



HESTER

“Hester Biosciences Q2/H1 FY17 Earnings Conference Call”

October 20, 2016



HESTER



**MANAGEMENT: MR. RAJIV GANDHI – CEO & MANAGING DIRECTOR,
HESTER BIOSCIENCES LIMITED
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MODERATOR: ABHISHEK SHARMA – INDIA INFOLINE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hester Biosciences Q2FY17 Earnings Conference Call hosted by IIFL Capital Limited. As a remainder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Sharma from IIFL Capital Limited, 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. 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. Over to you sir.

Rajiv Gandhi: Good afternoon everybody, this is Rajiv Gandhi – CEO & Managing Director of Hester Biosciences and with me is Jigar Shah, our CFO. We are here today to discuss on the Q2 and H1 results of Hester Biosciences.

The first half of the year has gone reasonably smooth. In terms of turnover, we are as per our target and I think we would be able to keep our targets on. There could be a little bit of reshuffling between the contribution of the four divisions that we have namely poultry vaccines, large animal vaccines, poultry health products and the large animal health products. This internally there could be a little bit of an up and down in terms of target, but overall I think we are doing reasonably good. Our sales in the poultry division grew by 20%, little more than what was expected and also on the large animal division, we grew at 55% in H1. These are the two H1 figures. We had forecasted to grow the large animal division by 50%, we grew at 55. Though the growth has been good in terms of the total sales in the division, there is domestic sales as well as there is international sales. Though in the domestic sales, totally we grew at 24% while in exports, in the first half we have grown by 16%. Our mandate determination is to grow the export division 100% on a year-on-year basis as what I have repeated in the past in all the conferences. The exports have been a bit slow in the first half, but we have reasons to believe that we should pick up in these exports in the third and the fourth quarter. One of the main reasons we see is that the Nepal plant which is now slated for firm final commercial production on 15th November 2016. In fact, we have already got an order through FAO for supplies in Africa, so we would be proudly executing that order by which we would commence the sales for the Nepal plant is concerned.

Our focus in India now with the poultry already as you are aware, we are second largest in poultry. So we intend to have the focus on the large animal vaccines and the health products division. We see both of these divisions as growth drivers for our organization. We are soon to

launch the Brucella vaccine which again is in the radar of the Indian government towards disease eradication for immunization in cattle, so that vaccine we should be able to launch in the next 45 days. We are very hopeful that in the local sales, we will have a good boost specifically for this vaccine besides the efforts that are being put in on the health product side on the non-vaccine business.

On the exports, again talking about Nepal, we are very bullish on the PPR vaccine which we will produce in Nepal. We have already got our batches tested at the Central Testing Laboratory in Africa which is a common testing laboratory for the whole of African continent. We are ready with all the documents, we are ready with all the documentation formality is concerned. So once this commercial production starts, we are very confident on this. Even as far as the Nepal domestic sales is concerned, we have completely re-engineered our distribution and marketing network. From an exclusive distributor in Nepal, we have our own depot in Nepal through which we will do distribution and marketing by our sales not only for the vaccines, for the health products and of course we have the big flexibility of producing even those vaccines from which we will be exporting from India to Nepal. At times, what happens is that if there is an outbreak of certain diseases, Nepal forbids bans the import of vaccines from those countries. So sometimes it also happens that India is not able to export to Nepal. By this facility, we will be producing those vaccines in Nepal particularly the poultry vaccines and thereby we will ensure that there will be absolute continuity in our marketing and sales in Nepal besides of course all the efforts that we are already putting in, in India.

The another area which we now need to focus ourselves on which we have taken up is animal diagnostics division. As you are aware, around 2 years ago, we had started a joint venture with a company to manufacture diagnostics. Due to some reasons, we were not able to take that project forward. We have now started our own diagnostics division wherein we will manufacture diagnostic kits at our plant in Ahmedabad and we will do our own marketing and distribution in India besides looking at toll manufacturing opportunities with international companies for the same diagnostics. The diagnostic business is a small business, but it is a very specialized business and it gives us as much or even a little more profitability that we see in our biological in our vaccines business. So this is an overview of our business activities. We are more in line with our forecast. There have been probably as you would have seen a few swings, you might see that there has been a dip in profitability etc. On a quarter-to-quarter basis, if we compare it minutely, yes there is, but if you look at it overall, we have not deviated too much and even these small dips, we are trying our best to ensure that we do not encounter any small dips, but as you are aware, we manufacture biologicals.

Biological manufacturing does not have the same type of discipline as what you would make other formulations wherein you buy raw materials, you formulate, there is a fixed process laws etc. Dealing in biologicals a lot is dependent upon the yield that we get from the virus, from the bacteria, therefore there always is a little bit of a fluctuation. With this, I complete my

overview. I give the phone to Jigar Shah – our CFO who will now brief you on to the figures and after that, I would once again come back to answer your questions. Thank you for listening to me patiently.

Jigar Shah:

Good afternoon, everyone. I am Jigar Shah – CFO of the company. I will discuss about the unaudited financial results of the Q2 and H1 of 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 achieved sales of INR 25.11 crores in Q2 FY17 as against 20.10 crores while in H1, company has recorded a sale of 51.56 crores as against 41.49 crores. Under the poultry health product division, sales booked at INR 0.70 crores in Q2 FY17 as against INR 1.06 crores in Q2 FY16 while sales for H1 FY17 has been recorded at INR 1.49 crores as against INR 2.64 crores in H1 FY16. Overall, 21.95% growth has been achieved in the poultry division in Q2 FY17 as against Q2 FY16 while 20.22% growth is recorded in H1 FY17 compared to H1 FY16. Under the large animal vaccine division, company has booked sales of INR 0.22 crores in Q2 FY17 as against INR 0.02 crores in Q2 FY16 while sales for H1 FY17 has been recorded at INR 0.43 crores as against INR 0.04 crores in H1 FY16. Under the large animal health products division, company has booked sales of INR 2.90 crores in Q2 FY17 as against INR 1.84 crores in Q2 FY16 while sales for H1 FY17 has been recorded at INR 4.90 crores as against INR 3.39 crores in H1 FY16. In large animal division, 67.58% growth is registered in Q2 FY17 as against Q2 FY16 and 55.23% growth is recorded in H1 FY17 over H1 FY16.

Now coming to the total sales in the profitability of the company of both the divisions, company has recorded INR 29.63 crores in Q2 FY17 as against INR 24.01 crores in Q2 FY16 thereby company has achieved a growth of 23.43% in Q2 FY17 as compared to Q2 FY16. While in the half yearly comparison, sales for the H1 FY17 is recorded at INR 59.76 crores as against INR 48.53 crores in H1 FY16 thereby company has achieved a growth of 23.14%. The company's export sales has been recorded at INR 4.28 crores in Q2 FY17 as against INR 3.68 crores in Q2 FY16 thereby achieving a growth of 16.30% in Q2 FY17. While in the half yearly comparison, company has recorded total export sales of INR 6.98 crores in H1 FY17 as against INR 6.04 crores in H1 FY16 thereby registering 15.56% growth in H1 FY17.

Now coming to the domestic sales, company's total domestic sales has been recorded at INR 24.65 crores in Q2 FY17 as against INR 19.34 crores in Q2 FY16 thereby registering growth of 27.45% in Q2 FY17. While in the half yearly comparison, company has recorded total domestic sales of INR 51.40 crores in H1 FY17 as against 41.51 crores in H1 FY16 thereby growth of 23.83%. EBITDA is achieved at 31.03% for Q2 FY17 which was similar to Q2 FY16. While in the half yearly comparison, EBITDA for H1 FY17 is achieved at 33.31% as against 32.19% in H1 FY16. We have earned a net profit of INR 5.97 crores at 20.14% of the

sales in Q2 FY17 as against INR 4.30 crores at 17.90% in Q2 FY16. While in the half yearly comparison, net profit of INR 11.97 crores is earned at 20.03% of sales in H1 FY17 as against INR 8.96 crores at 18.46% in H1 FY16.

Now coming to the balance sheet analysis, inventory level is reduced to 99 days in Q2 FY17 as against 121 days in Q2 FY16 while the same is 98 days at H1 FY17 as against 119 days in H1 FY16. Debtors were decreased to 2.30 months in Q2 FY17 as against 3.03 months in Q2 FY16 while the same is 2.28 months in H1 FY17 as against 3 months in H1 FY16. Overall, working capital cycle was 64 days in Q2 FY17 as against 113 days in Q2 FY16 while the same was 61 days in H1 FY17 as against 103 days in H1 FY16.

Fixed asset turnover in Q2 FY17 stood at 1.59 times as against 1.45 times in Q2 FY16 while half yearly, it is 1.60 times as against 1.47 in H1 FY16. Total outstanding debt is INR 30.47 crores in H1 FY17 as against 39.59 crores in H1 FY16.

Coming to the financial ratios, ROE for the Q2 FY17 stands at 21.26% as against 18.09% in Q2 FY16 while the same stands at 21.32% in H1 FY17 as against 18.7% in H1 FY16. ROCE for Q2 FY17 is at 23.43% as against 19.40% in Q2 FY16 while the same stands at 25.78% in H1 FY17 as against 20.48% in H1 FY16. ROI stands at 14.78% as against 11.37% in Q2 FY16 while the same stands at 14.82% in H1 FY17 as against 11.85% in H1 FY16. Earnings per share for the Q2 FY17 is at INR Rs. 7.02 paisa per share as against 5.05 per share in Q2 FY16 while in the half yearly, it is Rs. 14.07 paisa per share as against 10.53 per share in H1 FY16. That completes my presentation. Thank you everyone.

Rajiv Gandhi:

So we are now ready to take questions.

Moderator:

Sure, thank you very much. We will now begin the question and answer session. We have the first question from the line of Amit Kadam of LIC Mutual Funds. Please go ahead.

Amit Kadam:

My first question on this Nepal thing, so commercial production will start from 15th November as such, so can you throw like what is the order book right now in hand and what is the visibility out there because we had stated in last con-call that we are targeting somewhere around 10 crores out of that particular segment and then second is that how is going to like this particular Nepal production and the FAO segment in terms of margin, so how the margin profile of this particular business?

Rajiv Gandhi:

To answer your question, first question is that orders in hand at the moment, the value of orders we have in hand as far as exports is concerned is approximately 3.5 crores. They are in hand. As far as margins are concerned, I think the margins that we would get for international tenders are in line with the margins that we have over here or a shed or two better. There is no question of margins reducing by any points as compared to what we are over here.

Amit Kadam: Sir then how the structuring of this order book happens like right now we have 3.5 crores and we had shared a guidance of maybe 10 crores out of that particular business for the entire FY17. So does the order come every like a 6-month or is it annual order?

Rajiv Gandhi: No, there is nothing like annual, the business is on a month-to-month basis or once there are requests for quotations and all, then it is a process and then you get the order and then you supply. So it is nothing that we need to have a full order book right at the beginning of the year or anything neither does any figure had it been even 2 crores at this point of time, it does not create any apprehensions because this is an ongoing process.

Amit Kadam: No, nothing about apprehension, but just wanted to understand because it is then like an effort-driven order and it will be more like a tender where we have to participate in a global tender for that kind of purpose. So it would not be every month as they will be doing in a stocking purpose maybe once in a 3-year?

Rajiv Gandhi: Every month, it could be in longer intervals because it is Africa continent that it is being covered, it is not a particular country. So there could be repeated orders, there could be even more in a month, there could be gap longer, so it is uneven. Today, FAO is also working towards eradication program so everything is right now in the formative stage. So things are happening. To be very honest, they are happening a little slow but it is definitely happening.

Amit Kadam: So when we got this 3.5 crores order, so what was the tender size and how do I measure ourselves in terms of like in the entire pie, how my 3.5 crores stands like, what was the share which we got in that particular thing?

Rajiv Gandhi: I think the full 100% of the supply quantities we have got and we bid and we got the order. At this point, I think it would be inappropriate for me to discuss at what price I got the order and at what price others quoted etc. which even I am not aware of. So I think it is just based on our quotation and our ability to get the business at a particular price.

Amit Kadam: I move forward. Sir my second part of the question is that working capital days have actually drastically reduced, in fact it has come down by 50% or so. So how do we see that the 64 days what Mr. Jigar quoted, is it going to remain stable at this level or it may change from quarter-on-quarter, but this is what end of the band like 64 days?

Rajiv Gandhi: It is always our endeavor to reduce the working capital cycle. Now this all depends upon inventory management. We have a large number of vaccines and large number of SKUs. So there could be times where production of so many SKUs happened while the demand is concentrated on a few. At some times, it is catered over more different type of low sizes etc. So as our working capital cycle has gone down, it is our endeavor to keep it down. We are trying hard to keep the product range very much rationalize so that things remain under

control. There is nothing out of control, they remain so that we reduce working capital cycle. We will try to maintain this. It could go a little lower. To be honest, it can even go up at certain times depending upon the situation. So I think it is something that is moving continuously, but you could be rest assured that it is not going to jump to higher level unless and until there is some major issue which is not in our control.

Amit Kadam: Is it fair to assume like this current 64 days may be will be plus and minus 10-15 days will be the things which we can foresee from now?

Rajiv Gandhi: It has gone down systematically and I think rather than me committing anything lower than this, this is a cycle which can be managed by us if things go right internally as well as the external environment.

Amit Kadam: So in stable environment with the demand and supply or no disruption or any kind of thing?

Rajiv Gandhi: It can remain this.

Amit Kadam: And sir third part of the question is that tax rate what we have been like saying in the last couple of quarters is like in this particular, it has dropped drastically. So just wanted to have a gauge on it like this quarter we have quoted ETR as it will be somewhere around 16 odd percent which has fallen. So any specific reason to it?

Jigar Shah: In this quarter, we are falling in the MAT and because of our R&D capital expenditure as well as revenue expenditure, we have got incentive and that is why our tax expenses are lower in this quarter.

Amit Kadam: So for full year, can you share like what will be the ETR?

Jigar Shah: It will remain the same. We will fall in the MAT and the tax rate will be sizably down in the next coming 2 quarters definitely.

Moderator: Thank you. We have the next question from the line of Manish Gupta of Solidarity Advisors. Please go ahead.

Manish Gupta: My first question is this \$7.5 billion that FAO is budgeting for PPR, how much of that spend will actually go into vaccines?

Rajiv Gandhi: 7.5 is vaccine, the total is around I think nearing to 10. I only have given the value for the vaccine.

Manish Gupta: So the vaccine, the product will be 7.5 billion.

- Rajiv Gandhi:** Yes, that will go towards the delivery system that will be an additional of I think around 3 billion or something of that sort.
- Manish Gupta:** But Mr. Gandhi even assuming that they start very small, if you divide 7.5 by 15, let us say 500 million, but even if you assume they start with 10% of that and let us assume Rs. 6 a dose or any standard price, what is the current capacity available in the world right now?
- Rajiv Gandhi:** Current capacity available in the world at this point of time would not be more than, you can say around 500 to 800 million doses.
- Manish Gupta:** So just if we take an average figure, how much would that be in million dollars?
- Rajiv Gandhi:** You multiplied by the price that you would want or..
- Manish Gupta:** So let us assume 10 cents a dose, I am not saying that is your price.
- Rajiv Gandhi:** 10 cents a dose multiplied by 500 million, 50 million.
- Manish Gupta:** So if the total capacity is only 50 million, but the demand is almost 500 million.
- Rajiv Gandhi:** You are talking of doses or rupees? You are dividing it by rupees and then you are saying that, are we talking rupees or doses.
- Manish Gupta:** Sorry, let me rephrase the question. How much is the capacity in terms of doses and how much do you think the approximate demand will be in doses?
- Rajiv Gandhi:** The demand if you calculate at this point of time as it is slowly building, the actual installed capacity if you take on paper is there, but they are all with state biological manufacturing units in the whole of African continent and there are not more than 4 or 5 private participants in any tender till date and all these government institutes, they claim to have a capacity, but it does not seem that they produce. So it would be very wrong for me to really give a figure because none of them are even qualifying to supply the tenders.
- Manish Gupta:** The next question I was not very clear about your answer from the first participant, but based on all the FAO orders that have been released till date and that you are aware of, what has been your market share in those orders?
- Rajiv Gandhi:** Market share has been nothing because Nepal will now start and from Indian plants, we have made supplies for poultry vaccines which is very small, but the PPR, we will now start with the FAO supplies because in India we cannot produce what FAO is tendering.

Manish Gupta: I am aware of that. My question was this 3.5 crores orders that you had in Nepal, would you be aware that of all the orders they have released..

Rajiv Gandhi: Whatever we have quoted, we have got the tender. There is not a single order that we have quoted and we have not got till now to make this total 3.5 and this total comes from only two tenders, not more.

Manish Gupta: The third question was your R&D spend, last year you had decreased it a little bit, but how much has been your R&D spend year till date?

Jigar Shah: It has been approximately 4 crores.

Manish Gupta: And do you take this through the P&L or a part of this is capitalized?

Jigar Shah: Partly, it is capitalized.

Manish Gupta: The last question sir was that in this business as you scale up because right now you are 100 crores, you have got lot of SKUs. As you scale up, would your inventory days reduce because though your inventory days have been coming down quite significantly, I wanted to understand why they are still at about 90 days. Is this nature of the business, is it that you have to keep something in stock or is it just as you explained that because of batch manufacturing, is just a question of your current size and SKU complexity?

Rajiv Gandhi: Yes, it is a complexity, it is a mix of all these things. Forecasting is not always 100% accurate, by that word it is forecast, it is not precise. So by that, then production cycles are different for different products and in order to ensure that there are no orders that we lose, there is inventory to be kept by us in terms of finished goods in terms of work in progress both. 99 days, not 90 days.

Manish Gupta: Okay, sorry about that. Last question, your CAPEX program for the next 2 or 3 years indicatively?

Rajiv Gandhi: Our current focus is to first stabilize the Nepal plant in terms of getting business from it and make it up and running which is now anyway going to happen and we are looking at expanding. As earlier mentioned in my earlier calls, we have a plan to totally invest a little less than 30 crores towards setting up our own in-house large animal health production unit as well as increase production capacities because considering that we have so many products, sometimes there is always something that we lose out and we are trying to get it and we are not able to, so there is some capacity that we would also increase on the vaccine front. Now on the time of making this investment, it was to be done last year, we delayed it deliberately in order to ensure that things go smooth and our first objective was to start the Nepal plant before really

getting into any more expenditure in terms of capital. Having reach this, our next goal is to invest and create our own large animal health production unit and increase capacities at least for a few vaccines in Ahmedabad.

Moderator: Thank you. We have the next question from the line of Abdul Puranwal of Centrum Broking. Please go ahead.

Abdul Puranwal: My question was regarding the margin dip what you have witnessed in this quarter on a quarter-on-quarter basis, so you partly explained it was due to the biologics which came into play?

Rajiv Gandhi: I will first talk on your question on margin dip. As I even mentioned in my presentation before I took the question, we make biologicals and there is always a little bit of less preciseness as what it would be in formulation, so there could be reasons where in one quarter we see relatively higher or in the other quarter we see a relatively lower margin and in us trying to beef up our distribution marketing network not only in India, in Nepal as well as in Africa, all these things put together could definitely would have jointly contributed towards margins going down a little bit, but we are very conscious of that and we would want to ensure that we try to manage the whole things specifically starting from product mix to all other expenditure. Once we set the bar high, we do not want to go lower than that. We are definitely in that process, we are determined to do that.

Abdul Puranwal: Sir for the full year, could you guide us with the margin front, would it be in a range of 30% to 35% what it is currently?

Rajiv Gandhi: Yes, absolutely. You are talking of the EBITDA margin. You could take that as given.

Abdul Puranwal: Okay and sir, you also see that the finance cost has been increased on a quarter-on-quarter basis again, this was in spite of we reducing debt by 9 crores, so can you give us an idea why would that happen?

Rajiv Gandhi: There are some term loans we have repaid, there are some term loans that we have taken and I will just give it to Jigar, let him answer.

Jigar Shah: Our CAPEX is going on at this point of time for the quarter 3 and quarter 4, it will like the same. We repaid some of the term loan and we have to take some new term loan that is why these ups and downs will always see in this Q3 and Q4.

Abdul Puranwal: Okay and sir just last question on the revenue guidance front, so for the full year you still maintain the 20% revenue guidance?

Jigar Shah: Yes.

Moderator: Thank you. We have the next question from the line of Harsh Vijay Shah of Crescita Investments. Please go ahead.

Harsh Vijay Shah: Can you just throw some light on your animal diagnostic division that you are planning to open like what is the separate expenditure we are going to incur and how much will be dedicated towards R&D and are we going to do any CAPEX towards that?

Rajiv Gandhi: The capital expenditure towards diagnostics is going to be relatively small because as we are producing biologicals, we are in any case up to a level wherein we are ourselves producing a few of the raw materials, components required for the diagnostic kits. So we do not foresee any major expenditure towards our diagnostics division. As far as R&D is concerned, yes, there is cost to that CR we would be incurring towards developing these diagnostic kits but it should not really qualify to any major level. As I mentioned, this division is going to complement the other divisions in every which way in terms of production as well as in terms of marketing and distribution and technical services. So this should help us improve our topline without much impact on the bottomline. Please do also keep in mind that this is a small division, it is not something that we could directly compare it with these current 4 divisions that we have.

Harsh Vijay Shah: And earlier in the calls also we mentioned that we are planning to open one separate large animal health products unit which of 30 crores but then it stopped because we would open it only after stabilization of our Nepal plant right?

Rajiv Gandhi: Yes, our first objective was Nepal, we are now at it, now everything else after that. So that I mean it is an internal discipline that for which we have taken that step, nothing else.

Harsh Vijay Shah: Okay so by FY18, can we see large animal health product division unit to be ...

Rajiv Gandhi: Yes, absolutely no doubt about it and it is not as complex as biological, so yes, you can take it as that.

Harsh Vijay Shah: Okay and what is the total CAPEX, no matter how small that we did in this first half of FY17?

Rajiv Gandhi: Around 5 to 6 crores.

Moderator: Thank you. Next question is from the line of Manish Jain of SageOne Investment Advisors. Please go ahead.

Manish Jain: Jigar, if you could give the consolidated debt because standalone is 30 crores, how much is the consolidated debt and while Jigar gives that thing Rajiv, we have been doing through GALVmed foundation trials at few states for poultry vaccines, can you just give some update on that as to how that is progressing and...

- Jigar Shah:** Consolidated debt is 30.47 crores for H1 FY17 and it was 39.59 crores in H1 FY16.
- Manish Jain:** Okay, so this is consolidated debt including Nepal?
- Jigar Shah:** Not including Nepal. This is standalone, Nepal debt is around 26.46 crores that we have to add on this standalone figure.
- Rajiv Gandhi:** Around 56 crores is the total consolidated debt. So your next, GLAVmed and the trial, we are not doing any trials, we are doing commercial selling of vaccines, one of them being the thermostable Newcastle disease vaccine and besides that, we are selling dewormers, we are selling PPR vaccine, we will sell Brucella vaccine, so it is selling, there are no trials that we are taking.
- Manish Jain:** And currently this is being done in how many states?
- Rajiv Gandhi:** It is being done in 3 states; Chhattisgarh, Jharkhand and Orissa.
- Manish Jain:** Thanks and my last question is on you will have had pretty good growth in poultry vaccines when I look at it as 51 crores for the first half. Do you see this doubling in the second half where 51...
- Rajiv Gandhi:** 51 translating to 102, right?
- Manish Jain:** Yes.
- Rajiv Gandhi:** Yes.
- Moderator:** Thank you. Our next question is from the line of Janani Rajashekhar of Securities Investment Management. Please go ahead.
- Janani Rajashekhar:** Most of my questions are answered, just wanted some clarification. In terms of the tenders that you are floating in Africa, can you give us an idea of the number of competitors that you have, what is the kind of competition you are facing there?
- Rajiv Gandhi:** We have around 4 or 5 competitors.
- Janani Rajashekhar:** Okay and the tender sizes would be?
- Rajiv Gandhi:** It varies, it could be a tender size of 20 lakhs, it could be of 3 crores, you cannot take an average because then the coefficient of variation would be very high.
- Janani Rajashekhar:** But on annual basis, what kind of....

- Rajiv Gandhi:** Annual basis, this is an upcoming thing, so we are going by the figures that we have got from FAO towards its expenditure towards immunizing and then thereby eradication PPR. So by that tool I think it should be sizeable amount from the first year itself, but I am not really very sure, we are going by 7.5 billion to be spent in 15 years. I think by dividing it by 15 would not be the right thing for the first year because these things slowly build up.
- Moderator:** Thank you. The next question is from the line of Niraj B of Multi-Act Trade & Investments. Please go ahead.
- Niraj B:** I just had one bookkeeping question. Basically before your Nepal plant commenced, all your interest, depreciation and pre-operative expenses were kind of capitalized. Now from Q4 onwards, these expenses will be expensed into P&L. So how much increase can we expect in these 3 cost heads, basically interest, depreciation and pre-operative expenses?
- Jigar Shah:** Quarterly, it will be around at Rs. 2 crores.
- Niraj B:** 2 crores including all these 3 interests, depreciation and operative expenses.
- Jigar Shah:** Yes, the loan amount will be more in the first period and it will be reduced as the period will go.
- Niraj B:** Okay, it will be repaid?
- Jigar Shah:** Yes.
- Moderator:** The next question is from the line of Jashika Mehta of HDFC Securities. Please go ahead.
- Jashika Mehta:** During the last quarter, we had mentioned that the company has installed a 100 kWh solar power generating unit and we had saved Rs. 300,000 in the quarter and we were looking to set up more like 700 kWh, so is the plan on or is there any changes in the plan?
- Rajiv Gandhi:** No, there is no change in the plan. It still remains as a plan, we have yet to get on to the implementation phase.
- Jashika Mehta:** Okay sir. So your early savings would be around 60-90 lakhs wanted to get implemented?
- Rajiv Gandhi:** Yes, 100 is 6 times more.
- Jashika Mehta:** Okay and sir would like to get some information about the recombinant vaccines, has the company done any further new vaccines into it or 2 to 3 vaccines could be developed by the internal R&D team, so is there any further update on that?

- Rajiv Gandhi:** No, there is no update, work is in progress and I think we all have our fingers crossed and everything should happen good as per the plan.
- Jashika Mehta:** Okay sir, so by when would we expect some movement in this?
- Rajiv Gandhi:** As far as the recombinant vaccine is concerned, I think we should go through anytime between 8 to 15 months from now, but besides recombinant, there are other products vaccines that are being developed, may not be recombinant may be the conventional vaccines which we would go on increasing the range. Our R&D is not just dependent on recombinant vaccine that is what I want to ensure.
- Moderator:** Thank you. We have the next question from the line of Yasir Lakdawala of M3 Investments. Please go ahead.
- Yasir Lakdawala:** Rajiv bhai, could you throw some light on your customer concentration in the poultry business as in what would be your top 5 or top 10 customers account for in terms of sales?
- Rajiv Gandhi:** You want the percentage of sales attributed to the top 10 customers?
- Yasir Lakdawala:** Yes, Rajiv bhai.
- Rajiv Gandhi:** I think I am not ready with these figures right now, but I can tell you the top 10 customers would be giving us a business of 30% of the business, what we have done over a period of years is that we have reduced the relevance of any product or any customer over a period of time and there is no customer that to own whom we are dependent in double digit of our total sales so that is what our situation is. I do not have this figure right now on hand, but I do not think I will be wrong in what I mentioned.
- Yasir Lakdawala:** Absolutely and even in future terms and in terms of large animal business as well, would you say there are few key customers who are, who would be sizeable portion of future sales?
- Rajiv Gandhi:** At the moment, the large animal health business is a very scattered business. So we do not have any big large customers the way we have in terms of poultry, so at least this is the trend right now and I think all over the country for every company, it would be that in poultry business is concentrated while in the large animals it is scattered, so would be in our case.
- Yasir Lakdawala:** And Rajiv bhai one last question, in terms of scaling up your large animal business, would you have to set up an entirely different sales and marketing structure or would there be some sort of..

- Rajiv Gandhi:** Nothing different, just the same, just push people to sell more. It would be our pressure in our sales.
- Moderator:** Thank you. We have the next question from the line of Apurva Mehta of KSA Shares & Securities. Please go ahead.
- Apurva Mehta:** Sir just wanted to ask that this poultry vaccine business which we are having, what will be our market share in that?
- Rajiv Gandhi:** Around 30%-35%.
- Apurva Mehta:** And the industry has grown by 20% or we have grown exceptionally well by 20%?
- Rajiv Gandhi:** We have grown more than the industry growth.
- Apurva Mehta:** So we have taken some market share from our competitors?
- Rajiv Gandhi:** Yes.
- Apurva Mehta:** And what will be the size of this animal product business and the poultry product business what we are doing, what will be the market size of this business?
- Rajiv Gandhi:** Actually, I again do not have this statistics with me at this point of time. We had published them 2 years ago in our annual report and we would definitely have it somewhere, but offhand, I am sorry but sometimes though we tried to be reasonably prepared for these..
- Apurva Mehta:** It is fine, just wanted to know the opportunity, how big is the opportunity?
- Rajiv Gandhi:** The opportunity is big. If I recollect from the earlier figures that I have, the theoretical market in India for just health products and vaccines, it should be approximately more than 1 billion, so around 6,000-7,000 crores. But these figures are there in my two annual reports before, all the statistics are there in our annual report.
- Apurva Mehta:** And the animal diagnostic business, how take is it?
- Rajiv Gandhi:** We hope that we do get a revenue of a few lakhs, may be a few 10 lakhs in the near future because it is an industry, it is a business which we need to educate and get people into using scientific tools towards disease detection, towards health management and then start doing the medication. So it is something that we will have to, it is a trendsetting thing that we will be doing.

- Apurva Mehta:** And on the Nepal plant, our peak turnover if we do like full capacity utilization, what will be our peak turnover from Nepal?
- Rajiv Gandhi:** It should be around 60 crores.
- Moderator:** Thank you. The next question is from the line of Ashish Khandelwal from ICICI Bank. Please go ahead.
- Ashish Khandelwal:** Sir, can you brief some government initiatives if any which can boost your business in India, government initiatives in poultry and husbandry bound?
- Rajiv Gandhi:** These are tender businesses for poultry as well as large animal vaccines and government of India is also embarking on immunization and disease eradication program for PPR, Brucella. We have already started PPR. Brucella vaccine will be ready in a month's time. So those are the businesses that we will be tackling and probably encashing.
- Ashish Khandelwal:** And same are the vaccines which are used in other part of the world like Africa and all countries or will these vaccines will be for India only?
- Rajiv Gandhi:** We are going to be producing vaccines also like for example the Brucella vaccine which we produce in India, we will also export to Africa. PPR, we will export from Nepal. So it is all a mix.
- Ashish Khandelwal:** Means it is a standard composition where you would not need to customize this composition as per the needs of different companies.
- Rajiv Gandhi:** The characteristics of diseases are different in different regions. Africa is an untapped market. The characteristics of diseases over there are some of them similar, some of them characteristically very different. So if you have seen any of our presentations, we have mentioned one line in the long run to have a manufacturing plant in Africa that is the statement which we have made. There is no time, there is nothing defined, but yes because each geographical region has its different characteristics in terms of disease.
- Moderator:** Thank you. Next question is from the line of Akash Kawle of Sacred Capital. Please go ahead.
- Akash Kawle:** So of the 7.5 billion planned by FAO, with only 4-5 clears in the market, so this seems like tempting, so what is stopping other players from entering this market, it was the CAPEX done like not that 30-35 crores right?
- Rajiv Gandhi:** Basically, it is a very low priced vaccine and people probably have not taken it up in their radar because of the low prices. So that could be one-off the thing, but in our case, we are managing reasonable high profitability even with that vaccine with whatever the price it is and

in days to come who knows, there could be people who are interested and who might come in, we will take our competition as it comes.

Akash Kawle: And if they come, do you have any significant mode on your side or like what would be the modes that you will be having on that side of business which would prevent our...

Rajiv Gandhi: We become more aggressive in pricing, spend more money in marketing activities and try to sell the product more aggressively. I think that is all that we can do. There is nothing really more than that, at least for in days to come. We are also working on our own R&D towards changing the delivery system of the vaccine, making it into a thermo-tolerant vaccine. So these are some USPs that we would anyway have and we hope that there is some uniqueness with us all the time which helps us to be in the market and plus we would be aggressive.

Moderator: Thank you very much. That was the last question. As there are no further questions, I would like to hand the conference back to the management for any closing comments.

Rajiv Gandhi: Thank you everybody for being part of this conference call and I hope I have been able to answer your questions to your satisfaction. If at all there are questions which you still have or they might occur to you in the course of time, do not hesitate, please call upon us and most willingly we shall answer your questions and if at all you are in Ahmedabad, please do visit us, it would be our pride to take you to our plant and give you a tour of our facility which we believe is one of the best as far as animal vaccines is concerned. Thank you.

Moderator: Thank you very much. On behalf of IIFL, that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.