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CIN L99999GJ1987PLC022333

04.11.2020

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai 400 001
Scrip Code: 524669

To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra – Kurla Complex,
Bandra (E), Mumbai 400 051
Symbol: HESTERBIO

Respected Sir/Madam:

Subject: Submission of Transcripts of earnings conference call

We hereby submitting a transcript of Earnings Conference Call held by the Management of the Company with investors on Saturday, 31.10.2020 at 2:00 p.m. to discuss the Standalone and Consolidated Unaudited Financial Results for the quarter and half year ended on 30.09.2020, for your information and record.

You are requested to take the above on record.

Sincerely,
For Hester Biosciences Limited



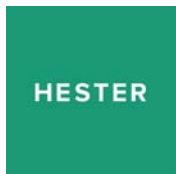
Rajiv Gandhi
CEO & Managing Director
DIN: 00438037

Enclosure: As above



"Hester Biosciences Limited
Q2 & H1 FY21 Earnings Conference Call"

31 October 2020



Analyst: Mr. Rahul Jeewani - IIFL Securities Limited

Management: Mr. Rajiv Gandhi - Chief Executive Officer & Managing Director – Hester Biosciences Limited
Mr. Chetas Patel - Chief Financial Officer - Hester Biosciences Limited

Moderator: Ladies and gentlemen, good day, and welcome to the Hester Biosciences Limited Q2 FY2021 Earnings Conference Call hosted by IIFL Securities Limited. As a reminder to all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rahul Jeewani from IIFL Securities Limited. Thank you and over to you Sir!

Rahul Jeewani: Good afternoon everyone. This is Rahul from IIFL Securities. I thank the Hester management team for giving us the opportunity to host this call. From Hester we have with us today, Mr. Rajiv Gandhi, CEO and Managing Director and Mr. Chetas Patel, Chief Financial Officer. I will now hand over the call to the management for their opening comments post which we will open the floor for Q&A. Over to you Sir!

Rajiv Gandhi: Good afternoon everybody, I am Rajiv Gandhi, CEO Managing Director Hester Biosciences, one again and as always, it is nice to have all of you on the call and I am always happy to give a brief review on the functioning of the company. The discussions today are related to the Q2 and H1 results and functioning of our company. While the press note has given quite a few figures, I would not like to repeat all these figures and since the last two calls as we have changed the format, it will be more of a subjective discussion that we would go through and then based on that I would be open to answering any questions.

Coming to the results our Q2 and H1, there is a lot of variation because the Q1 had a very subdued result and therefore the difference between Q1-Q2 being reasonably high the H1 even is not in sync in line with the Q2 results and this probably would be true to most of the companies and industries in this year, so the same has happened to us. Going through the business review of Hester India, as far as the Q2 sales are concerned, the sales have been reasonably good. We have had a 38% rise compared to Q1 FY2021 if we do a quarter-to-quarter comparison that is this Q2 comparison with the Q2 FY2020 there has been a 30% rise in our sales and if we do a H1 to H1 comparison, it has been 10%. As you are aware, we have two divisions. We have the poultry and the animal healthcare divisions. The poultry healthcare division had a growth of 28% in Q2 FY2021 and 7% in H1 FY2021 as compared to the Q2 and H1 of FY2020. The animal health division grew at 41% on a quarter-to-quarter basis and 26% on a half yearly comparison basis so there has been a reasonable growth as far as the top line is concerned and we see that this trend should now continue as far as sales are concerned because the demand for milk, eggs everything has now started going up, the feed prices for poultry are also reasonably stable at this point of time. Last year as you might recollect, there had been too many issues in terms of maize prices etc and the feed costs were very high. This year everything now seems to be going on track

and we are hopeful and we feel that the Q3, Q4 would yield us the results as what we had expected to achieve and the forecast internally made by us during the pre-COVID days. We have two ranges of products, one is the vaccines and one is the health products. Our vaccines grew by 26% on a quarter-to-quarter basis and 8% on a half-yearly basis while our health products grew at 51% on a quarter-to-quarter basis and 22% on a half yearly basis.

Our health products have definitely shown a remarkable growth as compared to the vaccines. Here I would like to make one statement is that vaccines, there is a difference between the usage of vaccines in certain health products. Health products could also include treatment products while the vaccines are mainly as a preventive medication, health products our range also has curative medicines. In times of recession we have always noticed that the products which are used for curative applications they are continuously bought while those used for preventive might be overlooked or might be skipped because of financial needs and vaccines coming into the segment of preventive, there could be a little bit of a chance that some people, the remote people, the small farmers they sometimes do it, but having said that, the vaccine sales has also picked up as of now and it should even take on further from here. On a geographical basis, our domestic sales grew by 30% on a quarter-to-quarter basis 8% on a half yearly basis while exports grew at 36% on quarter-to-quarter and 25% on a half yearly basis. As you all are aware, the Government of India has embarked on a immunization program against foot and mouth disease and Brucella. Hester biosciences manufactures brucella vaccine and we would be part of the government's campaign towards immunizing cattle against Brucella. Earlier there was a tender, the tender was cancelled by the government and now the new tender is expected. We would be participating, we are hopeful to become the largest supplier of this in the tender once it goes through and that should give us good business in Q3 as well as Q4.

Another point that I would like to stress over here is the lumpy skin disease. This is an emerging disease in India, it is found in cattle and the lumpy skin disease has no curative medication, there is only preventive medication and preventive medication is only again through a vaccine. Hester biosciences is at the moment the only company that is working towards the development of a lumpy skin disease vaccine and in six months time, we should be ready with this vaccine being the only supplier of the LSD vaccine in the country and we feel that this would be a tremendous huge opportunity for the company.

On the health product side, we are also now looking at introducing herbal products, natural products. The world is going away from antibiotics even in animals in Europe, in the United

States, antibiotics are banned in feed and on same lines we believe that natural products has a tremendous future. So on our health product side, we would be introducing a big range of natural products which in days to come, which could probably become the most focused product line out of our health products as far as Hester is concerned. Looking onto territorial expansion in India in the last few months, we have again started hiring people, rejuvenated our team and we believe that this additional hiring etc., is going to yield us very good results in Q3 and Q4. Definitely Q4 as we surely feel that poultry and cattle both these markets it has gone through a very bad time for a very long time and now we are confident that it would be taken very well in the coming days in this whole financial year.

In line with our mandate with our philosophy to reduce the dependency on any product, division or geography we are strategically working on this and as you see we have now put in a lot of trust on health products. As you see the poultry contribution from 71%-72% out of the total turnover the poultry health products and vaccines that has gone down to approximately 64%-65%. Territorial wise also we have made sure that all territories are equally covered so all these events and all these actions that have been taking place and what we have been embarking on clearly make us believe that we would be a company where there is no dependency either on a product or a division and geography so that there are any lull periods any recessionary period that does come in the animal health industry, at least we have the other division or the other product or the other geographies to depend on to sell our products.

In view of the lumpy skin disease as well as the Brucella opportunity that seems to be coming our way, we have decided to embark on an expansion plan, which would be finalized in the coming few days. Upon finalization it would be well notified to everybody. We are on the planning stage at this point of time and sooner than later we would be declaring our precise plans for expansion creating an additional production facility not only for these two vaccines which I mentioned, but overall as well.

Last but not the least talking about the COVID-19 human vaccine which Hester is developing in collaboration with IIT Guwahati, currently the virus is under construction at IIT Guwahati as soon as that gets complete, we will start working on the animal trials at Hester. We hope to commence animal trials probably by the end of November or the beginning of December and based on that we would take things further. Also we have been talking with a few human vaccine manufacturing companies to take on the development after the animal trials,

to take on it to its logical conclusion towards developing the human vaccine. So this much is for Hester India.

As far as Hester Nepal is concerned, it has been a rough time for us. I am now talking about our subsidiaries. As far as Hester Nepal is concerned it has been a rough time. COVID has put nearly a stop on the sales as far as FAO tenders are concerned as well as due to the non-availability of aircraft movement in and out of Kathmandu, so that has gotten us to a near to standstill in the first two quarters, but now FAO has started releasing tenders. We have already started quoting and we hope it is still in a small manner, but we believe that FAO will cover up the tendering business in the third and the fourth quarter thereby assuring that they also complete their target as far as the PPR vaccine is concerned. We have also started putting effort on the domestic sales as also mentioned earlier but even domestic sales were impacted because there was a closure for most of the time in Nepal, which led to even a lower sales as far as the Nepal in the poultry industry or the cattle farm industry is concerned.

Texas Life Science, the company continues to grow it is directly dependent on Hester India and the way we grow our health product business, we are growing in health product business in Hester therefore Texas Life Science has been able to at least maintain the sale as what we had last year. There has not been any much drop as compared there has been a marginal increase in fact on the sales and this would continue to grow as the health product business keeps developing in Hester.

Our trading entity in Tanzania which is Hester Tanzania that has been reasonably impacted due to the COVID. In Q1 we did have some sales over there, which were again quite minor in nature, but Q2 was more affected because there was no transportation of goods that was possible into Africa and therefore there has been a reasonable downtrend in the Q2 sales, which has overall affected the trading business over there, but now with things opening with even flights having started between Mumbai and Dar es Salaam for vaccines transportation, even goods transportation is now well under movement. We hope that from this quarter we would again aggressively get onto the trading business and in the meantime we have already started creating a good network over there, so all this will pay off in these coming quarters. Last but not the least our manufacturing project in Africa by the name of Hester Biosciences Africa, things seem to be going well except for a minor delay which is to the tune of around 60 days or so, not really more than that. I think we have done reasonably well compared to the lockdown situation all across the world. The problem what we faced

was not due to lockdown in Tanzania, but the problem due to transport and freight not being available to reach certain machinery over there and more than that in nearly in the whole of Q2, we could not send people neither contractors could go there to erect the machinery, to erect the utility services etc., so that has been a little damper for which there has been a little bit of a delay, but we are reasonably confident that in the last quarter of this financial year we will be able to commence production.

So that covers everything from my side and it is over to all of you to ask questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have our first question from the line of Amar Jain from Jain Investment. Please go ahead.

Amar Jain: Firstly I wanted to understand what is the size of opportunity you are looking at in the lumpy skin disease? , you are saying that in the next six months you will be launching probably what kind of timeline do you foresee in terms of developing this vaccine?

Rajiv Gandhi: As mentioned, the timeline is six months for us to develop this vaccine and this vaccine is to be administered to cattle which includes buffaloes also against the lumpy skin disease and the total target population in India is around 300 million heads to be vaccinated against lumpy skin disease. This is the theoretical demand. So when we say 300 million, we are looking at 30 Crores.

Amar Jain: Okay Sir understood that is all from my side.

Moderator: Thank you. We have the next question from the line of Aditya Nahar from Alpna Enterprises. Please go ahead.

Aditya Nahar: I had three questions Sir, the first one could you talk about the status of registrations of the portfolio in the African countries. The second one is the status of the FAO tenders for Hester Nepal which you have given in your press release but if you could just talk a little bit more about that and lastly Sir is there a possibility for the tie up for just manufacturing the COVID vaccine at your end, your thoughts or comments on this?

Rajiv Gandhi: Your first question was related to registration of products in Africa right, as far as registration is concerned it is an ongoing process, there are more than some 14-15 or probably even 18-20 countries that registration processes are going on and there could have

been one or two products registered in each of these countries or even more or they are about to get registered. While I am talking to you I do not have the fact sheet in front of me on a country wise breakup, but we are doing reasonably well, but please do keep in mind that due to the COVID reason most of these government offices were closed for quite some time for nearly four to six months. So there has been a lag in the registration activities as well. Now the second question was FAO tenders for PPR from Nepal. Nothing much to say except that FAO has started the tendering process, small tenders have already come, in fact we are waiting for the outcome of those tenders and it is a process which directly is not under our control so we wait and we take it further though we have enough assurances from FAO that things would fall back on track as far as PPR vaccination programs in each of these countries is concerned and the third question was COVID-19 human vaccine manufacturing capability ability at Hester Biosciences India. We ourselves do not see that as a possibility how much ever capable we are, we have already built a business of over Rs.150 Crores of vaccine business that we are having at Hester Biosciences. We would not be in a position to overlook that business and go on to this. Having said that, there are opportunities already available with us from people and companies who are willing to take up the manufacture of the vaccine at their end so it saves us the trouble of creating that infrastructure too, it does not hold us back in our routine production that has been going on for the animal vaccine.

Aditya Nahar: Thank you so much.

Moderator: Thank you. We have the next question from the line of Viraj, an Individual Investor. Please go ahead.

Viraj: Couple of questions from my side, when you state that Brucella is Rs.100 Crores per annum opportunity and PPR is Rs.12 Crores to Rs.15 Crores, how much share do you think that Hester can realistically get from this once the government tendering begins?

Rajiv Gandhi: I would not really be able to tell what the share we can get, I can share historical data, which is probably in even public domain. As far as Brucella is concerned, we have made around 80% of the sales done in India in the last one year. As far as PPR is concerned, we have sold our market share through government tenders is approximately 70% to 75%.

Viraj: Okay so if you replicate those percentages in this tender market you are talking about a potential Rs.90 Crores sale between the two understood.

- Rajiv Gandhi:** Theoretically yes.
- Viraj:** You mentioned lumpy skin is 30 Crores in volumes annually theoretically what does that translate into in rupee terms and what is the broader market including exports in rupee terms?
- Rajiv Gandhi:** We would not like to disclose our selling price, we are still developing the vaccine so it would be more prudent for me not to disclose that price as far a lumpy skin disease is concerned.
- Viraj:** Maybe you can give a range a very broad range are we talking about Rs.20 Crores-Rs.30 Crores potential or a 50 plus Crores?
- Rajiv Gandhi:** Any vaccine would be more than a rupee for sure so even if you take one rupee it is Rs.30 Crores you take Rs.2 if you see.
- Viraj:** What is the indicative, are we talking Rs.50 Crores, Rs.100 Crores plus?
- Rajiv Gandhi:** Again you are trying to hold me on to that, just give us some time to get into this Viraj I mean just give us sometime it is a very good potential for us that is all that I can say.
- Viraj:** Excellent, can you expect obviously you had some working capital burden given what the rural and pharma folk have gone through over the last six to 12 months, can we expect working capital cycle to improve every quarter from October 2020?
- Rajiv Gandhi:** It will improve we have reached probably the lowest at this point of time and we definitely foresee that by December we should be back on track with our usual credit terms with our usual sales and all these things, we definitely foresee that no doubt about it and plus the tendering business would also start which would again give us a lot of strength again.
- Viraj:** Of your consolidated gross debt of Rs.120 odd Crores how much is from the Gates Foundation since your standalone debt is about Rs.20 Crores?
- Rajiv Gandhi:** Gates Foundation is 10 million, Rs.75 Crores approximately I am not getting into exact but 10 million is Rs.75 Crores.

- Viraj:** And compared to March 2020 you have capitalized nearly Rs.100 Crores of assets in September 2020. Is this for Tanzania and what is the pending capex for that project and what will come from you versus the foundation?
- Rajiv Gandhi:** I mean when you say incurred it is like we have acquired and we have built up the asset base and it is mainly in Tanzania.
- Viraj:** And what is the pending capex for Tanzania?
- Rajiv Gandhi:** No we have completed our capital expenditure for Tanzania.
- Viraj:** It is complete now, in its entirety so contribution from Gates plus companies equity?
- Rajiv Gandhi:** Yes is everything is done.
- Viraj:** That is good to hear so it will be good to have that on stream next year and if I heard...
- Rajiv Gandhi:** I tell you it has just been a minor delay as what I mentioned I think we are in a reasonable good position as far as the African project is concerned, I think it has been a very good management over there, partly we have done it and partly there is a lot of efforts that have been put by the team over there, the people over there, government also support so it has been a good period these last few months.
- Viraj:** No I think given the circumstances it is come up reasonably on time and on cost, are you seeing a pull from the market for your products already in Africa so can we expect a good start next year?
- Rajiv Gandhi:** There are inquiries that are coming in, there are distributors who are there wanting to take up our distribution etc., so it is something which is in a formative stage. At this point of time it would be wrong to say that there is a heavy demand and we are waiting the day when it opens and there will be a rush I think that would not be a true statement, it is a fragmented market, efforts will have to be put in and the distribution channels will have to be optimally utilized so it is going to be an exercise, but yes we are confident that we will go through all these processes and vaccines will be made available to people where earlier they have never even heard or they never expected that they would get any vaccines against these animal diseases.

- Viraj:** And if I heard you correctly on the last question asked by the prior person for COVID vaccines or human vaccines we are not looking to manufacture in-house is that the takeaway?
- Rajiv Gandhi:** Our idea is to from here on take it further because we have innumerable people willing to work with us to take this vaccine to the next stages so in collaboration there are facilities that are accessible to us wherein the vaccine can be manufactured so keeping that in line we thought why get into an extra capital expenditure when there are some opportunities like this available.
- Unknown Speaker:** Okay so Rajiv bhai on that topic maybe if you can help me a little bit to further this understanding what would be your role then let us assuming you have a foreign partner with the tech pack, you have ability to advance it understand vaccines and manufacture but if you are saying you are right...
- Rajiv Gandhi:** I tell you stabilizing the vaccine going through the human trials everything is our responsibility to ultimately get the vaccine released, everything would be our responsibility, our team would be working on the vaccine, our team would be doing the modifications if at all needed etc.
- Viraj:** Right only that you would identify a third-party contract manufacturer to manufacture it is that correct?
- Rajiv Gandhi:** Yes.
- Viraj:** Instead of doing it in-house?
- Rajiv Gandhi:** Yes.
- Viraj:** Okay and last question from my side then I will be gone, are you exploring FMD vaccine at all in India and are you looking in Nepal, Tanzania as well?
- Rajiv Gandhi:** We have a desire to get into FMD vaccine and let us see how we take it further I would not say a yes or no at this point of time, but it has been there up in our mind.
- Viraj:** Okay all the very best hopefully next year is better than this one.

- Rajiv Gandhi:** Oh it is bound to be but this year is surely going to be better infinitely than last year be rest assured.
- Viraj:** Okay all the best Rajiv bahi thank you.
- Moderator:** Thank you. We have the next question from the line of Manish Gandhi, an Individual Investor. Please go ahead.
- Manish Gandhi:** Good afternoon everyone, Rajiv bhai just to continue on the human vaccine out licensing you said that we have Rs.150 Crores, Rs.170 Crores of many vaccines in our India but what about the Tanzania or Nepal do we have extra capacity and can we explore that to out license?
- Rajiv Gandhi:** We have capacity because the plant has not even gone on stream, in Nepal we are waiting for FAO tenders so our sales are less so I mean theoretically we have a lot of spare capacity so we do have a spare capacity it is not that we do not have our spare capacity if the need arises we can even convert the Nepal plant into a human vaccine and we can even take that further so these are options available to us, what option we exercise that is the issue and we need to exercise the option which is most suitable for the benefit of the company so we would take that decision at the appropriate time?
- Manish Gandhi:** Right because even Tanzania is coming say in January, February and with our relationships and understanding with Gavi also so even in Africa also we can explore right because initially?
- Rajiv Gandhi:** Absolutely no options are shut all options are open, but what happens is when I talk to investors, to people like you, analysts etc., I have to be as clear as what I can and therefore I have made that statement for the human COVID vaccine. Please I would appreciate all listening do not read anything in between the lines or there is nothing of that sort, we are open for anything and everything as long as there are alternatives available, why convert one capacity into another and not have business of one type of vaccine so with this intention it is not with any other intention not that we are not capable of there is nothing of that sort.
- Manish Gandhi:** Obviously I understand and appreciate and you have created so many streams and with my little understanding I always try to explore what goes into your mind and what are the opportunities?

- Rajiv Gandhi:** Thank you very much but be rest assured there is no incapability it is just taking the best choice that is for the company that is all.
- Manish Gandhi:** The second question Rajiv bhai what led to re-tendering of Brucella vaccines.
- Rajiv Gandhi:** It was government's internal thing because they had certain probably an increase in demand and what had happened is that legally also I am not very sure I could be wrong when I make this there is a period after which things lapse and this COVID thing extended the whole matter too long so that also could be one of the reasons.
- Manish Gandhi:** Do you also feel that given the finance stress for government it can even further delayed?
- Rajiv Gandhi:** No chance, be rest assured no chance.
- Manish Gandhi:** Thank you so much.
- Moderator:** Thank you very much. We have the next question from the line of Manish Gupta from Solidarity. Please go ahead.
- Manish Gupta:** Rajiv bhai, I wanted to understand from you, this FAO program for PPR eradication has been in the works for quite sometime, now there is still no firm visibility on how that program will scale up, so just wanted to understand from you, what are the challenges they are facing, so have they secured the funding right now even they are depended on lot of grants from large countries one would imagine, so do you have comfort that the train has finally left the station, because we put up a huge plant in Nepal for this vaccine and there just does not seem to be any sense of timelines when this project will finally take off?
- Rajiv Gandhi:** It does appear what you perceive is definitely I would not say that it is completely a wrong perception, these are world bodies, individual companies like us do not have access to reasons behind what goes in there and the reasons for delays or anything to happen, my knowledge would be say 5% more than what we read in newspapers about FAO, WHO etc., but having said all these, I am reasonably sure that the PPR immunization movement would catch up and it would be slow, but it would definitely happen there is nothing that it is going to happen I would say that even if they come up to 15% of what they have committed that in itself is big enough for us to make the plant run at full capacity, earn the normal profit etc., so not that our plant is so big that we are in a stress that unless and until that really comes up and all. If you see last year at Rs.15 Crores turnover also, we made a minor

profit, we were a little over the breakeven point, so any thing that give us this much turnover and we are good to go, so I agree it is slow, even if it is slow we will still be able to make it, it is not that we have such huge big capacities. Also in Nepal we have now taken the licenses of all the other poultry vaccine as well as a few other vaccines which India does not allow to manufacture including the Brucella vaccine, which is also manufactured in India over here, so what we have done is we have created the facility over there which can supplement the Indian production unit in the event of any specific needs at any point of time, so that is something which we have done in the last six months while everything was low and not moving.

Manish Gupta: Second question is that our poultry business is quite like annuity business, because chicken is consumption item, other vaccines which are say for example, Brucella or lumpy skin disease are these long term opportunities or are these opportunities which are for a finite time period and then the demand for these will dip?

Rajiv Gandhi: At this point of time, there is no finite time that can be defined that by this the opportunity would go down, there is zero chance for Brucella vaccine that it would not be needed, that it would be eradicated, that lumpy skin would be eradicated, there are two diseases that have been eradicated PPR is the third disease which is on the way and that two has been time tabled as 15 years that was three years ago, things are slow, so there is nothing that is going to happen even in the immediate long run that can disrupt any of our products or our business.

Manish Gupta: Let me rephrase my question. Let us assume in the first year or two years, our demand for Brucella say 100 units, because the government program takes off to immunize all the cattle, so you see a huge boost in demand because let us say 60%, 70% of the organized sector cattle get immunized, but is there need for replacement shot for this vaccine in three year or four?

Rajiv Gandhi: The Brucella vaccine is a one-time lifetime vaccine, but the new born calves are being added every year, population of which is increasing on a year-on-year basis, this is always going to require the vaccine. Every newborn calf would need the Brucella vaccine and it needs to be vaccinated around between three to eight months it needs to be vaccinated, so now there is always a replenishment of cows and there is always the need for the vaccine.

Manish Gupta: My last question was in our Africa business, how much of our business plan over there would be dependent on tenders vis-à-vis just our own sales people selling into the market?

- Rajiv Gandhi:** At the moment the tender dependency, the calculations are with zero dependency on tenders as far as Africa is concerned, if tenders come that would add to our business.
- Manish Gupta:** Can you share any numbers about when we expect Africa to breakeven?
- Rajiv Gandhi:** I think in terms of breakeven I would not have the figures but I think we should breakeven in two years time.
- Manish Gupta:** Okay, thank you.
- Rajiv Gandhi:** Two to three years time that is whatever CFO is prompting me.
- Manish Gupta:** You mean breakeven on the P&L or did you mean payback in three years time?
- Rajiv Gandhi:** We are talking of P&L.
- Manish Gupta:** Thank you Rajiv bhai.
- Moderator:** Thank you very much. We have the next question from the line of Manish Jain from GormalOne LLP. Please go ahead.
- Manish Jain:** Just wanted to know on capex you mentioned for LSD Brucella, so just wanted to know will you give preference to LSD Brucella over your to plan for FMD in India?
- Rajiv Gandhi:** Brucella or FMD or LSD are you talking?
- Manish Jain:** LSD and Brucella, will they get preference in capex over FMD?
- Rajiv Gandhi:** Definitely, a bird in hand is always worth two in the bush as the old saying goes, so what we are that something we will first look into and prioritize that for sure, no doubt about it.
- Manish Jain:** And just add on to this question is, will you focus on FMD in Nepal and Tanzania?
- Rajiv Gandhi:** There are chances that we could do that and as I said I am not able to give absolute timeline as far as food and mouth disease vaccine is concerned, because every time we get onto looking at it something closer than we get another opportunity, what has happened is LSD vaccine or all these other vaccines also have a trade market apart from the government tender business. Today FMD is near to 100% tender business. What we feel is that we

should focus on product where there is hedging between government business, private business and so these opportunity seem to be more of liking to us.

Manish Jain: Got it. Second question was on getting update on the Nova pharma program that you are doing on Egypt if you can give some status update?

Rajiv Gandhi: It is an Egyptian company who wants to set up a poultry vaccine manufacturing unit and we are giving them tech transfer, helping them to develop the vaccine and sell it over there and in return there is a technology transfer fee plus we have exclusive rights for international marketing. The project is under construction at this point of time.

Manish Jain: Perfect. Thank you so much.

Moderator: Thank you very much. We have the next question from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Again second quarter result is there and we can talk to you, so finally due to COVID, how much we may impact in FY2021?

Rajiv Gandhi: FY2021?

Ravi Naredi: Current year.

Rajiv Gandhi: I think our endeavour is to forget COVID as far as our veterinary business is concerned and move on, we have already been able to achieve the targets decided by us during pre-COVID time and Q3, Q4 even if they go in a similar manner, it would be good to us. I personally feel that we have moved on.

Ravi Naredi: Okay and what is the progress of human vaccine progress so far?

Rajiv Gandhi: I have discussed everything in the earlier questions, but I think I should again give it to you on the nutshell that we would be starting animal trial sometime end of this month or beginning December and then we will take it further once those trials are in place.

Ravi Naredi: Okay, but it will take another how many months?

Rajiv Gandhi: For the animal trials?

Ravi Naredi: Animal trials then human?

Rajiv Gandhi: Human I cannot say animal trials approximately three months' time.

Ravi Naredi: Thank you Rajiv bhai and all the best.

Moderator: Thank you very much. We have the next question from the line of Richa from Equitymaster. Please go ahead.

Richa: Thank you for the opportunity Sir. My question is regarding the herbal products opportunity that you have mentioned in the opening remarks. If you could give us a sense of what is opportunity side and you are the existing player and will the margins be different from the antibiotics product?

Rajiv Gandhi: The world is heading towards natural products, so herbal products are part of the natural products scheme of thing, antibiotics are banned in the western hemisphere. India, they have not yet been banned, but I am sure I have reasons to believe that in days to come if India wants to export farm products, need eggs etc., all these issues would come up because of the residual value of antibiotics in meat, eggs, milk etc, so the opportunity for herbal products definitely seems to be reasonably large at this point of time. Herbal products, we have a team that is now looking after doing some research on these herbal products. As far as the profitability of these products are concerned, we have reasons to believe that they should be of reasonable good profitability, they should match with the profitability of our vaccine and there are few companies in India, it would be inappropriate for me to mention any one, two or three names in it, because it might sound that we are trying to compete with A, B, C and all, so I think it is a good business opportunity that we are looking at his point of time.

Richa: Thank you very much and all the best.

Moderator: Thank you very much. We have next question from the line of Deepak Mehta an Individual Investor. Please go ahead.

Deepak Mehta: Good evening Sir. Thank you for taking my question and great set of numbers. My question is around our sales for government order, so out of total revenue what is the percentage, which we get on the revenue from government order and tender Sir?

- Rajiv Gandhi:** I do not have those figures on hand at this point of time may be on the side we can give you this information, but as far as poultry is concerned, it is around 2% to 3% of our total business, as far as Brucella PPR is concerned, it is approximately 80% of our business.
- Moderator:** We will move onto the question from the line of Shrikar an Individual Investor. Please go ahead.
- Shrikar:** Most of my questions have been answered. Just wanted to know about the Hester Tanzania, I believe we have invested Rs.100 Crores there right?
- Rajiv Gandhi:** Sorry, can you repeat your question?
- Shrikar:** In Hester Tanzania, how much have you invested till now?
- Rajiv Gandhi:** Now, there are two companies, Hester Africa and Hester Tanzania, Hester Tanzania is a trading company wherein our investments are very low, Hester Africa, our capital is \$4 million which is around Rs.32 Crores Indian rupees approximately which we have invested.
- Shrikar:** Alright and what is the revenue potential we expect, as in the peak revenue potential that...
- Rajiv Gandhi:** At capacity between Rs.200 Crores to Rs.230 Crores.
- Shrikar:** And as you mentioned we expect to break even in two to three years on the P&L, so by break even how much percent of the capacity has to be utilized for that?
- Rajiv Gandhi:** We do not have the exact calculations at this point of time and in days to come when we do our forecast we would be able to do all these things, different vaccines have different break even points, so the product mix etc., all these would be derived probably by sometime in the first quarter of the next calender year that is Q4 and then we would be able to put things on play.
- Shrikar:** Got it and similarly for Hester Nepal, I would like to give me a similar number and what is the peak revenue potential?
- Rajiv Gandhi:** Peak revenue is approximately Rs.50 Crores to Rs.60 Crores and at Rs.15 Crores we made minor profits so the breakeven would be less than Rs.15 Crores.
- Shrikar:** That is it from my side. Thank you.

- Moderator:** Thank you very much. We have the next question from the line of Arnav Kapur in Individual Investor. Please go ahead.
- Arnav Kapur:** Thanks Sir for the opportunity. On the Africa market, just to confirm I got the right numbers, what we are saying is essentially the peak revenue potential is Rs.200 Crores, Rs.230 Crores between that range and in two, three years we expect to be Rs.32 Crores from a breakeven perspective, so essentially right now if I look at the numbers is Rs.2 Crores, so we expect in Rs.3 Crores to jump it to 16 times of that right?
- Rajiv Gandhi:** No, I think you are confused between two different entities, one is Hester Tanzania which is trading and one is Hester Africa which is manufacturing, there is zero turnover in Hester Africa at this point of time.
- Arnav Kapur:** Okay, so essentially the press release says 27 million, so we expect that number to go to 32 right or is the maximum other number, so just to get a sense what is the baseline for this entire Africa including Tanzania number?
- Rajiv Gandhi:** I have not understood 27, what figures are you referring to full...
- Arnav Kapur:** 27 numbers for FY2020, 27 million for Hester Tanzania for last year, the question is in next two years, what do we expect to next two, three years, what do we expect the revenue or net sales to be?
- Rajiv Gandhi:** Where is this figures 27 million, I am not able to where is this, yes, I think for there, you are talking about the break even over there?
- Arnav Kapur:** Yes, I am asking for the revenue potential overall, but break even...
- Rajiv Gandhi:** The revenue potential is reasonably high, we should be doing three, four times, the revenue we should have done this year, it is just that COVID has caught us down, but this is 27 million that is Rs.2.7 Crores right, we will do five times this turnover this year itself.
- Arnav Kapur:** Thank you Sir and for the second question on the LSD, you mentioned 30 Crores population and if I understand correctly that goat pox vaccine has been used currently in India, so do we expect that Indian government will shift to LSD vaccine as soon as after the six months you started in some pace roll out?

- Rajiv Gandhi:** Absolutely, what else could be done there is nothing else.
- Arnav Kapur:** From a goat box vaccine potential, you expect the total shift to happen towards the LSD right, because...
- Rajiv Gandhi:** Goat pox has its own demand and it has been sold to cure goat pox and this in addition that they are using it at this point of time, but it would be a specific lumpy skin disease vaccine in some time.
- Arnav Kapur:** Okay and this will be a primary...
- Rajiv Gandhi:** Not the same, there is some difference in terms of dosage etc., it is not just apple to apple or you can use this exactly for this.
- Arnav Kapur:** Got it. I just was reading and I understood that the government...
- Rajiv Gandhi:** Your information is right, it is not wrong, but it is not a complete substitute.
- Arnav Kapur:** Okay, so the shift will happen and six months or one year and when it does, this should be primarily a tender driven business or do you expect private procurement also for this?
- Rajiv Gandhi:** Private procurement less to begin with, tender more then slowly once people start getting used to it and then if there are availability issues then they start procuring privately, so initially tender and then privately.
- Arnav Kapur:** And just one final question, on the COVID vaccine, what do you expect as the revenue potential for Hester in one, two year period?
- Rajiv Gandhi:** I would not be able to say anything on this, please.
- Arnav Kapur:** Thank you for your time and best of luck for the next quarter.
- Moderator:** Thank you very much. We have the next question from the line of Lalaram Singh. Please go ahead.
- Lalaram Singh:** Good afternoon Sir. My question is on the non-vaccine business as you call animal health products excluding the vaccine part, I want to understand which are the top three products

which are the major products which contribute to that business and number two, I wanted to understand the strategy which we are following in that business?

Rajiv Gandhi: Which products are the biggest contributor, we have got few star products like protein C, I would not really know the other product names at this point of time, ReproPlus is another good brand name that is selling, so there are quite few products that are going well as far as this division is concerned.

Lalaram Singh: May I know the application area of these two names which you just took?

Rajiv Gandhi: It is for improving milk production and reproductive.

Lalaram Singh: Got it and second, this production is done under Texas Life Sciences?

Rajiv Gandhi: Yes, you have understood it right.

Lalaram Singh: And this will be 100% or does Texas also do contract manufacturing for other brand owners?

Rajiv Gandhi: Very minor, it is 90% Hester, 10% outside.

Lalaram Singh: Got it and Sir, do we expect to make Texas a fully owned company or may I know who is the other 35% owner?

Rajiv Gandhi: There are other shareholders from whom we have acquired 55%, they continue at this point of time, there is no plan for us to take full ownership etc., the purpose is that we have our feet ownership in a company wherein we have control over the products, the quality, the supply chain etc., everything is happening on as per the objective, so as long as we are achieving our objective why should we really try to change anything at this point of time.

Lalaram Singh: May I know in this quarter 50% growth, what were the key drivers, which product or was the distribution regions, can you talk about that, what drove that growth?

Rajiv Gandhi: The question that you have asked me probably I would need our team of marketing people to really enlighten me on all these things and to be honest these are quite confidential figures, so even if I would have them it would be inappropriate for me against the interest of our own business to share such details.

Lalaram Singh: What are the things which you can share about this business long term plans, because I believe it is a focus area, non-vaccine, you want to diversify your business, de-risk your business?

Rajiv Gandhi: There is no diversification, just please hear me out, there is no diversification. Vaccines is our strength and we are producing vaccines, we will continue producing vaccines, we are getting into an expansion plan, the health product market is bigger in terms of rupee or in dollar terms than the vaccine market, therefore we also want to be in that, the scope of doing a bigger turnover is very high in health products, therefore we are also into it, it is not a diversification, it is an addition.

Lalaram Singh: Thanks for that. I just wanted to understand that because it is a materially different business in terms of characteristics versus the vaccine business, how are we approaching that particular business in terms of...

Rajiv Gandhi: It is in the same manner, we have the same marketing distribution network everything goes through the same channels and ultimately the customers are the same.

Lalaram Singh: So the key there is not to produce something, the key is to sell it right, it is not difficult to produce a like-like vaccine, it is actually difficult to produce a vaccine, but in...

Rajiv Gandhi: The complexity in vaccine production is much more than in animal health products production.

Lalaram Singh: Are you spending more in branding marketing, that is what my question was, how we want to sale that, because it is not about manufacturing right more about selling, creating a brand and all that, so I just wanted to understand.

Rajiv Gandhi: I am not able to understand your question, we are company that is marketing and distributing animal and poultry health products and this is also requirement of that. All our products have our own brands, so it is as much as working towards technically qualifying our product for the purpose which it is being used and we are selling it. Yes, it is our own brand and it is our own label and it is manufactured at Texas, marketed it by Hester, Texas is also partly owned by us, so that is it.

Lalaram Singh: Can I ask one last question Sir.

- Rajiv Gandhi:** Now that you are online might as well.
- Lalaram Singh:** Thanks a lot for that. What was the market share is within animal health products which we are doing like.
- Rajiv Gandhi:** There is a small market share, there are companies that are doing much, much bigger turnovers, so our market share is reasonably small less and that is the bigger potential that we are actually looking at.
- Lalaram Singh:** Thanks a lot Sir and wish you all the best to you and your company.
- Moderator:** Thank you very much participants. That was the last question. I would now like to hand the conference over to the management for closing comments. Over to you Sir.
- Rajiv Gandhi:** It has been good question, answer session. I think it has been quite longer than what it has been every quarter, but I always enjoy answering these questions. I hope I have been able to answer everybody. To sum up everybody at Hester is working hard towards assuring all its stakeholders, shareholders that our hard work will definitely yield into good results in terms of the actual business, in terms of valuation everything. Our philosophy continues to be the same, there is no change in whatever, however, the turmoil may come, turnover may go up, we still continue to follow the same philosophy and we are proud that this will be the way we will take things further. We do have plans to become aggressive and take the turnovers on a geometric progression upward growth. Unfortunately, the first quarter and partly the second quarter, the first quarter mainly did dampen not only our spirits, but it has dampen the spirits of the entire world of all companies individuals at personal level, professional level, but we are all here to work hard and take Hester to the next level. Thank you.
- Moderator:** Thank you very much participants. On behalf of IIFL Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.