



HESTER

“Hester Biosciences Limited Q4 FY16 Earnings Conference  
Call”

**May 9, 2016**



HESTER



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

**MODERATOR: MR. ABHISHEK SHARMA – IIFL INSTITUTIONAL  
EQUITIES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Hester Biosciences Q4 FY-'16 Earnings Conference Call hosted by IIFL Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Abhishek Sharma from IIFL. Thank you and over to you, sir.

**Abhishek Sharma:** Good Day, Everyone. This is Abhishek from IIFL Institutional Equities. I thank the Hester management team for giving us the opportunity to host this call. From Hester we have with us today Mr. Jigar Shah – Chief Financial Officer and Mr. Rajiv Gandhi – CEO and Managing Director.

I will now hand over the call to the Hester management team for their remarks. Over to you, sir.

**Rajiv Gandhi:** Good Afternoon, Everybody. This is Rajiv Gandhi – CEO & Managing Director of Hester Biosciences and along with me is Jigar Shah – our CFO.

To begin with just to give you a little overview, in the last financial year we had sales increase of 12% while our net profit increased by 37%.

Our business is now very clearly divided into four verticals namely -- Poultry Vaccines, Poultry Health Products, Large Animal Vaccines and Large Animal Health Products.

During the year, it was our endeavor right from the beginning to improve the bottom line. More so the Poultry industry during the 2<sup>nd</sup> and the 3<sup>rd</sup> quarter of the last financial went through a rough time and in order to make sure that our objective does not get deviated we focused on the bottom line and we restricted our sales in those two quarters, therefore, it shows on our top line wherein the growth has only been 12%. As far as the bottom line improvement is concerned, in the year what we did is that we improved and we changed the product mix. Earlier we used to have many more products and small quantities of products being sold. Because of the recession it helped us to rationalize our product range.

To give you an idea on the Poultry Vaccines which is the biggest contributor in our business as on today -- we have 44 types of Vaccines and we have 126 stock keeping units. So the large number used to make things very difficult because we used to take small batches which used to be not cost-effective and then we would have higher inventory of more different type of stock keeping units. So this was one of the main reasons that we have improved our profitability is by rationalizing the whole product mix in the company.

Looking at other division, Poultry Vaccines still continues to be the top revenue earner for the organization. If we combine the Poultry Vaccines as well as the Large Animal Vaccines both put together, we grew at around 6.1%... as I said; mainly this was because of the recession in the Poultry industry.

Looking at the Large Animal division that is the Vaccines and the Health Products, we introduced the PPR Vaccine in this financial year... though we had got the license in the last financial year but it was right in the 3<sup>rd</sup> week of March. So all the business on the Vaccine side all were done only in this financial year. So between the PPR Vaccine wherein the Government of India would be soon embarking on a disease eradication program as well as Large Animal Health products we have grown at 73.21% in the financial year. This growth surely seems big but then the base being small we definitely need to grow faster, at some point we need to look at the absolute figures rather than look at a percentage. So this has been more or less situation as far as these four verticals are concerned.

Last year we also introduced two Poultry Vaccines namely the Salmonella Live Vaccine and the Inclusion Body Hepatitis Vaccine; we introduced them sometime in the end of July. Though we had predicted to do sale of Rs.2 crores between the two Vaccines we achieved sale of approximately 70 lakhs in that financial year and we hope that in this year we would take up the sale for these two Vaccines alone to up to Rs.2 crores. Looking at Vaccines that are in the pipeline we are slated to release four Large Animal Vaccines in this financial year. We hope that these Vaccines should be released sometime between September and December, one of the Vaccines being Brucella Vaccine which is a Vaccine in great demand in India.

Another characteristic which I would like to highlight for at times sale actually building up and not really accruing in the first year of our production is that all government tenders have a condition that the company needs to have an experience of either 1-year or 2-year or 3-year in the particular Vaccine which is tendered. So now with us having gone through that hurdle as far as PPR is concerned we hope that we should be aggressively able to sell that Vaccine, and as these new Vaccines come in we will start with the trade business and soon get on to the main government tendering business.

As far as our R&D work is concerned, we have been reasonably progressing in our R&D. Last year we spent approximately Rs.5.1 crores on our R&D, the year before that we had spent Rs.4.4 crores, and this year we have planned to spend around Rs.9 crores on our R&D. The main R&D expenditure are going to be towards the Recombinant Vaccines which we hope to introduce if not in this financial year maybe sometime early financial year.

Another area that we are very strongly looking at is animal diagnostics. As we speak we have already manufactured five types of Diagnostic Kits and we are in the process of looking into three or four additional Diagnostic Kits, all these kits are for detection of either poultry

diseases or cattle diseases. Right now the trials are undergoing and hopefully we should be able to commercialize all these Diagnostic Kits in this financial year which would then give our R&D department a very big boost as far as introduction of new products is concerned and it would also add another feather in our cap, then we would be a company with Vaccines, Healthy Products and Diagnostics. If you really look at all the big companies worldwide, most of them do have all these three divisions and we would be then at par with them at least in terms of the ability to grow the business having all the divisions with us.

Coming to the CAPEX: Last year we spent approximately Rs.6.44 crores as capital expenditure though we had planned to spend between Rs.15 crores and Rs.17 crores. Looking at the recession that went through in the Poultry industry, we restricted the capital expenditure as we preferred to have the industry stabilized though the CAPEX was not just for the Poultry industry but being very sensitive and very conscious about the bottom line, we thought that we should go in a manner wherein our objective of improving the bottom line should not be disturbed at all. So we postponed the CAPEX and in this financial year we hope to spend between Rs.19 crores to Rs.25 crores, one of the objectives same as what we had mentioned last time to increase the production capacity for some of the Vaccines which we are already producing, and in addition to that we now hope to construct a small facility wherein we would manufacture the Health products also... when I say Health products, I mean, Medicines, Feed Additives, Premixes as well as Disinfectants. The reason to consider setting up a Health product manufacturing unit is that for international markets registration is an important factor and registration is given to the premises first and then to the product. If we have our own premises to manufacture these products, it would be much easier than and as well as it would give us a high sense of security towards registering our own products and then build our product range further with additional products. So this has been more or less a brief on our business.

Last year, our Exports grew at 73.66%; it was an increase in sales to Rs.10 crores from Rs.5.7 crores in the previous year. We hope to make our Exports grow at 100% on a year-on-year basis for the next 3 to 4-years at least because we believe that there are enough opportunities in the international market and we would definitely be able to exploit those opportunities more so coming from India where we have cost advantage as far as manufacturing of Health products and Vaccines is concerned and further we are looking at markets like Africa, where there is a very high potential for all type of products from Vaccines to Health products, everything.

Just to give an Update on our Nepal Plant: I do admit that there have been delays as far as setting up the Nepal project is concerned. One thing lead to the delay just we would overcome that and then there would be another delay. Nonetheless we are now at a position where we have already started our trial production, we have taken even a full batch of the PPR Nigerian Strain Vaccine which we hope to sell internationally in the FAO tenders and in the next 3

months' time we should be taking our commercial production from the Nepal facility. So this is a short brief on the business that we have had last year.

We hope to just sum up in terms of our growth plan and what we intend to do in the next year is that is in the near future and in the long run we hope to grow our Large Animal Health business at 50% on a year-on-year basis, we hope to grow the Poultry business at approximately at 15% and our Exports we have plan to grow them at approximately 100% on year-on-year basis. So this is a general outlook and what I think would be the business in days to come. Overall I think we hope to achieve growth of around 20% in this financial year.

So with this I would like to let Jigar Shah -- our CFO talk on some of the Financials, he will briefly go through the Financials and then after that we will have it open for Questions. Thank you for being patient and hearing me. Over to Jigar Shah.

**Jigar Shah:**

Good Afternoon, Everybody. I am Jigar Shah -- CFO of the Hester Biosciences Limited. I will brief you about the Financial Highlights of the Q4 of Financial Year 2015-'16 and Year-ended Financial Year '16:

As everybody aware about the company's operation is divided into four business verticals -- Poultry Vaccine, Poultry Health Products, Large Animal Vaccine and Large Animal Health Products.

Under the Poultry Vaccine division company has booked sales of INR23.98 crores in Q4 FY-'16 as against INR20.08 crores in Q3 FY-'16 where it was Rs.21.85 crores in Q4 of FY-'15. Sale for the year-ended FY-'16 has booked at INR85.47 crores as against INR82.72 crores in the year-ended FY-'15. Sales for the year-ended FY-'16 has booked at INR3.37 crores as against Rs.0.77 crores in year ended FY-'15.

Under the Poultry division overall 5.72% growth is registered in the Q4 of FY-'16 while 6.41% growth is recorded in the year ended FY-'16 as against the year ended FY-'15.

Under the Large Animal Vaccine division company has booked sales of INR2.07 crores in Q3 FY-'16 as against INR0.2 crores in sales of Q3 FY-'16, INR0.01 crore in the FY-'15. Sales for the year ended FY-'16 has been recorded at INR2.13 crores as against INR0.01 crore sales in the year ended FY-'15.

Under the Large Animal Health products division company has booked a sales of INR1.88 crores in Q4 of FY-'16 as against INR1.99 crores in the Q3 of FY-'16 while it was INR1.07 crores in Q4 of FY-'15. Sales for the year ended FY-'16 has been recorded at INR7.26 crores as against INR5.41 crores in year ended FY-'15.

Under the Large Animal Division overall there is 2.65x growth registered in the Q4 FY-'15 whereas 73.21% growth is recorded in the year-ended FY-'16 compared to FY-'15.

Coming to the consolidated sales and profitability of the company: Net sales that is income from the operation in the Q4 of FY-'16 is recorded INR28.18 crores as against INR24.18 crores in Q3 FY-'16 while it was INR23.36 crores in Q4 of FY-'15 thereby achieving growth of 20.64% compared to Q4 FY-'15. While comparing annual performance of consolidated sales for the year-ended FY-'16 is recorded at INR100.89 crores as against INR90.04 crores in the year ended FY-'15 thereby achieving growth of 12.05%. Company has booked a total domestic sales of INR88.21 crores in the year ended FY-'16 as against INR83.14 crores in the year ended FY-'15, thereby increase in the sales of 6.10%. Company has booked total export sales of INR10.02 crores in the year-ended FY-'16 as against INR5.77 crores in the year ended FY-'15 thereby increase in the sales of 73.66% in the Export. Large Animal division turn into net profit in the FY-'16. EBITDA is achieved at 34.62% for Q4 FY-'16 as against 31.81% in Q3 FY-'16 while it was 28.05% in Q4 FY-'15. In the year-ended FY-'16 EBITDA is achieved at 32.78% while it was 28.52% in the FY-'15. Net profit is achieved at 19.53% for Q4 FY-'16 as against 19.68% in Q3 FY-'15 while it was 15.15% in the Q4 FY-'15. While in the year-ended FY-'16 net profits is achieved at 19.05% as against 15.54% in the year-ended FY-'15.

Coming to the Balance Sheet Comments: Our fixed asset turnover to the sales in the FY-'16 stood at 1.40x Vs 1.13x for FY-'15. Our inventory level has been increased by four days from 116-days to 120-days in FY-'16. Debtors' turnover increased from 2.36 months from 3.12 months. Overall working capital cycle has been increased from 88-days to 111-days and we have invested INR6.44 crores in the FY-'16 for CAPEX as against INR11.15 crores in FY-'15. Overall change in the working capital cycle was due to the recessionary condition of the Poultry industry in the Q2 and the Q3.

Coming to the ROC of the company for the year, it is 20.42% while it was 17.02% in the FY-'15. With the financial leverage of ROE, company has registered at 19.16% while it was 16.60% for the last to last year. Our ROI for the year stands at 12.10% which was 9.36% for the FY-'15.

Company has declared interim dividend of Rs.3 per equity share on 10<sup>th</sup> March 2016 while this results company again recommend final dividend of 11% for the financial year 2015-'16.

EPS for the Q4 FY-'16 is Rs.6.47 per share while it was Rs.5.59 per share for Q3 FY-'16 and it was Rs.4.16 per share for Q4 FY-'15 whereas EPS annually for FY-'16 is Rs.22.60 per share while it was in the year FY-'15 it was Rs.16.45.

This ends my talk. I am handing over to Mr. Rajiv Gandhi.

**Rajiv Gandhi:** Just another, of course, the figure show that we have touched Rs.100 crores. So that is a first time we have touched a three figure or 1 million sales whatever you could take it as in the company.

Now I am ready to take questions.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

**Pritesh Chedda:** Initially, we had thought slightly higher business to be done in Large Animal business. I think there is some by the year end my guess is initially what we thought we missed out. So if you could give some comments there? Second, the margins in the Q4 of Large Animal. Is this the one which we should look forward or do you want to give some color on what kind of margins is possible on Large Animal when it grows at the rate you think?

**Rajiv Gandhi:** As far as the Large Animal or the Poultry business is concerned, our endeavor is to make sure that we follow a very strict regime as far as amount receivables is concerned and based on that everything revolves around that; the sales could have been better they can always be better than what they would have been, but I think it is just that we have been a little bit conservative and disciplined and with focus on the bottom line making sure that the product mix is ideal so that we do not manufacture smaller quantities of smaller batches and in both the divisions that has applied, probably that has also lead to a minor drop on the Large Animal Health product business. As far as the margins are concerned, to answer your question, yes, you could consider those margins as the margins on which we could base our future sales and future projections. As you are aware, we have turned this division into profitable from what it was not earlier.

**Pritesh Chedda:** So those margins look like (%40+) in this quarter. So those are the margins which look sustainable?

**Rajiv Gandhi:** Yes.

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

**Ayush Mittal:** Sir, you had mentioned the PPR Vaccine supplies have started in March. I missed out the specific timeline you mentioned.

**Rajiv Gandhi:** The PPR we got the registration in March 2015 which was nearing to the end of the last financial year. So while the statement would be right that we got the permission last year, but all the sales started, we had residual sales which even started from the month of April, and if I

am not mistaken, we even had a very small invoice which we did in the month of March. So the small quantities of sales would have started right from the moment we got the license.

**Ayush Mittal:** But as the time is passing by, the momentum would be picking up on this, as you mentioned that it is a huge program which the Indian government and the global agencies are trying to...?

**Rajiv Gandhi:** Yes, as time will go by, these agencies will mobilize their resources which not only financial, but there are other resources required beyond finances to make sure that vaccination reaches as well as it is administered well. So as this starts happening the demand for the PPR Vaccine would definitely grow in a geometric progression.

**Ayush Mittal:** The revenue recognition of PPR is done in the Large Animal segment?

**Rajiv Gandhi:** Yes, in our case we have classified Sheep and Goat in the Large Animal segment, PPR Vaccine is specifically for Sheep and Goat, it is not for Cattle.

**Ayush Mittal:** Can you also give absolute quantum what kind of numbers we have done on PPR in this financial year?

**Rajiv Gandhi:** I would not have these figures right now on hand. Individually I could get back to you with this and I should be able to give it you for sure.

**Ayush Mittal:** In the last two concalls and even today you mentioned that the Poultry business was quite weak over the last two quarters due to the problems in the industry and in the last concall it was mentioned that you are seeing very positive time for this segment for the fourth quarter while if we see the Poultry Vaccine numbers we have seen 10% growth. Is it that even in good times due to our already high market share this is the good percentage increase that we can do?

**Rajiv Gandhi:** In Poultry Vaccines we are the second largest in the country. So trying to grow beyond a level is definitely a little bit challenging and therefore the growth in the Poultry Vaccine segment would be the least out of all the four segments that we have all put together.

**Ayush Mittal:** You mentioned that you expect it to grow at 15%?

**Rajiv Gandhi:** Yes.

**Ayush Mittal:** On the Exports front, we were only exporting the Poultry Vaccine or we are also trying to export the Large Animal Vaccine?

**Rajiv Gandhi:** Large Animal Vaccine we have not shipped out any there are sales of other Medicines Health products on the Poultry as well as on the Large Animal side because the main PPR Vaccine



what we manufacture here is the Indian strain while what is required internationally is the Nigerian strain which we will send out of Nepal.

**Moderator:** Thank you. The next question is from the line of Akshay Barjate from Rubicon Capital. Please go ahead.

**Akshay Barjate:** Basically in 2016 we have witnessed a significant increase in our gross profit margin, I think it is by almost 700 or 800 basis points. How much of this is actually sustainable going forward?

**Rajiv Gandhi:** I personally feel that there is still improvement possible as far as the margins is concerned and the worst case scenario is that the margins should be at this level but we are still trying hard to improve the gross profit margin partially on a sustainable basis. To answer your question, in one sentence, there is scope to improve the margin.

**Akshay Barjate:** With respect to the newly introduced Vaccines which is basically Body Hepatitis Vaccine and Salmonella Vaccine, what is the market size of these Vaccines in India today and also on the pipeline where we are looking to release four Large Animal Health Vaccines, one of them being Brucella, just trying to understand what is the market potential of these particular vaccines and how many players are there in this segment currently?

**Rajiv Gandhi:** As far as the Poultry Vaccines are concerned, the Salmonella Vaccine and the Inclusion Body Hepatitis Vaccine, I think the market could be for both these Vaccines put together should be approximately around 40 million or you can say Rs.4 crores, etc., could be the total market and our Salmonella Vaccine doing well as what we think as well as the IBH Vaccine, I think we should be able to get around 40% market share in these two Vaccines. As far as the Brucella Vaccines is concerned, the total Indian market all put together would be approximately Rs.70 crores is the potential in India.

**Moderator:** Thank you. The next question is from the line of Krishnaraj Pannati, an individual investor. Please go ahead.

**Krishnaraj Pannati:** I was told there are some delays in that Nepal plant coming out and I was told it will be operational in the next 3-months. I like to know once the plant comes into operational, what would be the growth on the top line be?

**Rajiv Gandhi:** Full capacity at Nepal we should be able to do approximately Rs.50 crores.

**Krishnaraj Pannati:** How confident are you the plant will be going up in the next three months fully operational?

**Rajiv Gandhi:** We are absolutely confident on that because the way things are now progressing, there were certain hurdles this could have happened earlier, but after the earthquake and then there were some political issues wherein trucks were not allowed to cross the country and lot of

machinery was held up at the border. So those were the reasons. Now we have overcome all those issues and we do not see any reason for this to get delayed now.

**Krishnaraj Pannati:** What kind of products you intend to manufacture there? Is it mainly Export-oriented and does it cover both Poultry and Animal sector?

**Rajiv Gandhi:** The plant in Nepal is to complement the range in India... there is nothing produced in India that we will produce in Nepal, and in Nepal we will produce those Vaccines whether Poultry, Cattle, Sheep And goat, those ones which are not produced or not sold in India. Nepal as a country has a very small animal population. So may be 90% of our business would be Exports.

**Moderator:** Thank you. The next question is from the line of Vishnu Chanreddy, an individual investor. Please go ahead.

**Vishnu Chanreddy:** My question is mainly on the PPR Vaccine. I would like to know if we have an offtake in China, would Nigerian strain be given or would it be the new strain? I read an article which said that there is an outbreak in Mainland China in **(Inaudible) 34:35** apart from a recent one in Georgia.

**Rajiv Gandhi:** If it is PPR, my knowledge on that strain is not there, I apologize for that, but I think it should be of the Nigerian strain.

**Vishnu Chanreddy:** What is the dosage annual capacity for PPR Vaccine in Nepal?

**Rajiv Gandhi:** In terms of dosage, 1.2 billion.

**Moderator:** Thank you. Mr. Vishwanathan, your line is unmuted. Please go ahead.

**Saravanan Vishwanathan:** I have a couple of questions: You were mentioning about the Animal and Diagnostic division. I want to understand who will be the target segment -- are you targeting the large integrators who may or may not already have access to such kits or the small farmers?

**Rajiv Gandhi:** As far as cattle, sheep, goat are concerned the population is absolutely disintegrated in the country. So the main target would be the small users and making field diagnosis, etc., but we would also work with the big integrators, big cattle farms and do disease diagnosis programs with them wherein we do the zero monitoring, we do the testing and then based on that they can do their evaluation, but some of them may be having their own labs, at those places we will sell the Diagnostic Kits. Now when we produce the Diagnostic Kits there are two type of sales that we can do -- one is sell the Diagnostic Kits for a lab or a big user to use them directly by themselves or we also have a lab wherein we get samples which we test at a price we do the pathological testing.

**Saravanan Vishwanathan:** So this division will be a profit centre. It will not be like a marketing initiative that you are undertaking?

**Rajiv Gandhi:** There would be marketing in it in supplying to users of the kit and we would also consume these kits and give the service. So in a way we would be addressing both the issues. To put on record we already have a laboratory in Anand which is around 70 Kms South of Ahmedabad where we run an independent diagnostic lab, where we get the samples and we analyze them and we send the results. At the moment, we are only doing for Poultry but this service will be extended to cattle, sheep, and goat as well.

**Saravanan Vishwanathan:** With respect to CAPEX, we understand that around \$5.5 million or say about Rs.35-40 crores was spent for Animal project. How much of it has been capitalized so far?

**Jigar Shah:** This amount we will capitalize once the project will be on commercialized, but you can say that around 95% amount is spent and it is in a last phase, so we will capitalize in this quarter once the production will start.

**Saravanan Vishwanathan:** So that is FY' 16, you had mentioned that around Rs.6.5 crores has been capitalized, right?

**Rajiv Gandhi:** Yes CAPEX.

**Saravanan Vishwanathan:** That is besides Nepal whatever you have done CAPEX?

**Rajiv Gandhi:** Yes, that has got nothing to do with Nepal, that is Ahmedabad, that is our India plant.

**Saravanan Vishwanathan:** So Nepal will come only in this financial year?

**Rajiv Gandhi:** Yes and the capital expenditure scheduled to be made in this year is also we are looking at India, it is nothing to do with Nepal.

**Saravanan Vishwanathan:** So in this year there will be two components, you had mentioned that around Rs.25 crores of new CAPEX could be taken up?

**Rajiv Gandhi:** Yes, 19 and 25.

**Saravanan Vishwanathan:** So that will be taken up, that is for the Indian plant, besides that around Rs.35 crores of capitalization will happen because of Nepal coming into commercial production?

**Rajiv Gandhi:** Yes, in Nepal's case, it will be an accounting issue, while in this case there will be an actual capital expenditure.

**Saravanan Vishwanathan:** So CAPEX for FY' 17 would be between Rs.20 crores to Rs.25 crores?

- Rajiv Gandhi:** Yes, Rs.19 crores to Rs.25 crores.
- Moderator:** Thank you. The next question is from the line of Vrijesh Kasera from Edelweiss. Please go ahead.
- Vrijesh Kasera:** Just a clarification; the slowdown that we have seen in Poultry Vaccination business, since last year we are reducing our receivable days substantially in the business. So, is there anything to do with that the buyers are not taking the required quantities because they are not getting the grade in terms of that they were used to getting earlier. So have we lost business on that count? That has affected the Poultry business.
- Rajiv Gandhi:** I would not say that we have lost business. When we deliberately, consciously do not make a sale, we would not term it as that we have lose the business. Because of the recession we have not even been little bit subjective and if you see our amount receivables, they have slightly gone up in the last financial year. These are subjective things. We would not really want to say that we lost business because of whatever we have not been giving and all. We need to take a holistic view on the organization, on the profitability, on the industry and all put together we need to take a decision.
- Jigar Shah:** Mr. Kasera, if you see the year-on-year that is increase, but if you see the fourth quarter it has again gone down. So our trend will come to the regular days within this quarter only because during the recessionary period we have given 15-20-days more reliance to the customer to just to revive for themselves to pay in time. That is the reason that is why it has increased. But overall it is on a decreasing trend again.
- Vrijesh Kasera:** I understood that. My question was that overall for the year, since as a policy we have decided to keep tighter working capital cycle. We have come down to the industry level growth while historically we have been able to grow at a growth higher than the industry. This is what I am asking that the growth has come down. Is anyway linked to this?
- Rajiv Gandhi:** I would say the growth has come down. We are only looking at the top line. If you look at a holistic view between the top line and the bottom line because the bottom line is manifestation of the top line. So we need to balance all these things. Industry growth, etc., is absolutely fine what you say. If you really go to see, we have not lost out much, we have been at an industry growth and a little higher than the industry growth. But these issues would keep on coming on a year-on-year basis and depending upon our cash flow, our objectives of improving bottom line, we would moderate this situation on a year-on-year basis.
- Vrijesh Kasera:** Going ahead from this, are we seeing some trend which makes us feel that the Poultry business would grow at around 15%-odd next year?

- Rajiv Gandhi:** Definitely, we are very sure of that trend.
- Vrijesh Kasera:** The cost that we have reported, the gross margins this quarter has substantially improved and there has been a substantial rise in the other expenditure. Can you help me understand that because normally we are in the range of 80%-odd as gross margins, but this quarter basically we are at around close to 90%-odd while the other expenditures are quarter-on-quarter there is a jump of around Rs.3-odd crores, so if you could help me understand what is this additional expenditure that we have done and whether this gross margin, are there any one-offs or something like that in this?
- Jigar Shah:** If you see the EBITDA level, in the fourth quarter it is 34.62% it was 31.81% compared to Q3, it was 28% in Q4 of the FY'15, but if you see our balance sheet in the past our EBITDA level was around 35-36%, so our mandate has to come again to this percentage, so if you see the FY'16 it is 32.78%, though it has seen in the last quarter but you cannot say that this will be the extraordinary trend of this quarter only, it will remain in this trend only and the EBITDA level will be 32-35% in the coming years only.
- Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs Asset Management. Please go ahead.
- Dheeresh Pathak:** I just wanted to follow up from the earlier participant's question of gross margin. What you are highlighting, Jigar, is the EBITDA margin in line with what you have historically been at 35%. A clarification is on that why specifically this quarter gross margin was at 92% Vs 70% for the full year last year?
- Jigar Shah:** In fact, our gross margin is not 90%, if you see in a percentage to percentage basis it is around 58-60%, I think what you are taking the employee cost from that portion you have to allocate some cost direct of the production to the GP level and certain portion we have to allocate to the below GP level. I want to understand what is the allocation you have made into that expenditure because otherwise it is not 90, in our calculation it is 58-60%, so if you have that breakup what you have taken for the direct labor and indirect labor, then I can give you clear answer on this front.
- Dheeresh Pathak:** I will take it offline.
- Rajiv Gandhi:** Please take it offline with us and we will be very happy to give detail clarification on that.
- Dheeresh Pathak:** For FY'16, FAO how much do they spend on PPR purchase?
- Rajiv Gandhi:** They have just started and their program which was to have started in the last calendar year sometime mid but they were a little slow on that, now there are indications that they are going to haste up the whole process, there has been a negligible tendering done as far as the last

financial year is concerned. It is not that we have lost any opportunity, there has been a delay in the Nepal plant which might seem that we have lost opportunity, but there are no lost opportunity, in fact, there is an order which we have already got once our commercial production start, the first day of our commercial production, licensing and everything, there would be an execution of the first order of FAO to some country in Africa.

**Moderator:** Thank you. The next question is from the line of Manjeet Buwaria from Solidarity Investments. Please go ahead.

**Manjeet Buwaria:** I had a couple of questions: One was if you could just give us the breakup of your export sales of Rs.10 crores between Poultry Vaccine, the Domestic Healthcare and the Poultry Healthcare? If we see year-on-year basically if I talk about gross contribution that is your sales minus your raw material cost, last year the figure the margin was at 84% and this year it is 92%. I wanted to understand the average between these two numbers and what would be your steady state number over here?

**Rajiv Gandhi:** To answer your first question as far as Exports is concerned, out of Rs.10 crores, approximately Rs.8.5 crores is Poultry and Rs.1.5 crores would be the Large Animal.

**Manjeet Buwaria:** This Poultry would be completely Vaccines?

**Rajiv Gandhi:** No, again in that, I would say around 90% would be Vaccines and the balance would be the Health Products. We will address with you offline the second question.

**Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Vasaria. Please go ahead.

**Giriraj Daga:** I have two questions: First is what is the outlook on working capital like will we improve from there? Also, when we are increasing our supply in the government, so what kind of cycles we are having then or like that cycle in the government business?

**Rajiv Gandhi:** Government business the debtor cycles are anything from 90-days to 10-days or even 5-days depending upon the time of supply, whether it is at the year-end at the time when they have to exhaust the budget. So it is a very wide range as far as government supplies are concerned, but they are all 100% secured.

**Giriraj Daga:** In terms of inventory and debt, are you looking to lower the cycles in FY'17?

**Rajiv Gandhi:** We are trying to work with a better product mix and trying to make sure that we try to rationalize our sales and our SKUs, etc., it is our endeavor, we did succeed last year, we hope to make more changes this year, it is difficult for me to give you an exact percentage or quantity that we will make this much change or anything, but yes, that is our endeavor.

- Giriraj Daga:** My second is more like a clarification; you give the guidance of about like blended 20% in Poultry '15, Large Animal 50% and Export 100% growth for FY'17. Did you included Nepal into the consideration or Nepal growth could be separate?
- Rajiv Gandhi:** No, when we say all these figures, we are looking at more or less consolidated between both the places, Nepal, there is no trend that we have on which we can build. So I think you could take everything as consolidated.
- Moderator:** Thank you. The next question is from the line of Khush Katakia from Beanstalk Advisory. Please go ahead.
- Khush Katakia:** I just wanted one clarification; you mentioned about your Exports and you gave a figure of 100% growth while talking during the presentation. I just wanted to confirm for how many years are you guiding for that 100% growth, I think you mentioned about FY'18 or three-four years you said something on that line?
- Rajiv Gandhi:** Yes, I did mention that, you are right.
- Khush Katakia:** So you are saying 100% CAGR growth for the next three years, right?
- Rajiv Gandhi:** Yes.
- Moderator:** Thank you. The next question is from the line of Yasser Lakdawala from M3 Investments. Please go ahead.
- Yasser Lakdawala:** Could you throw some light on the growth prospects of both the Poultry Health and the Large Animal Health Products segments because considering both the segments typically global level are much larger than the Vaccines business
- Rajiv Gandhi:** As far as the Large Animal Health segment is concerned, it should become the biggest division in years to come, that is true for all the companies, it is not just that what we think it should be for our company. So the growth potential in the Large Animal Health products is extremely high. As far as Poultry Health Products is concerned, as our base is small, we had 77 lakhs last to last year, last year 3.37 crores, this easily need to grow at anything between 70 to 100% on a year-on-year basis. In the Large Animal Health Products, yes, 50% minimum. The only thing is that we are very conscious about is our amount receivables and the product mix, we have realized that, trying to have a discipline in maintaining a proper discipline in that, we would factor that in our growth and any sales not done because of that we would not take it as a loss of sale.
- Yasser Lakdawala:** A follow up question was just trying to understand the level of competition in the Health Products, is it more domestic or are there large multinationals?

- Rajiv Gandhi:** In a way that in India the two big animal health companies are foreign health companies that are big. So, how do you take it that as the competition is international or Indian? But all these products most of them are made in India. So you can say it is all Indian competition.
- Moderator:** Thank you. The next question is from the line of Vishnu Chanreddy, an individual investor. Please go ahead.
- Vishnu Chanreddy:** This is regarding Exports. Any update on the **(Inaudible) 57:05** registrations of the company in Africa?
- Rajiv Gandhi:** Yes, we have had inspections from a few countries, drug department, their poisons board, they have come and they have inspected our plant and we have already got registrations in some and in some we are expected, it is going as per schedule I would say.
- Vishnu Chanreddy:** Regarding the distribution network, is it all in place the cold chain distribution in Africa and other countries?
- Rajiv Gandhi:** I would not say it is in place, but we are working towards putting it in place.
- Vishnu Chanreddy:** You just mentioned that you have an existing order for ready to go in Nepal plant. Any idea on the size of the order, is it possible to give a number?
- Rajiv Gandhi:** I find it a little inappropriate to give figures like this on orders, etc., not that I want to be rude or do not want to answer. I hope you do not mind and I apologize that.
- Moderator:** Thank you. The next question is from the line of **S Viswanathan** from Unifi Capital. Please go ahead.
- Saravanan Vishwanathan:** I would like to understand the new CAPEX that is being planned, would you have to increase your debt levels or your internal accruals are sufficient?
- Rajiv Gandhi:** Yes, we will increase our debt level, we have already sanctions for that in place and we have not increased our working capital this time, because of our no real need for increasing in working capital.
- Saravanan Vishwanathan:** This entire Rs.19 to 25 crores will be organic CAPEX or some acquisition that you have been planning?
- Rajiv Gandhi:** At the moment, we are working towards organic. Unless something comes up good and we really try to do that because at the end it is something like between time and money one has to give up to save time how much more money you give for an inorganic growth versus the



organic growth. So, if we get something we will do the pros and cons of it and then take a decision.

**Saravanan Vishwanathan:** So in Africa also, you are going to build all the distribution network, cold chain, everything on your own, you are not going to acquire something which is already there?

**Rajiv Gandhi:** At the moment, we are working with some distribution companies and we are working with them closely just beyond them being our distributors, I think we would create things on our own over that.

**Saravanan Vishwanathan:** In Nepal FY' 17, what kind of capacity utilization you are targeting?

**Rajiv Gandhi:** Maybe approximately 20% or something like that.

**Moderator:** Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** For this quarter, how much Poultry Health Products revenue?

**Rajiv Gandhi:** Our Poultry Health Products in this quarter we have not done anything substantial at all in this quarter because of the third and fourth quarters what we had done is though the things were slow and you have seen that we have got a very big boost from 77 lakhs to 3.37 lakhs. What we did in the last quarter we use that to rationalize everything in the field in terms of products, transfer of material from one place to the other, etc., So as we had already done good sales, we really did not push. To answer your question, our sales have been extremely low as far as Poultry Health Products is concerned in the last quarter but it has been deliberate that way.

**Dheeresh Pathak:** The Large Animal EBIT is shown as very high compared to what we were doing, an example you have shown an EBIT of Rs.2 crores?

**Rajiv Gandhi:** Yes, because of the tender business. There is no marketing and there is no distribution cost that we have and it is a direct business based on a quotation and supplying to the government in bulk. So in those businesses, we are able to manage good margin.

**Dheeresh Pathak:** Can you just also quickly give the tender mix in each of your business segments like Poultry Vaccine, Poultry ...?

**Rajiv Gandhi:** Poultry Vaccine the total tender out of the Poultry total business that we would have done last year which is of Rs.85 crores, our tender business would not have been more than Re 1 crores in the whole year and in the Large Animal, Vaccines we have done 2.13, out of that the tender business is Rs.1.7 crores.

**Dheeresh Pathak:** In the Large Animal Health Products?

**Rajiv Gandhi:** There is no tender business in that, it is all a trade business.

There were today with two people that we would take offline. We would be happy to connect offline to answer your queries. Be rest assured, we will address them.

**Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Abhishek Sharma for his closing comments.

**Abhishek Sharma:** I would like to thank the management for participating in the call and giving a very good overview of the company as well as for taking questions. Thank you and good day to everyone.

**Moderator:** Thank you, members of the management team. Ladies and Gentlemen, on behalf of IIFL, that concludes this conference. Thank you for joining us and you may now disconnect your lines.