the distribution cost and the network to be created is also a very important factor, we have already started working on the distribution ourselves, we have invested in a distribution network in Botswana, we are creating a depot for ourselves in Nairobi for Africa. So this is the infrastructure that we are creating to have a good distribution system, and distribution is as yourself said it is extremely important because Africa rural areas are probably even more rural than what we have in India, but that is the way I started my business in distributing when I was in Bombay focusing on distribution, and we will take up this challenge and create a proper distribution channel plus offer the products at reasonable rates at these place and when I mean reasonable rates, I do not mean under cutting words like under cutting and all are very relative because I am selling lesser than somebody else is selling, but then that somebody else maybe selling at a much higher price in a particular region and I am selling at a higher price their more than over a year, but still it seems under cutting, but it is not so. So we will supply Vaccines at a reasonable price in rural Africa.

Moderator:

Thank you. The next question is from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini:

In Q4 numbers versus last year, your operating profit margins are down. So just wanted to understand the impact of the raw material

Rajiv Gandhi:

They are down, our raw material cost in one or two cases it has shot up tremendously and that have impacted this drop of the margin. And what we have done is that we are working towards getting back our margins in order looking at alternative raw material supplies and we are reasonably sure that... in fact in this quarter itself, we are looking at it that we would be back on track at the higher margins as earlier.

Anil Kini:

Secondly, the Poultry Vaccine that you sell in India, how much of it would be through government?

Rajiv Gandhi:

Our total Government business would not be more than Rs.40 lakhs in the turnover of that Rs.80 odd crores.

- Anil Kini:** In PPR, who is the largest player today globally?
- Rajiv Gandhi:** PPR, they are not too many big players, there is a government lab in Botswana, that is manufacturing PPR, then there is another government lab in Ethiopia, then there is a private lab in Jordan, there is one private company in West Africa, so these are the companies. In India, there is Indian Immunologicals which is owned by National Dairy Development Board, so they make PPR vaccine and there is MSD in Pune, which is the multinational that makes PPR vaccine.
- Anil Kini:** What could be their sales in PPR for Indian Immunologicals and MSD Pune?
- Rajiv Gandhi:** I would not be exactly sure on the sales of PPR because their data nothing is published, etc., I would not be able to have those figures, but all that I know that none of them are in a position to export because all exports of PPR would only be done through Nepal because Indian strain is not exported.
- Moderator:** Thank you. The next question is from the line of Ayush Mittal from Mittal & Company. Please go ahead.
- Ayush Mittal:** Like you were explaining on the export opportunity, I wanted to understand a few things more like we have been working on this opportunity for last 3-4 years. What have been the success we have reached in last 2-3 years, what would be the quantum of exports we are getting as of now?
- Rajiv Gandhi:** I already just mention last year we did exports of Rs.5 crores, the year before that we did exports of Rs.3 crores and that is the two past figures that we have on exports.
- Ayush Mittal:** And the registration process you mention that you have done in 8-countries and you plan to reach a number of countries of 20?
- Rajiv Gandhi:** 20 more additional.
- Ayush Mittal:** You expect to do it in a year or a two or...?
- Rajiv Gandhi:** Two years.
- Ayush Mittal:** Any particular challenges that you have been facing on the export side, where you feel are the key milestones which will help us?
- Rajiv Gandhi:** The hurdles are the delay in registration, that is the only thing, but that is a constant factor for anybody who wants to get into this business, so whether it is Hester or ABC or XYZ, they will

never be able to circumvent this hurdle faster than what we are doing, maybe a little bit faster or little bit slower.

Ayush Mittal: But usually takes 3 to 5-years for somebody to enter the export market?

Rajiv Gandhi: Anything from 6 to 8-months to 3 to 4-years.

Ayush Mittal: What about the developed countries, are we not targeting them and if not then why?

Rajiv Gandhi: We are not targeting anything in Europe at this point of time. We are looking at the African market, the South East Asian market maybe the South American market, because that is where the growth of Animal is. We are looking at growth areas, if you really look at Europe, Western Europe, America where the cost of medication, the amount spent per animal whether it is pet or otherwise it is higher, but those numbers are going down, and secondly, the registration processes in western Europe anywhere are much more time consuming as well as more expensive. So, let us first address markets which are reachable to us in terms of time and money resources and ability and then we could look at a later date if at all that is we would look into. But we could always look into toll manufacturing arrangements with companies in West Europe, which we are talking to them that might result into some business, but that would still mean that it would not be under our label, it would be under their label, their name and their markets.

Ayush Mittal: The current exports will be under our own label?

Rajiv Gandhi: Yes, everything is under ours.

Ayush Mittal: On the Large Animal Health side, we have been focusing a lot on this business for the last 3-4 years and have put in a lot of energy, yet it have not been able to scale up. What would be the key challenges that you face and the other learnings and how do you plan to work up?

Rajiv Gandhi: It is not that we have been putting too much and we have not got success. If you really look at historical data on how companies have built up, there has been a slow curve longer or bigger learning curve for companies who have gotten into this type of business and we are probably going through the same curve ourselves and at some point of time we feel that it will shoot up suddenly, all the slow pace the time that we have lost would be made up in days to come, but another thing is that the market as far as Large Animal is concerned is far more fragmented than what the Poultry is. So getting deeper into the Large Animal business is always going to take longer than what it would take in Poultry.

Ayush Mittal: Is it also that the government subsidy is quite a bit there in India in the Large Animal Health side, like people may compromise on the quality of the vaccine and go for the lowest costing and there must be government department...?

- Rajiv Gandhi:** Lowest cost does not mean that it is low in quality, in fact, that is where we come from, high quality Vaccine at a good sustainable price, so just to tell you that. There is no compromise as such, it is just that the market is fragmented, that is all.
- Ayush Mittal:** What about the competition in the PPR in India itself?
- Rajiv Gandhi:** Indian Immunologicals and MSB in Pune, two of them, we are the third.
- Moderator:** Thank you. The next question is from the line of Girish Raj from Quest Investment. Please go ahead.
- Girish Raj:** Sir, I just wanted to know what would be the reason why we are not into manufacturing of the Animal Products in-house and why outsource it?
- Rajiv Gandhi:** There are many manufacturers of Animal Health Products in Gujarat in the country, and with our focus as what it has been on biological, we have not taken that up, we would not want to make any more capital investments towards all those setting up those manufacturing unit though, of course, those CAPEXs are not as high as Poultry, but when there is fair capacity next door, we would prefer getting it done next door rather than doing it ourselves with the full quality under our control.
- Moderator:** Thank you. The next question is from the line of Satish Bhatt from Anvil Shares & Stock Broking. Please go ahead.
- Girish Raj:** I just had one thought; in your press release you alluded that FOA is going to eradicate PPR in the next 15-years, the market size is around Rs.45,000 crores, annual comes to around Rs.3,000 crores. Do you think there are only a few players globally also na, suppose you want to get 10% market share, do you have the required capacity to supply on those lines because 10% market share on an annual basis gives a turnover of Rs.300 crores?
- Rajiv Gandhi:** We will build that capacity when the aggression comes into by FAO, by United Nations in the eradication program, for example, if you look at India, polio eradication, everybody is now immunized in India, it is not eradicated, immunization, if you would have seen a few years ago, there was an aggressive campaign by the Indian government towards immunization in polio. So that is the time when all these production is to be geared up etc. So, at the right time we would definitely jump into it and not lose this market opportunity because these figures that I have got are from the FAO itself. In fact, two people called and ask me I think there is a mistake in your press release in terms of zero. That made me again read and read I told them, no, there is no mistake.
- Girish Raj:** How fast you can make a capacity of selling Rs.100 crores PPR Vaccines, suppose things come after two years, will you have the ...?

- Rajiv Gandhi:** If it is going to come, we will get the wind of it coming, it would not happen, today we have the order of 100 crores bring it just now. There would be a time which would be there and we are at it, in fact if you see Animal Farm Magazine it is the leading animal health magazine in the world and the most prestigious, yesterday they had a news item on this same PPR thing, and the only name mentioned in that press note is Hester.
- Girish Raj:** My saying is you are the few will supply, but after one-year order of Rs.200 crores is going to get, then how fast can we develop the capacity, that is my question?
- Rajiv Gandhi:** It would take approximately two years to offer a commercial product from a new facility.
- Girish Raj:** You have not given any sights on your R&D pipeline?
- Rajiv Gandhi:** I did not address the R&D issue, we have an extremely strong R&D, we have a DSIR approved R&D center, we have developed the Thermostable Vaccine in collaboration with the NGO from Edinburgh. We have also developed the Gumboro Vaccine and we are the only Indian company right now working on a Recombinant Poultry Vaccines which hopefully we will patent them and in a year and a half to two years' time, we would have our own Recombinant Vaccines and plus we are also developing Diagnostics through our R&D.
- Girish Raj:** In your press release two months back, you got an approval for PPR and Goat Pox, so how are things shaping up? How are you competitive compared to MSD and Sanofi globally if you want to do an export in a big way?
- Rajiv Gandhi:** I think they all are selling at much higher prices than what the prices in India are at the moment. So presuming that we are even able to sell it at Indian prices across I think we would be way ahead. It is ultimately pricing.
- Moderator:** Thank you. The next question is from the line of Sameer Desai from Finco Capital. Please go ahead.
- Sameer Desai:** Europe and USA registration is costly and very time consuming, but their margins are also much higher compared to other countries. So, we will get easily compensated going forward in USA and Europe?
- Rajiv Gandhi:** Yes, what you say is to the margins are also better over there, but the growth potential, we are looking at some place lesser margin, but a bigger volume is something that we are more looking at ourselves rather than going in for a higher margin and spending more and then earn more, it is better we target places where registration easier, acceptability of our products, ability to distribute all these things are more easy for us to develop. So that is why we are looking at these levels.

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

Veena Patel: My question is again pertain to PPR Vaccine. You just mention that in March we have launched two Vaccines. So these are the only two Vaccines in the Large Animal Health Vaccine division, PPR and the Goat Pox?

Rajiv Gandhi: Yes, that we have at the moment.

Veena Patel: So both would be done majorly through the government tenders?

Rajiv Gandhi: Government as well as private, we have also started supplying on the private, but yes, there is a dependency as far as PPR is concerned on the government. As far as Goat Pox is concerned we are the first to manufacture this vaccine, so we have taken up that as a challenge and we are creating the demand also for ourselves besides also looking at government tenders.

Veena Patel: You mention to one of the earlier participants that around Rs.7 to 10 crores will be the revenue that will be generated from PPR Vaccine in FY16. On that what kind of growth can we expect sir?

Rajiv Gandhi: Ma'am, as far as growth in PPR is we are looking at an exponential growth PPR between our Nepal plant for international as well as within India because of the eradication program. So hopefully I think within a year's time, there would be a lot of clarity on this eradication programs that are being conducted and in fact United Nation and FAO itself would be participating with all the countries, there was a big conference in Abidjan that is in Ivory Coast just a month and a half ago, where they are making a complete blue print for the eradication program. So, once these things are more clear, I think our strategy, our forecasting everything would become a little bit more easier, it is not that I am not wanting to give figures, we are taking a risk that how we will take it further, but there will be a lot of clarity that would emerge in a few months or within a year's time.

Veena Patel: Speaking about your operating profit margins, you just mention you will be bouncing back to your previous levels. So what kind of operating profit margin we can expect for FY16?

Rajiv Gandhi: Yes, I think we want to step up slowly and I think next year, we should at least improve our score by 10% over what we did, we did 30, we should go up to around 33%, 34% something like that at least.

Veena Patel: If I correctly recollect the fact that you mentioned there would be some kind of expansion happening in the domestic side, so it was with regard to the Inactivated Vaccines, so is that particular expansion completed?

- Rajiv Gandhi:** No, it is in the second phase, it is happening, it is not yet complete.
- Veena Patel:** Would we complete by this financial year?
- Rajiv Gandhi:** Yes, of course, it would be up and running by that time.
- Veena Patel:** With regard to the Live Vaccines, what has been our existing utilization levels?
- Rajiv Gandhi:** Around 45% to 50%.
- Veena Patel:** So this is going to go up gradually?
- Rajiv Gandhi:** Yes, it will grow up and PPR that also comes in that category, where we would be using the machinery for the Live Vaccines, freeze-dried, etc.
- Veena Patel:** You previously mention about the CAPEX figures for FY16 and FY17. So out of that how much would be for Nepal and how much would be for the domestic expansion?
- Rajiv Gandhi:** Nepal is over and done with. All this is we are looking here only. Around 1 odd crores could be there in the Nepal otherwise, it is all over here.
- Veena Patel:** What was your R&D expenses for FY15?
- Rajiv Gandhi:** Rs.3.20 crores.
- Veena Patel:** What is budgeted for FY16?
- Rajiv Gandhi:** Approximately Rs.5 crores.
- Veena Patel:** You just mention that your research facilities have been approved by DSR. Are we eligible to get some kind of tax benefit?
- Rajiv Gandhi:** Yes, we are in MAT.
- Veena Patel:** So then what will be your tax rate considering even Nepal facility coming on stream in FY16 & FY17 where you have a tax holiday, on a consol basis?
- Jigar Shah:** The tax outgo for FY15 is Rs.4.7 crores at a turnover of 90 and PAT is around 14, while it was a Rs.3.50 crores in last year, that was at a turnover of 69 as well as PAT of 10, and we have MAT of 3.52, so in FY16 targeted turnover would be the Rs.5 crores and the rate will be if you calculate on that basis.

- Moderator:** Thank you. The next question is from the line of Sandeepan Ghosh from Emkay Global. Please go ahead.
- Sandeepan Ghosh:** My first question is on the PPR Vaccine front. PPR Vaccine I understand is essentially through a technology transfer from IVRI. So is it an exclusive licensing pact you have in India or ...?
- Rajiv Gandhi:** Non-exclusive.
- Sandeepan Ghosh:** So Indian Immunologicals, MSD, they would be sharing a similar agreement with IVRI?
- Rajiv Gandhi:** I am sure that they would be having some agreement, I am not exactly aware of their agreement.
- Sandeepan Ghosh:** So IVRI is today free to sell this technology to somebody who meets the basic qualification criteria?
- Rajiv Gandhi:** Yes.
- Sandeepan Ghosh:** Is there any royalty which we have to pay to IVRI for sales?
- Rajiv Gandhi:** I think there is a very minor, reasonably inconsequential.
- Sandeepan Ghosh:** Second question is on the Gujarat Agrofarm acquisition. How much would be the annual savings in the procurement of growth media by being backward integrated?
- Rajiv Gandhi:** I think approximately Rs.1.5 to 2 crores we would say.
- Sandeepan Ghosh:** Typically, this growth media would form how much percentage of a total Poultry Vaccine production cost?
- Rajiv Gandhi:** The raw material component of growth or total growth media all put together it comes to approximately 65%.
- Sandeepan Ghosh:** 65% of the total material consumed, you are saying?
- Rajiv Gandhi:** Yes.
- Sandeepan Ghosh:** So the increase in the material cost for FY15 is basically on account of the other chemical prices would have increased, you are saying?
- Rajiv Gandhi:** Some imported, yes.

- Sandeepan Ghosh:** So then this Merieux Vaccine would be what proportion of revenues in FY15 because there was a some issue about importing in intermediate?
- Rajiv Gandhi:** Yes, we had 23% of our sales came from Merieux the last year FY15 our Merieux sales contributed to around 4% to 5%.
- Sandeepan Ghosh:** Typically in African and South Asian markets, what is the average cost of a product registration for your products let us say?
- Rajiv Gandhi:** It varies, I would put it as \$1000 at an average.
- Moderator:** Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.
- Jayesh Gandhi:** My question is regarding the depreciation amount which I see here. Depreciation amount has increased from year-on-year 15 million to 27.5 million. Is it taking into account Nepal plant also?
- Rajiv Gandhi:** No, it is not, yet to commercialize.
- Jayesh Gandhi:** Are we putting our R&D expense into selling, general and administrative expenses?
- Rajiv Gandhi:** Yes, we are.
- Jayesh Gandhi:** In this quarter SG&A expenses are 22 to 25%. Can I expect it to continue in the same range?
- Rajiv Gandhi:** You can take them as same, more or less.
- Jayesh Gandhi:** Second question is of mine is regarding the PPR Vaccines. Can I categorize PPR into Large Animal Vaccines?
- Rajiv Gandhi:** Yes, absolutely, sheep and goat.
- Jayesh Gandhi:** This year we had approximately Rs.7-10 crores of sales from PPR, right?
- Rajiv Gandhi:** Right.
- Jayesh Gandhi:** Forthcoming year you are talking about Rs.7-10 crores?
- Rajiv Gandhi:** In the current financial year that we are in.
- Jayesh Gandhi:** Can you help me out in understanding in next 4-5 years are we gradually moving more towards Large Animal Vaccines in the revenue mix?

- Rajiv Gandhi:** Yes, that would be a natural move towards Large Animal Vaccine Health Products because overall in the world if you see the breakup, the ruminants that is the large animal cattle, sheep, goat, their contribution is around 30%, while Poultry everything put together is 16% to 17%. So if you really look at it in a logical manner if the growth is commensurate to the breakup of the industry, the Large Animal business would always turn out to be bigger than the Poultry for any company, anywhere in the world.
- Jayesh Gandhi:** So then in our projection, by 2017 we are expecting to move towards Rs.200-220 crores of sales, right?
- Rajiv Gandhi:** Yes.
- Jayesh Gandhi:** In 2017 what is going to be the sales mix there for Large Animal Health and Poultry Vaccines?
- Rajiv Gandhi:** After two years, if you consider Nepal as well as India, both put together then I think we should be going neck-to-neck around that time, because Nepal would generate more of Large Animal and hardly anything of Poultry.
- Jayesh Gandhi:** This I am asking because Poultry Vaccine last year we have done closer to Rs.84 crores. So can I say it is going to be like Rs.100-120 crores in next 2-years...?
- Rajiv Gandhi:** Definitely, no doubt about it.
- Jayesh Gandhi:** So are we expecting the Poultry Vaccine growth to be tepid?
- Rajiv Gandhi:** Within India when a company is a second largest market shareholder, and when we are so much entrenched in it and in the other divisions where our volume of business is extremely small, any type of thing would make us grow more in the other divisions for sure. This does not mean that Poultry Vaccine division is not taken into consideration by us or we are giving it less importance on anything of that sort, nothing like that. We were never in Large Animal business and now we are in it.
- Jayesh Gandhi:** In Poultry you have a major competitor say Venkys, who is the major competitor here in Large Animal Health Vaccines?
- Rajiv Gandhi:** Indian Immunologicals, that is all.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints, our last question would be from the line of C. Srihari from PCS Securities. Please go ahead.
- C Srihari:** I just wanted a little more clarity on the growth prospects for the Poultry Vaccine segment. Secondly, you mention that the EBITDA margin was around 30%, but that is on the standalone

basis, on consol basis it was around 27%. So, do you foresee a similar kind of growth about 300 basis points in consol basis as well?

Rajiv Gandhi: I think the margin is low because of the Large Animal, the divisions which are in a way non-performing division at this point of time because they are just growing, they have just been born. So there is a loss to it, I think we have incurred a loss of Re.1 crore in the Large Animal Health division. So, once this all is wiped out, then this should not be an issue at all as far as our margins are concerned.

C Srihari: So there will be some kind of clarity on standalone and on consol basis as well?

Rajiv Gandhi: That is always going to remain whether it is this business or any other business, when two different product line, one, what we are manufacturing, one what we are outsourcing, the different market dynamics. So ultimately it is going to be a mix of both.

C Srihari: Coming to Poultry Vaccine what is the kind of growth over the medium term that you would expect?

Rajiv Gandhi: We are still looking at a growth of little even more than 25% on a year-to-year basis in Poultry.

Moderator: Thank you. Sir, would you like to add any closing comments?

Rajiv Gandhi: I think it has been a good discussion and this has been the first time, so I would like to please grant me pardon if there are any... I have not been able to really do it up to what normally is done and I think even in my flow, etc., in my presentation I will make sure that there is more clarity than this, but overall, it has been a good learning exercise for me, such exercises need to helps in understanding our own business and it also helps me to understand how an investor, how a non-biased individual would think on the business that we are handling. Being in it all the time 24x7 we think and look at in another manner, such a perspective can only improve us in our business itself. That is what I would say.

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