



HESTER

“Hester Biosciences Q4 FY17 Earnings Conference Call”

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HESTER



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MODERATOR: ABHISHEK SHARMA – IIFL CAPITAL LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hester Biosciences Q4 FY17 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Sharma from IIFL Capital Limited. Thank you and over to you, Dr. Sharma.

Abhishek Sharma: Thanks, Janice. Good day everyone. This is Abhishek from IIFL Institutional Equities. I thank the Hester management team for giving us the opportunity to host this call. From Hester, we have with us today Mr. Rajiv Gandhi – CEO & Managing Director and Mr. Jigar Shah – Chief Financial Officer. I will now hand over the call to the Hester management team for their remarks, which will be followed by Q&A. Over to you sir.

Rajiv Gandhi: Good afternoon everybody, this is Rajiv Gandhi from Hester Biosciences, nice to be back on this investor's conference call and I am looking forward to give you an update of business overview of Hester followed by Jigar who would give specific figures and after that both of us would be open to answering questions from your side.

On the business outlook, as you are aware we are only into veterinary health products and biologicals. Most of our revenues have been from poultry vaccines because that is what we started in 1997 and it has just been a few years that the other divisions have started. The year gone by specifically talking about Q4, it has been more or less in line with the earlier quarters, a little bit plus and minus on the sales and on the profitability. But we have maintained a steady growth, the growth that we took on from the second quarter and we have been following that. There are nothing much on the high end lows specifically either in the quarter nor is there anything much to report over the whole years' time. The business continued to be dominated by poultry vaccines which grew at 19%, the large animal division grew at 61% against our earlier forecasted of 50%. On the export side, we grew at 44% though we had estimated a growth of 100% and on the domestic sales side, we grew around 21% better than our planned or budgeted growth.

I would like to first address the exports and then again I would come back on the poultry and the large animal divisions. As mentioned in the exports, we grew at 44% which is lower. Our estimates at the beginning of the year were based on registration mainly on the registration activities and partly on the tender. The registration activities that it is not in our hands really to try to control the registration time the

period because sometimes it happens fast, sometimes it takes a longer time. But it is a cycle which we have to follow and there is very less that we have in our hands to try to push the cycle in a faster level. Having said that, we have received quite a few registrations in Q4 of the last year, thereby making us believe that this year we should have again a good spurt in the business and we hope to again commit to grow at around 100% as far as exports is concerned.

Our second issue for exports is the PPR tender business which though has started, it is yet slowly picking up. So, I think by the time we are somewhere mid in this financial year that should also pick up and give us the necessary boost in terms of sales to try to achieve the expected 100% growth. On the poultry front, it has been a steady growth, a little more than the forecasted growth because of having a good market share, a good product line, we have been able to maintain this growth. On the large animal side, we did a little better than what we were supposed to do, being a smaller division, yes the growth rates have to be higher. We are reasonably confident and sure that we should grow the business at approximately 50% at least in this current financial year.

Let me first talk on the diagnostics division. We had committed and planned to launch the diagnostics division in the fourth quarter of the last financial year. There has been a little delay in that and the diagnostics division would be launched within a month's time that is in Q1 of this financial year. We hope that this division settles by Q2-Q3 from where we would start generating sales. We are very confident on one thing is that the profitability in this division should be reasonably better than the average profitability of the other divisions. As far as the sales is concerned, we would be doing some seed marketing, test marketing has already been done and hopefully by the end of the 3rd quarter we should have a trend ready with us based on which we could then do a proper forecasting system.

On the bottom-line as compared to the topline, I think we have made a little improvement in the bottom-line as well besides the sale growing in the quarter at 24% and in the year end at around 22%. The bottom-line improvement has always been as what we have even done in the earlier years, better inventory control, stricter credit controls and even the product mix, we have always been trying to change the product mix, which trying to push products which give us a higher profitability as well as we now try to plan the production in a way that we do not take small batches which become less profitable for the company. In the earlier years whenever we would get orders, we would rush to take production, batches, etc. But now we are streamlined that process so that we ensure that the profitability that is derived from

each of the batch that we make is at least higher because we do not get into making very small or inconsequential batches.

On the Nepal front as you are aware, end of last calendar year we started our commercial production, we had by that time also won a tender which order also we have executed. We are now focusing on additional tender business as well as the domestic sales from the produced at the Nepal plant. This also would stabilize shortly in this first or the second quarter and we should comfortably be able to take the sales and distribution activities further. On the international front, our focus remains to be in for Africa in this financial year and in this year we should have developed a strong distribution network mainly in Eastern Africa and then going further to Southern part of Africa and then to Western Africa. The whole distribution network, etc. would be in place in the next 3 to 4 months which is actually it is already functioning but when I say in place, I mean additional resources to be pooled in towards making it more robust than what it is, not that it is less, anything of it less at this point of time, it is just that we want to make deeper penetrations into the African market because the registrations which we are getting are coming on quite reasonably fast at this point of time. We have also got our other vaccines tested in the African Union Laboratory for supplying in the African continent. So these activities are well in place.

On the R&D side, we have last year spent approximately 6% of our topline on R&D expenditure which has been a little higher than the earlier years and we hope to continue spending between 6% to 8% approximately in this financial year. One of the products that we intend to roll out in this financial year is the thermostable PPR vaccines. You are all aware that we developed a thermostable or a thermo-tolerant Newcastle disease vaccine for the poultry for immunization for backyard poultry. We have now gotten into developing the thermostable PPR vaccines to immunize goat and sheep in the backward area. Africa as you know is a reasonable relatively more rural market where there are smallholder farmers and there are tender opportunities not only for the normal PPR vaccines but also for the thermostable vaccines because the vaccines has to reach deep down into the rural areas. We have already sent the trial batches for testing, it seems everything is going on well. Our laboratory test show that the product has already passed, we should get the pass certificate in the next few days and having got that, we should be able to launch the thermostable PPR vaccines within in a couple of months.

So, in general this is the overview of what we have done last year particularly in Q4 and even in the whole financial year. The business has grown in the whole year on the topline at around 22%, it has been a stable growth and we hope to not only maintain this trend but to better it to try our internal meetings, internal forecast, we

have plan to do a growth of over 30% in this financial year and even as far as the bottom-line is concerned, the trend being that last 2 years we have marginally improved our bottom-line. It is our endeavor to continue with that and try to get a little more improvement on the bottom-line as well.

I think with this overview, I would like to pass on the phone to Jigar Shah, who is our CFO and he shall specifically address the figures, after that both of us would be open to taking questions from all of you. Over to Jigar.

Jigar Shah:

Good afternoon, everyone. I am Jigar Shah - CFO of the company. I will discuss audited financial results of Q4 and year ended FY17.

The company's operations are divided into 4 business verticals; poultry vaccine, poultry health products, large animal vaccines and large animal health products. Under the poultry vaccine division, company has booked sales of 27.61 crores in Q4 FY17 as against INR 23.98 crores in Q4 FY16. Sales for the year ended FY17 has booked at INR 102.24 crores as against INR 85.47 crores in year ended FY16. Under the poultry health product division, sales booked at INR 1.15 crores in Q4 FY17, sales for the year ended FY17 has booked at INR 3.68 crores as against INR 3.37 crores in year ended FY16. Under the poultry division, overall 23.01% growth is registered in Q4 FY17 as against Q4 FY16. While 19.22% growth is recorded in the year ended FY17 as against year ended FY16. Under the large animal vaccine division, company has booked sales of INR 4.51 crores in Q4 FY17 as against INR 2.07 crores in Q4 FY16. Sales for the year ended FY17 has recorded at INR 6.83 crores as against INR 2.13 crores in year ended FY16. Under the large animal health products division, company has booked sales of INR 1.66 crores in Q4 FY17 as against INR 1.88 crores in Q4 FY16. Sales for the year ended FY17 has recorded at INR 8.37 crores as against INR 7.26 crores in FY16. Under large animal division, overall 84% growth is registered in Q4 FY17 as against Q4 FY16 while annually 61.84% growth is recorded for FY17 as against year ended FY16.

Now coming to the total sales and profitability of the company, total sales in the Q4 FY17 is recorded at INR 34.93 crores as against INR 28.18 crores in Q4 FY16 thereby achieving a growth of 23.95% compared to Q4 FY16. While comparing annual performance, total sales for the year ended FY17 is recorded at INR 123.22 crores as against INR 100.89 crores in year ended FY16, thereby achieving the growth of 22.13%. Company's total domestic sales is INR 106.69 crores in year ended FY17 as against INR 88.22 crores in year ended FY16 thereby an increase in domestic sales by 20.95%. Company's total export sales is INR 14.43 crores in year ended FY17 as against INR 10.02 crores in year ended FY16 thereby an increase in export sales by

44.01%. EBITDA is achieved at 33.30% for Q4 FY17, while in the year ended FY17 EBITDA is achieved at 33.22% as against 33.10% in FY16. Net profit is achieved at 20.25% for Q4 FY17 as against 19.53% in Q4 FY16. While in the year ended FY17 net profit is achieved at 20.16% as against 19.05% in the FY16.

Now coming to the balance sheet analysis, our fixed assets turnover in FY17 stood at 1.50 times as against 1.40 times in FY16. Our inventory level decreased by 23 days and stood at 97 days in FY17 as against 120 days in FY16. Total receivables decreased by 16 days and stood at 78 days in FY17 as against 94 days in FY16. Overall, working capital cycle decreased from 107 days in FY16 to 66 days in FY17. We have invested INR 15.31 crores in FY17 on CAPEX.

Coming to the financial ratios, ROCE stands at 24.06% in FY17 as against 20.69% in FY16. With the financial leverage, ROE is at 20.75% in FY17 as against 19.16% in FY16. Our ROI stands at 13.52% in FY17 as against 12.10% in FY16. The board of the directors had declared and paid interim dividend of Rs. 3 per equity shares on 20th October 2016. Further, the board has recommended a final dividend of INR 2.30 per equity shares. Total dividend for the financial year FY17 will be Rs. 5.30 per equity shares, resulting into total payout of 18.15% of PAT as per company's dividend payout policy. EPS for the Q4 FY17 is INR 8.32 per share as against INR Rs. 6.47 per share for Q4 FY16 whereas annualized EPS for FY17 is INR 29.20 per share compared to INR 22.60 per share for FY16.

Now coming to the financial results standalone of Hester Biosciences Nepal Private Limited, Nepal plant has been commercialized on 15th November 2016. Hester Biosciences Limited is a 65% JV partner in Hester Biosciences Nepal Private Limited. Company's total equity share capital is INR 11.87 crores on year ended FY17. Total sales for the year ended FY17 is recorded at INR 1.31 crores. Total pre-operating expenses for the year ended FY17 is INR 3.77 crores. Company has booked total loss of 2.14 crores in FY17 hence total accumulated losses of the company is 2.23 crores at the year-end of FY17. Total debt finance from the bank is INR 26.79 crores in FY17. Total fixed assets investment capitalized is INR 43.40 crores in FY17.

That completes my presentation. Thank you everyone, I am handing over to Mr. Rajiv Gandhi.

Rajiv Gandhi:

Before we take the question answer, I just add overlook to one point regarding the expansion we have invested towards creating an additional capacity for inactivated vaccines, which should go on stream in September or October in this year in 2017. Thank you, that completes Jigar and my presentation.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.
- Sarvanan Vishwanathan:** As regards exports, you have mentioned that in Q4 you have received quite a few registrations, can you give some specific updates on that as regards geography as well as the market size that begins there.
- Rajiv Gandhi:** The geography is Africa and as far as the market size is concerned, most of our focus being Africa the market size is reasonably large, I am not sitting with the papers wherein again I can give these figures in detail between vaccines but it is much larger than what our capacity is there and I think we should be able to start selling within the couple of months and our website in our earlier presentations it also has some slides towards the market size etc. I am sorry I am not sitting with those figures therefore....
- Sarvanan Vishwanathan:** No, actually I was referring to the market size of the geographies from which you have already got registration.
- Rajiv Gandhi:** See, the registrations that we have got, it could be 2 vaccines in Kenya, 3 vaccines in Uganda, 1 vaccine in another country. So, I am talking of Eastern and Southern Africa mainly at this point of time and the registration in most of the countries we at least have one product registered, it is not that there is a new country but one or two products does not give us the bandwidth to push our sales. With more products lined up, the possibility and the probability to get business even for the vaccines registered earlier become higher.
- Sarvanan Vishwanathan:** And second question is on thermostable PPR vaccines. I just wanted to touch up on the qualitative aspects. So, thermostable would mean that it can retain the efficacy even in higher temperature.
- Rajiv Gandhi:** Yes, if I just have to answer your question in one word, it is yes. But the thermo-tolerant capacity is made in such a way that, it is not that it just gives it a unilateral ability to withstand higher temperatures, it just helps it to cope up with the fluctuation in the cold chain. On the labels whether it is thermo-tolerant, thermostable or the common vaccines, the label claim always says to be stood between 2 to 8 degree centigrade.

- Moderator:** Thank you. We will take the next question from the line of Anirudh Shetty from Solidarity Investment Advisors. Please go ahead.
- Anirudh Shetty:** I would like to know, with the Nepal plant how much fixed cost will be associated with it and further for the current year FY17 in this operating expenses that we booked 3.77 crores does that pertain to the period post November 16 or was the expenses prior to that as well.
- Jigar Shah:** The total fixed assets investment capitalizes is 43.40 crores for the Nepal plant and you are mentioning about the total preoperative expenses that is 3.77 crores, we have booked and now the plant is on stream. So, it includes all earlier years' expenditure, so it is a capitalized so that is why everything is cutoff.
- Anirudh Shetty:** So, what are the fixed costs for Nepal starting this year basically FY18?
- Jigar Shah:** For 18, it must be I think around 2.5 crores for the year on an administrative side, I am giving on a fixed cost.
- Anirudh Shetty:** On the administrative side?
- Jigar Shah:** Yes.
- Anirudh Shetty:** And any other fixed cost related to Nepal, sir?
- Jigar Shah:** The financials are there. It will be around again 2 crores, we can say because of the interest and all. We have booked debt of around 26 crores and the rate of interest is 9. So it is a 5 crores to 6 crores you may consider as a total fixed cost for the year of FY18.
- Anirudh Shetty:** And also the tenders on the exports side, is there any particular reason as to why they are getting postponed, we were expecting a pharma execution in this quarter weren't we but it seems to be getting postponed to Q2 right now.
- Rajiv Gandhi:** The postponement has got nothing to do with Hester as a company or our capability to producing, releasing the vaccines. As far as the FAO tenders are concerned, we are completely dependent upon tenders whenever they are released. It is not that tenders have been released and we have been overlooked or we have not participated, there is nothing of that sort at all neither that we have lost tenders there is nothing of that sort. So, that is something which we are dependent on. But it does not seem as insecure as what I would sound that oh, if the tender is delayed then what do we do. There are even other non-tender businesses also that we are looking

but the registration process again from Nepal takes as much time as what it takes from India. So, therefore for the non-registration business, this is a gestation period while the registration is going on. So, I think overall put together in days to come, there should be a spurt of business and to again repeat the same thing, tender business definitely we are dependent on the issuing country or the issuing agency.

Anirudh Shetty:

Sir, one final question was on the poultry side in the domestic market. This year we saw very healthy growth rate, so we just wanted to get a sense whether this kind of growth rate is sustainable given the highly organized nature of the market and it is already been the second largest player going ahead.

Rajiv Gandhi:

We had forecasted 15, we grew a little more than that. This year again we have forecasted 15. We feel that this is a growth that we should be able to manage sustain.

Moderator:

Thank you. We take the next question from the line of Manish Jain from Sage One Advisors. Please go ahead.

Manish Jain:

Jigar, I just wanted to know on the CAPEX plan on consolidated basis for FY18 to take a decision on Africa plant?

Rajiv Gandhi:

The Africa plant which we have projected, I think we would want to really get into those once we are absolutely sure on the whole project in terms of financing etc. all these things. So, at the moment we are not in a position to give those figures as far as capital expenditure decides Africa planning is concerned, most of it has been done last year the capacity utilization would start from as I just mentioned September, October. In Nepal besides minor expenditure, minor capital expenditure up to say a crore or something, I do not think we should be doing anything. So this year should not see any major capital expenditure at either of the places. Having created these infrastructures, I think at some time we need to focus more on churning out business from them rather than just look at trying to invest in creating additional capacity. Secondly, we have made again a small investment in a company in Mehsana of around 2.63 crores which is about we are yet to make this money, the money would be paid at this point of time. That investment would consolidate our position towards sourcing our health products which till now we were sourcing from various other suppliers, etc. With this investment, with us having a controlling interest in that company, we should be able to control our own product supply.

Manish Jain:

Sir, the trading sales which you have shown of 12 crores in FY17 that must be primarily for health products?

- Rajiv Gandhi:** Yes. You can say it trading technically but it is all in our own brands and manufactured as per our specification under the presence of our own quality control.
- Manish Jain:** And second question was on manufacturing expenses in FY17 I have actually declined in absolute terms from 16.8 crores to 15 crores. Can you just highlight why is that so?
- Rajiv Gandhi:** See, these things could happen, there could be a plus there could be a minus. It all depends upon the product mix that we had last year. So each product has the different cost of production, manufacturing cycle. So, based on that, there could be a plus or minus on this but irrespective of anything when it reduces, it is always a nice situation but even if it goes up, it would never go up to a manner which could try to tilt the balance in any which way.
- Manish Jain:** And just one last question was on working capital, you all have reduced it very sharply. Is this current level of working capital sustainable?
- Rajiv Gandhi:** We have tried our best, in fact our sales could have been more than what we have booked. We have tried our best to curve the sales and we are still trying to keep that leash on in trying to become more efficient in terms of finances and we hope that this trend continues and we are able to at least maintain this or even lower a bit, I would not be very optimistic in lowering it to very great level. But this endeavor is continuously on from our side in the last 3 years if you have noticed I have been always making this statement towards improving our stock position as well as our debtors.
- Moderator:** Thank you. We take the next question from the line of Ankit Agarwal from Centrum Broking. Please go ahead.
- Ankit Agarwal:** Just want to understand, we said that the growth of 30% in this financial year is our guidance right. So, is this going to come from existing business or we launching new products also which is included in this guidance and also if you could give us some color on how we are looking at the Nepal subsidiary, how will that grow next year?
- Rajiv Gandhi:** You mean this year?
- Ankit Agarwal:** This year, yes.
- Rajiv Gandhi:** So, we have got quite a few registrations. There are not many new products in the pipeline for immediate but yes there are 2-3 products that we hope to. The big ticket items PPR, Brucella which are now very strong for us. They definitely would be the growth drivers as far as the large animal division is concerned and besides that on the

large animal health products side, we have planned to launch around 30 products in this financial year. These products could include it could be medicines, it could be feed supplements, it could be disinfectants. So, this is the range that we are really trying to launch within this financial year.

Ankit Agarwal: And sir the PPR this thing from Nepal side?

Rajiv Gandhi: Sorry, I was just wondering for a moment your other question. So, your question is on the Nepal side. If things go well, I think in Nepal we should be able to cross the 10 crores sales hopefully. Hopefully, we should be able to cross that mark or touch that mark.

Ankit Agarwal: And sir would you have any idea as to what sort of quantum of tenders that we are going to be released under the whole PPR program?

Rajiv Gandhi: It could be in Indian Rupee context, it could be as low as 20 lakhs to as high as 6 crores, 7 crores, 8 crores, 10 crores, 12 crores per tender. So, it is a wide range, it depends on country to country where the supplies are. If it is to a small country in Africa somewhere in the Middle East, then the quantum are low. If it is to some big country, then the tenders are of a higher value.

Ankit Agarwal: And sir could you give us a little bit more granularity with respect to some of our larger vaccines like Gumboro Disease, the Infectious Bronchitis, Infectious Bursa and the PPR, approximately how have we done in these and what will be the quantum of business we will be doing in each one of them?

Rajiv Gandhi: Right now, I do not have the breakup of the sales of each of the vaccines. In terms of value in poultry, live vaccine Gumboro would be number one. In terms of doses, Newcastle disease would be number one. So, that is as far as the poultry is concerned. The other vaccines besides the Newcastle and Gumboro, they are equally important to us but the doses sold are definitely less than what it would be for Newcastle disease may be the other vaccines, I am not even very sure, I could be completely wrong but IB vaccine doses may be equal to or a little bit plus minus to the Gumboro but then the prices of the IB vaccines and the other vaccines are low. So there are 2 ways are we looking at Rupee value or are we looking at dose values. So, that is as far as the poultry is concerned. As far as the large animal vaccine is concerned, we ourselves are focusing on marketing both these vaccines in the private sector, creating demand wherein there are people who would buy the vaccine in and use them. Besides the tender business that we are already making where we are already applying, we have made immense big inroads as far as large animal vaccines is concerned throughout the country and as far as international tendering is

concerned and the Indian market put together, we are the only company in the world who has the Indian strain as well as the international strain which is the Nigerian strain. So, we cover the full spectrum of PPR, the only company.

Ankit Agarwal: And sir, the top product by approximately what percentage of revenues will it be contributing?

Rajiv Gandhi: I would not have the figures, it would be wrong for me to give you any percentage at this point of time, may be through an e-mail exchange or an offline we can try to give you but I am sorry there is one set of data that I am sitting with and I am sure it is much more less than probably if everything is asked to me, so please pardon me for that at this point of time.

Ankit Agarwal: And sir just on the actual production in number of doses, what will be that number this year and what was it last year?

Rajiv Gandhi: It was I think around 6 billion or 5 or 6 billion something it was and in terms of doses, we should go up by approximately anything between 15% and 22% depending upon the product mix that we do. Please do understand that when large animal vaccines are sold, that time there is a smaller dose size and the cost of each vaccine is at times higher than the price of the smaller vaccines that we sell on the poultry side. So, it all depends upon the product mix that what we would ultimately come to.

Ankit Agarwal: And sir just lastly what is the investment in the CAPEX on the inactivated side?

Rajiv Gandhi: Around 15 crores-16 crores, which was mentioned in my last call and I have been mentioning that even for the year we had earlier postponed that because there was a little lull in the poultry in the beginning of last year and in the last to last year. But now I think things all in place, we are scheduled to commence production in a few months from now in that facility.

Ankit Agarwal: And just finally we were developing some recombinant vaccine ...

Rajiv Gandhi: The work goes on right now. I do not have any update on it right now. We are hopeful, that is all that I can say.

Moderator: Thank you. We take the next question from the line of Urmil Negandhi from Siddhesh Capital. Please go ahead.

Chetan: This is Chetan here. Just couple of quick questions and pardon me if it is a bit dizzy. But I just wanted to understand this entire registration process which you have done

for the international market specifically Africa as a market. Sir, I am just trying to understand when this whole process gets over and when you actually start selling the product in that market, normally what is the timeframe you take to grab that specific market or that specific area of the business and you are the only one when the tender gets opened or you have also somebody else apart from you. So, my whole point to understand is, is there a monopoly kind of a thing for that specific business for that specific year or government also tried to balance the supply of the product. How does this whole business model works in Africa if you can throw some light on that?

Rajiv Gandhi:

There is no monopoly. We do not have a monopoly, point number one. Point number two, it depends upon how each country views its approach towards whether it is Africa, whether it is Asia, Europe what is it that they are willing to invest in. We as a company want to use Africa as the base for our growth. So, we are putting, we are creating our own infrastructure, our own distribution, we would definitely be probably the only company or may be one of the only companies, I would say the only company being a manufacturer having its own distribution network. The other companies depend mainly on their distribution network which they have a distributor in South Africa who then in turns sells it to all these other countries over here. So, while not having a monopoly, accessibility to the market for Hester by our own Hester team definitely is going to be much more higher than the competition. Now how does this translate into business is something that we have to work ourselves. We are at this point of time confident to translate this accessibility into a good business.

Chetan:

Sir one just followup on this. You mentioned about roughly spending 6% to 8% on your revenue on your R&D cost?

Rajiv Gandhi:

Yes.

Chetan:

So, I just wanted to know the number or amount which you spent in last couple of years in terms of registration cost and what going forward you will spend if you can just split that data that will be a very helpful in terms of knowing what actual it cost to ...

Rajiv Gandhi:

Our cost more than money, we have been spending lot of time as far as registration.

Chetan:

Understand that I ...

Rajiv Gandhi:

The cost of registration could not go more than approximately you can say may be crore or something, I would not be able to give you an accurate answer. It is not being a very big cost ticket item in terms of money. Our focus has always been on time towards getting it because having got registration, to recover that cost is very

easy. So, I would not be able to give you the exact figure on this. But it is not so consequential that could make a difference to the economics.

Chetan: Sir just one last question. You spoke about the thermostable PPR vaccines, so I just have a small query, do we need to re-register the product which has already been registered by us in Africa or in Indian market once we do this or this is a completely different registration required for that for this PPR for almost every PPR vaccines.

Rajiv Gandhi: Any vaccine anywhere in the world when it has a different composition, it is treated as a new vaccine and it has a new registration process like any other vaccines. But that does not make a difference to us.

Moderator: Thank you. We take the next question from the line of Apurva Mehta from KSA Shares & Securities. Please go ahead.

Apurva Mehta: Sir just wanted to ask, most of the questions are answered. Sir how big can we see the market in Africa in next 3 to 4 years going down the line?

Rajiv Gandhi: Given the opportunity we should at least have, we could very easily have one of the vaccines or between Brucella and PPR we could cross more than 150 crores very easily.

Apurva Mehta: So that type of opportunity or more the opportunity is much big but we can address 150 crores is the ...

Rajiv Gandhi: I am giving you a figure which is an abysmally low figure. WHO, FAO in its own plan, it is all documented we are going by there. They would spend US \$6 billion to \$7 billion on just vaccine purchases in 15 years that translates into, I mean half a billion Dollar every year. I am not even taking those figures right now on hand because those things are extremely big opportunities and for me to talk to everybody and try to present to you that there is a market of \$15 billion that we will cover, we will get 30% share or 20% and this and divided by, I mean it is very easy for me to project that let's go on a very conservative, very something which is in our hand rather than talk and these FAO documents are available on the net from FAO websites. It is not something that I am talking myself.

Apurva Mehta: And sir on the animal vaccines side in India in next 3 to 4 years what kind of size we can become 5000 crores, what is your ballpark figure for that?

- Rajiv Gandhi:** Because government of India has embarked on 2 diseases eradication programs, Brucella as well as PPR. So, both these put together, we could cross a little over 100 crores as far as business is concerned.
- Apurva Mehta:** Sir any update on you going into developing human vaccines?
- Rajiv Gandhi:** No, there is no plan right now for us to look at developing human vaccines. There have been offers got to us to try to do trading in Africa because we have created an infrastructure, try to get into supply of human vaccines. Though there have been proposals come to us, we have not taken up anything and I mean to answer your question in one word, no.
- Apurva Mehta:** And sir you told that export will grow at 100%, this includes the Nepal sales or we are not including that?
- Rajiv Gandhi:** In days to come we would want to have a seamless supply whether Nepal, whether India and we would want to look at everything all put together totally. But the figure that we gave of 100% growth is only for India and we will add Nepal sales to that. But in years to come, we will talk of total consolidation. Today Nepal, it is just started to crawl, I mean it was born sometime in November, December, it is crawling right now. So, from next year when we gave figures, we will only give consolidated figure, so that we want to make it seamless in fact we have a seamless priceless, our website will not indicate whether it is manufactured in Nepal or India, so everything will be made seamless.
- Apurva Mehta:** So, now from Q1 there will be consolidate numbers coming?
- Rajiv Gandhi:** They have always been consolidated to us coming but we have to report standalone in any case. On a quarter-to-quarter, we have to give standalone figures and which we will continue giving.
- Apurva Mehta:** And sir what type of tenders still are pending from Nepal from execution from Nepal?
- Rajiv Gandhi:** I think if I would prefer not to answer these questions because these are directly related to our business and to protect myself against any competition, I would really not want to put this information in public domain. I am sorry.
- Moderator:** Thank you. We take the next question from the line of Harsh Kapadia, who is an Individual Investor. Please go ahead.

- Harsh Kapadia:** I just wanted to ask you about your QIP plans that about 2 quarters or 3 quarters ago you have mentioned about the possible QIP, but in a recent interview with Economic Times, you mentioned that you already have debt to financial expansion and there is no immediate plans for QIP. So, if you can just give your views about the plans regarding this?
- Rajiv Gandhi:** Yes, my view is very simple on this. The lesser the equity, the more returns to the investors the better returns they can get as far as possible finance it internally from the companies own prosperity from the funds that it generates inside take bank loans, repay them. So, that ultimately the investor gets more dividends rather than trying to water down the equity. If there are any opportunities which come, we will definitely look. I think more than a year ago or around a year ago we did take a Board approval for raising money and the approval is ready with the Board with the management but as long as we are able to fund it from internally we would not want to go into a QIP.
- Harsh Kapadia:** Just one followup. Do you see the next 3 years expansion can be funded by internal accruals and debt financing?
- Rajiv Gandhi:** If we want to grow at a fast pace of trying to 30%, 40%, 50%, 60%, it will not be possible for us to finance it internally and we will definitely have to raise or look at other sources of finance for which we have already taken a Board approval. So, at that time, yes we could trigger it but at this point of time we do not see anything come our way which needs us to raise those big amounts in order to finance it and make the business. See, organic growth is our first priority.
- Harsh Kapadia:** But are you looking at acquisitions of any kind?
- Rajiv Gandhi:** If it comes, yes. We have been looking actively in Europe, we have been looking something which has not come to us of the size that we want of the nature of business. So, we have not been able to really get anything and we are a bit conservative in this wherein we do not want to be aggressive in acquiring and show that oh, here now Hester acquired and so and so and the topline will go from 100 to 200 or 500 or whatever it is. Nothing at the expense of the bottom-line let me put it that way.
- Harsh Kapadia:** The only reason I asked because I am very grateful you touched upon the shareholder value creation because in the current market we have seen that the QIPs are not happening at the kind of valuations that company is expected to happen. So, I thought 30 time valuation is getting very difficult to finance the QIP and post the QIP also, there is a dilution in earnings in the stagnation of EPS so, the growth per shareholder value also gets restricted. So, I just wanted to ask you regarding this the

QIP question because when the shareholder value creation comes down drastically for a period of 1 to 2 years before this earnings start stabilizing again for the expanded capital basis?

Rajiv Gandhi: I think, I have already answered your question and we are here not to dilute anybody's interest and we need to make the balance sheet stronger, not diluted and any way the QIP resolution will expire in the next AGM. If needed, we will again take an approval but this is what the status is.

Moderator: Thank you. Next question is from the line of Amit Darji, who is an Individual Investor. Please go ahead.

Amit Darji: Sir what is the vision to 2020?

Rajiv Gandhi: A few years ago if you check out all our annual reports, I had made a statement that we would want to touch 1000 crores. To be honest, we have not been able to move that fast towards that position mainly because we are not compromising on the bottom-line. Our endeavor still remains the first. Now the first target that we have in our hand is around 8 to 10 times bigger than what we are at this point of time. It is our endeavor to do it fast. We are pushing with all the issues, with all these the market conditions, we have still shown a growth of around 20%, 24%, 23%. We will continue this. There is I think our vision we should now as what we were internally discussing in our leadership team meeting that rather than have a topline vision statement, why not have a bottom-line vision statement. We are working towards it and trust me we will soon make that even public.

Moderator: Thank you. Next question is from the line of Sarvanan Vishwanathan from Unifi Capital. Please go ahead.

Sarvanan Vishwanathan: Regards creating manufacturing facilities in Africa, which was your long term plans, when would you decide about that?

Rajiv Gandhi: May be in the next 6 months.

Sarvanan Vishwanathan: So, that plan is still on, right?

Rajiv Gandhi: Absolutely and that is organic growth, it will not be to do anything with anybody, no partnership, ourselves that is all.

**Sarvanan
Vishwanathan:**

And besides the timeline related aspects with respect to registrations, what are the other key risks to the guidance that you have given? I mean our endeavor is to do 30% revenue growth for FY18, what was the key risk?

Rajiv Gandhi:

There are 2 things. One is registration and our ability to produce that. What happens is when you are trying to sell in very many markets, say you are trying to sell in country A, B, C, D, E, F. Now the demand in A is probably different from E from different in C from different in D. Now that makes limitation in terms of taking batches and trying to honor or trying to take orders from all these places it something do we want to make everybody happy, yes, then there is a drop in some production because then we cannot manage everything all the time. If we are able to do something or partly just makes some few countries or some distributors happy and not others which is more an ideal situation, then we lose out on that business. So, this basically I would say our ability to produce batches to what would be the requirement and when there are new markets, the forecasting does not come accurate. The distributor is even slowly our own depot in some cases, they will slowly build up the inventory, build up the sales, etc. So, it is basically what is forecasted and what we are able to produce. These are the 2 things which are very keen and important for us.

**Sarvanan
Vishwanathan:**

So, the sudden outbreak of some poultry flu or virus, is not a risk?

Rajiv Gandhi:

There I would say it is not a risk because vaccine does not depend upon an outbreak or no outbreak. Vaccine is something it is a preventive medication which has to be given irrespective whether there is an outbreak or not an outbreak. So, it just that market forces, market requirements are different in each country, if say you are country A and Jigar is country B he wants more of Gumboro, you want more of PPR, suddenly he ask for Brucella vaccines now what do we do. How do we manage that production? Those are the few limits that is a limitation that we have to manipulate ourselves to the disorganized demand arising out of all these countries.

**Sarvanan
Vishwanathan:**

And Nepal where do you see it FY19 will it breakeven?

Rajiv Gandhi:

Yes.

Moderator:

Thank you. We take the next question from the line of Anirudh Shetty from Solidarity Investment Advisors. Please go ahead.

Anirudh Shetty:

Rajiv, you have mentioned that distribution is really important and given that there is a need for significant investment and actually setting up a proper coal chain facility

and various touch points and investing in sales staff, going forward how much as a percentage on sales do you see the distribution cost to be and do you expect the EBITDA margin to remain at where it is at around 35% with the increased distribution and sales expenses?

Rajiv Gandhi: Absolutely, I do not see any compromise on our margin because what happens is when there are higher costs, there are higher value realization also. So there, there is a very clear offset. It does not really become a limitation.

Anirudh Shetty: And I am not sure anyone has covered this question before but there seems to be a slight drop in the contribution margin, what is the reason for that?

Rajiv Gandhi: Just a minute. Can you define what do you mean contribution?

Anirudh Shetty: There seems to be a drop in the contribution margin year-on-year, so what is the reason for that?

Jigar Shah: That is I think, if you see the very minuscule percentage decreasing in the EBITDA level but that is in fact Mr. Gandhi has covered in his talk that it is because of the product mix and even we are working for the cost effective production that is why.

Rajiv Gandhi: Let me make an attempt to answer your question. See, these fluctuations or drops etc. could be there, all depending upon the product mix depending upon which product what is the contribution, what is the cost of the production of each product, so all these things are there. But then sometimes at the higher level at a product which we need to spend more towards the raw material but we might then recover because of our selling etc. all these things. So, I think we are not actually much geared and equipped to answer your question directly, I do not know whether you have got an answer, if we can offline, you can send us an e-mail with little more precision towards what you are asking, we will make an attempt to satisfy you.

Anirudh Shetty: Sure, I will drop an email sir.

Rajiv Gandhi: Yes, please I think that should be better.

Anirudh Shetty: And just one final question from my side. So, what is the trend in terms of strain availability in India right now and from where do you all source strain?

- Rajiv Gandhi:** No, we already have the strain. So, we do not need to source it. There is nothing that we need to source. It is already there with us. We just need to propagate the virus and sell. So, we are not dependent on any agency, anybody to get our strain and we can produce as much as what the country wants.
- Anirudh Shetty:** And is it much of a challenge for a new player to, if you want to access this strain to develop vaccine, will availability be an issue for it?
- Rajiv Gandhi:** It all depends upon the capability of the person. If one wants, they could make it available, there are many text books which also have the production processes but still there are not too many people in it. So, all this is a question of one's own ability on how they really manage it. Getting the seed virus is not the issue, the issue is producing the vaccine.
- Moderator:** Thank you. Well due to time constraints that was the last question. I now hand the floor over to the management for their closing comments.
- Rajiv Gandhi:** Thank you very much for being patient and I hope I have been able to answer most of the questions. I do apologize for not having answers to some of them. One is that Jigar and I, we may not be sitting with the data that you would ask but we would be more than happy to offline discuss issues and satisfy your question to the last and I think the insights that we get from every call it helps us better to look at things have a better insight on management on the perceptions that people have about Hester, about the management and we are always open to hear from you either in the call or offline, anything we are open to suggestions and talks. Thank you very much all of you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of IIFL Capital Limited, that concludes this conference. Thank you for joining, you may now disconnect your lines.