



HESTER

“Hester Biosciences Limited Q2 & H2 FY2018 Earnings  
Conference Call”

9 November 2017



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**Moderator:** Ladies and gentlemen, good day and welcome to the Hester Biosciences Limited Q2 & H1 FY2018 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 the 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:** Thanks Lizanne and 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 would be followed by Q&A. Over to you Sir!

**Rajiv Gandhi:** Good afternoon everybody. This is Rajiv Gandhi, CEO and Managing Director, Hester Biosciences and with me is Jigar Shah our CFO. As always it is nice to be on the call and present to you as well as have an interaction with you towards any questions, queries, or suggestions that you might have.

So let me start with just a general overview of our business in Q2 and the first half of this financial year. The first two quarters and the H1, our sales have gone up by around 27% on a quarter-to-quarter basis and around 10.8% on an H1 basis. The highlights of this topline for this quarter, the highlights are that we have been able to get many orders on the large animal vaccine side namely Brucella and the PPR vaccine, which has made a big jump in our large animal vaccine sale. In fact, these sales have gone beyond our forecast, so it has made us reasonably happy on the situation and if things go on these tenders would continue coming and hopefully, we should be able to get the tender business regularly within India from all the states. Each state has a budget and they plan to buy the PPR and the Brucella vaccine.

On the poultry vaccine side, particularly on the vaccine, the growth has been of around 10% and that growth is more than the growth of the poultry business growing on a quarter-to-quarter basis in India and we have been able to maintain and take a little more share, so we are quite happy with it as always that I have mentioned, our growth drivers in Hester Biosciences would be now the large animal division that is vaccine as well as the health products.

I would like to address at this time on the exports that we have done in this quarter and in the first half due to exceptionally high orders from the tenders that we have won on the domestic side, we have partly diverted all those vaccines onto the tender supplies because as you may be aware tender business if there is a noncompliance there could be chances of being blacklisted, etc., so we have diverted a lot of business on the vaccines in the domestic side upon winning the tenders. Therefore the exports have suffered to some extent rather to a great extent because of this diversion. At this moment upon seeing this trend, now we have taken steps I would say corrective steps because we would never like to lose any orders as we get. We have started taking corrective steps whereby we build bigger vaccine bank for ourselves and we would ensure that exports or domestic sales neither of these suffer due to any exceptionally high orders. Of course, it would take time for us to reach this situation, but I think in a quarter's time, we should be good enough in a way that we would be in a situation wherein we would not lose any orders, so that is a comparison between the domestic sales and the exports. In terms of profitability, the large animal vaccine gives us good profitability. In fact if exports are also done the way we have projected, the profitability on exports would be higher than that in domestic sales, so in days to come, we are reasonably hopeful that if we are able to execute all orders and we continue getting the good stream of orders locally as well as internationally it should in fact improve our profitability.

One more area, which I just remember I need to address on the exports, we are creating the distribution network in Africa and there has been some slowness. The orders that have been diverted they are not any tender orders. They are those private orders from distributors, so we have not actually defaulted or not quoted on any tenders, but the tendering has been a little bit slow on the PPR side, which we hope that in the coming quarters that should again take the sales up due to better tendering.

On the Nepal front, our business has been going on a little slow. We have registered a turnover of 13.2 in this quarter and in H1, it is 19.4 million. There is an accumulated net loss of 19 million up to H1 FY2018. Things are moving a little slow, but we are very confident that we would be able to overcome all these hurdles within this financial year and hopefully the PPR tendering would also start and it should definitely completely, there would be a 180 degree change in the health of the Nepal plant. It is of a little concern as we are not going as per forecast, but it is not a very big concern to us even in this current situation. As mentioned last time, we had registered a company by the name of Hester Biosciences Africa Limited. We are right now doing some market survey for African specific vaccines for the African Continent. The current results seem reasonably optimistic. We have chosen that if at all we set up the plant, we would do in Tanzania and as per the

timeline that we have made for the African project, we are going reasonably well on that segment.

We have other areas, which I would just like to touch are that we had developed a Thermostable Newcastle disease vaccines, Newcastle is the most common disease in poultry worldwide and this thermostable vaccine is being given mainly to the backyard poultry farmers. We are at the moment under a project in three states in India to immunize the backyard poultry. The project has gone reasonably well. In fact it could be termed as the world's largest backyard poultry immunization program. It is being conducted in Orissa, Chhattisgarh, and Jharkhand and we have completed phase one of the project and we are embarking on phase two and that is another area though the turnover is small, but it gives us immense visibility as well as goodwill in rural India, which in the long run we would use that distribution network to supply other inputs also to backyard poultry like dewormer, etc., so this is a little brief on the performance of Hester and as mentioned, the large animal business has a good potential and we would definitely improve the profitability beyond even what it is now if our exports go well and all the future sales forecast are being done keeping the higher profitability in mind. So, thank you very much for hearing me out on this brief note. I will hand over the phone to Jigar to talk preciously on the financials and then I would be there to take any of your questions as well as do more detailing as what you would want. Thank you. Over to Jigar.

**Jigar Shah:**

Good afternoon everyone. I am Jigar Shah, CFO of the company. I will discuss the unaudited financial results of Q2 and H1 FY2018. The company's operations have been divided into four 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 INR 28.09 Crores in Q2 FY2018 as against INR 26.65 Crores in Q2 FY2017. While sales for H1 FY2018 has been recorded at INR 52.05 Crores as against INR 52.69 Crores in H1 FY2017.

Under the poultry health product division, sales booked at INR 1.48 Crores in Q2 FY2018 as against INR 0.70 Crores in Q2 FY2017. While sales for H1 FY2018 has been recorded at INR 3.23 Crores as against INR1.49 Crores in H1 FY2017. Under the poultry division overall 12.21% growth has been achieved in Q2 FY2018 as against Q2 FY2017 while 2.02% growth is recorded in H1 FY2018 as against H1 FY2017.

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Under the large animal vaccine division, the company has booked sales of INR 5.62 Crores in Q2 FY2018 as against INR 0.23 Crores in Q2 FY2017 while sales for H1 FY2018 has been recorded at INR 6.11 Crores as against INR 0.43 Crores in H1 FY2017.

Under the large animal health product division, the company has booked sales of INR 2.92 Crores in Q2 FY2018 as against INR 2.89 Crores in Q2 FY2017 while sales for H1 FY2018 has been recorded at INR 4.77 Crores as against INR 4.90 Crores in H1 FY2017. Under the large animal division, overall 173.90% has been achieved in Q2 FY2018 as against Q2 FY2017 while 104% growth is recorded in H1 FY2018 as against H1 FY2017.

Now coming to the total size and profitability of the company, total sales in the Q2 FY2018 is recorded at INR 38.48 Crores as against INR 30.17 Crores in Q2 FY2017 thereby company has achieved a growth of 27.53% in Q2 FY2018 as compared to Q2 FY2017. Total sales for the H1 FY2018 is recorded at INR 67.52 Crores as against INR 60.89 Crores in H1 FY2017 thereby the company has achieved growth of 10.89%. The company's total domestic sales is INR 34.50 Crores in Q2 FY2018 as against INR 25.18 Crores in Q2 FY2018 while the total domestic sales for H1 FY2018 is INR 59.52 Crores as against INR 52.53 Crores in H1 FY2017. Total exports sales is INR 3.62 Crores in Q2 FY2018 as against INR 4.30 Crores in Q2 FY2017 while total exports sales for H1 FY2018 is INR 6.64 Crores as against INR 6.98 Crores in H1 FY2017. EBITDA is achieved at 39.16% in Q2 FY2018 as against 30.57% in Q2 FY2017 while in H1 EBITDA is achieved at 38.26% as against 32.80% in H1 FY2017. Net profit is achieved at 23.01% on total sales of Q2 FY2018 as against 19.85% of total sales in Q2 FY2017 while H1 FY2018 net profit is achieved at 22.28% as against 19.72% of total sales in H1 FY2017.

Now coming to the balance sheet analysis, our fixed asset turnover in Q2 FY2018 stood at 1.75 times as against 1.62 times in Q2 FY2017 while the same is 1.53 times in H1 FY2018 as against 1.63 times in H1 FY2017. Our inventory level stood at 81 days in Q2 FY2018 as against 97 days in Q2 FY2017 while the same is 92 days for H1 FY2018 as against 96 days in H1 FY2017. Total receivables are at 68 days in both the Q2 FY2018 and Q2 FY2017 while the same is 78 days in H1 FY2018 as against 67 days in H1 FY2017. Overall working capital cycle decreased to 55 days for Q2 FY2018 from 61 days for Q2 FY2017 while the same is 71 days in H1 FY2018 as against 58 days at H1 FY2017. During the Q2 FY2018, we have invested INR 4.06 Crores on capex while the H1 FY2018 INR 8.36 Crores have been invested in the capex.

Coming to the key financial ratios, ROCE stands at 33.19% in Q2 FY2018 as against 23.56% in Q2 FY2017 while the same stands at 27.93% in H1 FY2018 as against 25.91%

in H1 FY2017. ROE is at 26.31% in Q2 FY2018 as against 21.33% in Q2 FY2017 while the same stands at 22.35% in H1 FY2018 as against 21.39% in H1 FY2017. ROI stands at 16.94% in Q2 FY2018 as against 14.83% in Q2 FY2017 and same is 14.39% in H1 FY2018 as against 14.87% in H1 FY2017. Non-annualized EPS for the Q2 FY2018 is INR 10.41 paisa per share as against INR 7.04 per share for Q2 FY2017 while the non-annualized EPS for the H1 FY2018 is INR 17.68 per share as against INR 14.12 per share for H1 FY2017. The Board of Directors have declared interim dividend of INR 4 per equity share of face value INR 10 each.

Now coming to the Nepal operation, total revenue for the Q2 FY2018 is recorded at INR 1.32 Crores while the same is INR 1.94 Crores for H1 FY2018. Total provisional loss for the Q2 FY2018 is INR 0.31 Crores while the same is INR 1.90 Crores at H1 FY2018. Total debt is INR 27.47 Crores as at H1 FY2018 as against INR 24.09 Crores as at H1 FY2017. That completes my presentation. Thank you everyone. I am handing over Mr. Gandhi.

**Rajiv Gandhi:**

I am back on line and ready to take questions and address queries.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We will take the first question from the line of Afzaal Mohammed from Karvy Stock Broking. Please go ahead.

**Afzaal Mohammed:**

Thank you for the opportunity and good afternoon Sir. My first question is can you give the split between Brucella and PPR vaccine of the total INR 8.5 Crores...?

**Rajiv Gandhi:**

Sorry can you repeat?

**Afzaal Mohammed:**

Can you give the split between Brucella and PPR vaccine of the INR 8.5 Crores that you did this quarter?

**Rajiv Gandhi:**

I would not really want to get onto the... you want the sales figures you mean?

**Afzaal Mohammed:**

Yes.

**Rajiv Gandhi:**

I would not really be comfortable in giving detailed sales figures product wise because it would be sensitive information. I am sorry, but please do accept, I apologize.

**Afzaal Mohammed:**

Significant part there is Brucella or PPR?

- Rajiv Gandhi:** Sorry.
- Afzaal Mohammed:** The significant part of large animal vaccines is the Brucella vaccines or the PPR vaccines?
- Rajiv Gandhi:** At the moment, it is Brucella.
- Afzaal Mohammed:** Brucella and I want to understand the volatility of this tender orders Sir, so this order how frequently are they placed by the government in the market like every quarter or...?
- Rajiv Gandhi:** I think they have placed more or less twice in a year and the tenders come, these are all public tenders and anybody can bid in it provided they qualify with the conditions that are laid on the tender.
- Afzaal Mohammed:** How many manufactures typically compete for these tenders?
- Rajiv Gandhi:** I think for Brucella we are just two companies at the moment competing and in PPR, we would be probably three companies.
- Afzaal Mohammed:** So in the next one to two years, you expect this to increase the number of players in competition?
- Rajiv Gandhi:** It does not seem so at this point of time, but it would not be in my hands to really give a sure answer on that, but as what we feel less chances for number of manufacturing coming up.
- Afzaal Mohammed:** For the typical tender order how long will it take for you to execute and an average size, if you can share of the tenders?
- Rajiv Gandhi:** I would again not want to get onto the size of the tender, but the moment we get the order, we would be ready to execute it in a few days' time.
- Afzaal Mohammed:** So these things are recurring for the next one to two years is that safe to assume sustainable Brucella?
- Rajiv Gandhi:** They should be sustainable even more than that because the Government of India has got onto an immunization program for Brucella. It has gone on to an eradication program for PPR, so this business as what we see is only here to grow from beyond what it is at this point of time.

- Afzaal Mohammed:** So how many states are currently like giving the orders?
- Rajiv Gandhi:** I think at the moment it should have been at least around 10 states or 12 states and it is an ongoing process, so some would buy it around this time, some could buy it even at a later on time, so ultimately it would be all the states maybe a few states may not be there if their population is not so high for the particular animal that is PPR vaccine for sheep and goat and Brucella for cattle, so it all depends upon the population in the state, but more or less it should be all the states in the country.
- Afzaal Mohammed:** Do you expect this tender order size to increase going forward as well as the number of states that will be?
- Rajiv Gandhi:** Yes it should increase both the ways because as the awareness program goes up, you take any typical vaccine whether it is human or animal. As the awareness goes up, the demand for the vaccine also goes up.
- Afzaal Mohammed:** Alright, so I will join back in the queue Sir?
- Moderator:** Thank you. We will take the next question from the line of Ravi Naredi from Naredi Investment Private Limited. Please go ahead.
- Ravi Naredi:** Sir Congratulations for fantastic results by you and Sir although the results are good, but GST if you can give some commentary on GST matter?
- Rajiv Gandhi:** There is no impact as far as GST. There was an impact in the last quarter, last to last quarter when the implementation... and there was lot of doubts and skepticism and that was due to people not wanting to take goods on those last days before the implementation for their administrative reason, but otherwise there is no impact of GST on our case. GST on our vaccine is 2% and earlier the sales tax was 2%.
- Ravi Naredi:** So it is the same?
- Rajiv Gandhi:** Yes. There is no impact.
- Ravi Naredi:** No impact where tax wise is concerned. Sir I joined the call late can you give some detail of capex plan of Africa expansion and if you can tell anything about that?
- Rajiv Gandhi:** We are in the process of making the project report. At the moment, we are doing our market survey, etc., so once we are through with all our studies and then probably, we should be

able to come up with the figures of the plant size, etc., but approximately the plant size should be anything between if at all the move, which we are reasonably sure between \$12 million to \$15 million US Dollars.

**Ravi Naredi:** \$12 million to \$15 million?

**Rajiv Gandhi:** Yes.

**Ravi Naredi:** Million US Dollars, it will be INR 9 Crores to INR 10 Crores, approximately INR 10 Crores.

**Rajiv Gandhi:** No near INR100 Crores? You missed...

**Ravi Naredi:** INR 100 Crores sorry INR 100 Crores. Thank you very much Sir. It is again wishing you all the best Sir. Thank you.

**Moderator:** Thank you. The next question is from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.

**Amit Kadam:** Yes Sir two questions. One is on the Nepal plant, so like in the press release you have already mentioned that it is getting delayed because of unforeseen internal circumstances, so can you like throw some more light what is happening on that standardizing the production and the QC activity?

**Rajiv Gandhi:** See what has happened is that internal issues what I mean is that because of certain infrastructural problems like for example electricity, sometimes being there, not being there. It is not actually an internal issue, but then we consider all of these as local problems, which we have to somehow overcome. We have already installed a DG set, which is more than now 100% of the requirements, so likewise we are taking one thing at a time and we are taking it further and what happens is that any new location, we need to standardize the project and we need to make sure that it passes through all the standards and everything. Another issue is that Nepal this being the first time a vaccine is manufactured over there, there is a lot of co-ordination to be done even with the local authorities on what are the standards of passing, how will they pass the vaccine, so there is a lot of discussions that go on and on all the time. Besides of course our internal reasons in the quality control tests in the production, we take a batch then we start off with a smaller batch and then we go with a bigger batch, so all these issues put together internal and external, I should have even put the word external I did not put in the press note because everything is not attributed just

internally, so these are the reasons for which there are delays that are occurring, but we are very confident that all these issues are very easily handleable by us and we would be able to take it reasonably well within the next few months' time.

**Amit Kadam:**

So is it impacting like to service the existing order or a tender from this particular thing?

**Rajiv Gandhi:**

No it is not. We have not lost a single order nor have we taken an order and we have not executed the order. Everything has happened together. The FAO tendering of PPR has also got delayed. It is not in our hands. As always mentioned in my earlier calls, this is all documented FAO itself has innumerable documents on their forecast, where have they been headed towards. So, incidentally there has been issues which we are grappling with, which we will sort out and at the same time there is a delay for the PPR worldwide eradication program tender going into full earnestness. We have not lost any order to answer your question in one line.

**Amit Kadam:**

Because like what you have stated as a reason I feel that it is like more to do with setups and earlier it should have got rectified before we would have commissioned this particular plan and brought it on, something that electricity backups and maybe like stabilizing the product quality like when we are moving from the Gujarat plant and trying to manufacture something out of Nepal, I understand there are always teething problems, but I guess the general practice is always like before you just commission this thing, you run trial batches after batches and see the consistent product quality and then declare it as commissioned after the things get stabilized, like the plant becomes available for commercial production? Right now we just feel that it is still like gripling with those problems of QC and then also the electricity power cuts?

**Rajiv Gandhi:**

What you say is partly true, but in biological, there is a lot which has got to do with the processing ability as well as there are many factors, which increase or decrease the yield when one is growing the virus or the culture, so everything is not a mechanical process wherein you add three things and there is a process loss of 1% and then you pack it and you do it, so it really does not work that way. As far as all the backups our power backup, etc., everything has already been created. It is not that because of any power failure that we have lost any orders. Once people go from here to do, there are people to be trained in Nepal. There is a commitment given to the Nepal Government. We have to abide by the laws also that we need to hire X amount of people from the Nepalese people, so there is a change in hand in production from what we start to do it further and why should we delay the commercialization of a product when we have already been able to take a batch and commercialize it. We have even executed two orders from Nepal. We have not lost any

orders from Nepal. Had I not even highlighted this feature in my press note and if I would have just said that the delay is because the PPR tendering is poor trust me, I would have been able to authenticate that more easily from reports from FAO or from PPR. It is just that we are really being honest and transparent enough in really expressing what things are going on. That is all.

**Amit Kadam:**

I understand that is what you stand for right, we appreciate that part and then second Sir this particular thing is on the other expenses part, so it has been like it has been inching up like putting together both heads it is almost like INR12 Crores what we have done it is like vis-à-vis last quarter it is INR 8.6 Crores and if I just try to compare it with the same quarter last year, it will be like INR 9 Crores, so it is like what is it that actually this particular SG&A is another admin costs? Is it regarding the same Nepal thing or has it do with some other things?

**Rajiv Gandhi:**

These results are the standalone of India, so this has got nothing to do with Nepal. You want any more details, this is...

**Amit Kadam:**

I am saying the SG&A and other manufacturing costs have been steadily year-on-year and quarter-on-quarter going up, I just wanted to know like some insight about it?

**Jigar Shah:**

From this quarter, we have started Indian Accounting Standard Ind-AS. So, in this year in this quarter, you can see in this manufacturing expenses block there is an increase, but it is because of the GST and excise portion because we have to do grossing up the sales, so if you minus it then it is not that much increase. Secondly the other expenses by selling and general and administrative, it is a 16.32% in this quarter of the sales, but if you see the Q2 of the corresponding quarter, it is 17.22%. It is reduced. Again for a half yearly, it is 15.17%, which was a 16.55%, but annually if you see for the FY2017, it is a 14%, so we are always keeping our data very compact and we always do on a cost effective analysis for each and every head of the accounts, so it is not that because cumulatively our operating profit is at 35.72%, which was at 32% in the Q1 and which was 26% in the Q2 FY2017. Half yearly it is 34%, which was a 28.47% in the H1 FY2017. If you see whole FY2017 it is only 28%, so I think we have a very good cost effective analysis and we work hard on that to minimize the cost and maximize the profit.

**Amit Kadam:**

Now I understand. I will take this thing later. Thank you.

**Moderator:**

Thank you. The next question is from the line of Ayush Mittal from Mittal & Co. Please go ahead.

**Ayush Mittal:**

Good afternoon Sir. Congratulations on a very good set of performance. Sir in the past concall, there has been a lot of emphasis and discretion on the export growing at a higher pace and that the company has been doing lots of registrations and trying to enter new markets by which the export opportunity is sort of equivalent or greater than the domestic business that we have, however, barring this thing like you said that there was this large animal vaccine thing other than that also we have seen this export business not pickup that well?

**Rajiv Gandhi:**

I agree with you and we definitely need to put in a little more focus on the international business to take it further because the infrastructure that we are creating at this point of time, it covers marketing as well as the distribution. This time yes some orders did get diverted, but I agree with you that we need to put in more effort and we are looking into every which way on how to handle these things. See the issues, which come suddenly on our face is the disorganized nature of the market where we are addressing. Optimistically, we planned quite a few things. Then there are payment issues not that there are any bad debts or anything neither has anybody cheated us or given us false commitments, but we do business more or less on advance payment. Now these payments do not come. Now goods are ready to be shipped, but the money has not come. What do we do? We just cannot ship them just to register the sale, so all these small things keep coming up in the way. Then sometimes there is a forecast, but then they are not able to have sold all the goods in the last time or money is not coming in as what I mentioned, so these are the things, which we are trying to sort out. Once our own depots are functional over there, we see automatically a jump by two, three, or four times in the sales. One is that we will be able to get a better price realization. Two, everything will be in our control. Goods will be in our stock, in our godown at local places in Africa as against today trying to sell and coax people and convince them to supply from here, but to answer again, I like to always conclude that on the question that I am asked. To answer you in one line, we need to put in extra effort in exports. It is not a concern, but yes it is something that we will have to do and we will do it within the next six months.

**Ayush Mittal:**

But what about the other markets other than Africa like I think Middle East and some of the European markets are big?

**Rajiv Gandhi:**

European markets we are not focusing. In Europe, we are only selling one type of product, which is an intermediary. We are not selling any finished products in Europe and in the Middle East area, the requirements are far, far, far less that what would be in Africa. For example, we have a very good business going on in Kuwait, but we have a near to 100% market share in one of the vaccines, but then what is the size of the market. It is so

irrelevant, so that is how Middle East market, and Saudi Arabia registrations are yet going on. We have not been able to register even one product. The process is on. We are near to registration completion, but that is a big market, which is yet to open for us, so these are these issues that are there.

**Ayush Mittal:** So what have been the key markets where we have been doing all the registrations over the last two years? What have been the key markets for us?

**Rajiv Gandhi:** Egypt that has been one of the big markets. We have even got registrations in Malawi. At Vietnam, we have registration. In Myanmar, we have registration. In Nigeria and Ethiopia, we have registration.

**Ayush Mittal:** Sir as your mentioned about peak capacity constraint due to the tender orders, what is our capacity status as of now like in India plant, we have not done too much of capacity expansion because we were putting up Nepal as Nepal has been facing some issues, if you get some business growth, can we service from India?

**Rajiv Gandhi:** Except for the PPR vaccine and one or two other vaccines, all the vaccines are going to be serviced from India. As I mentioned, we have not lost anything because of the Nepal not functional or slow. Actually, I really feel that what I made in my press note, I should have more stressed on orders.

**Ayush Mittal:** That is not the confusion, I am just asking it is not about the Nepal plant, but I am asking about the Indian plant?

**Rajiv Gandhi:** I will tell you. To answer your question what happens is that there is a production planning that we have done and then suddenly there is a tender and we get the tender. Now what happens is at that time, we need to disrupt certain things. When you disrupt certain things, it does not mean that you disrupt manufacturing of sales worth say INR100 and in that you make something else worth INR100. Normally, when you want a sales of INR 100 and you want to disrupt something that disruption is always going to be more than INR 100, so the value of disruption is a little higher than the value of the goods that you make after the disruption. So having learnt from these things, we are now restructuring things in a way that we have a vaccine bank ready and it does not disrupt such things and as far as our capacity expansion is concerned, we are in the process of commencing our additional capacity in the month of December itself. There have been delays, but now December is the month that it will be commenced and that should ease us a little bit for the vaccines.

**Ayush Mittal:** That is great to hear Sir. One more question last quarter you had mentioned that the sales were slow due to the GST effect, so in this quarter is it that we are seeing some spillover due to that?

**Rajiv Gandhi:** The GST sales yes were a bit less in the last quarter because in the last few days, the dealers and distributors were not willing, but see our sales are consistent all across the month. It is not that we have very high sales at the end of the month and poor sales at this... yes GST had slowed down a lot of business in those last 10, 15 days, but what happens is you need to also keep one thing in mind that a vaccine business, a vaccine order once lost it does not come again because the vaccine is to be given at a particular time. So if goods are not bought or not sold at that particular time, the chances are that some percentage of that business would have just gone away.

**Ayush Mittal:** This is a more sustainable thing that we have achieved and this should improve as the tenders grow in India?

**Rajiv Gandhi:** Yes absolutely.

**Ayush Mittal:** Thank you and wish you all the best.

**Moderator:** Thank you. The next question is from the line of C Srihari from PCS Securities. Please go ahead.

**C Srihari:** Thanks for the opportunity. I have a few questions. Firstly could you please quantify the export order lost that you had mentioned about and in that context you said that you plan to built up an inventory, so could you please quantify that also in terms of let us say days or whatever?

**Rajiv Gandhi:** Good question. In terms of the order that we would have lost, our exports have decreased by around 15%, so we would have lost order a little more to that level than what it has been because we were expecting a little bit of a higher growth, so that is one of the figures for the loss of exports or maybe plus or minus 4% this way or that way. In some cases, it would have been that there might have been a little lesser exports in any case or we could have because of non execution then one does not immediately get the next orders, so we are not really taking into... I would not be able to give you accurate figures not that I do not want to give them. So, what is the next question I forgot. Can you repeat?

**C Srihari:** Can I infer that it could be about like INR 7.5 Crores or something like that.

- Rajiv Gandhi:** You could refer to that. We will internally now that you have asked this question and that the figure is not in front of me, I will go a little deeper into it and try to get the figures for myself for sure.
- C Srihari:** In this context, you had mentioned that you are planning to build up an inventory, so can you please tell in number of days or how much you plan to ramp it up?
- Rajiv Gandhi:** Any vaccine takes us around 45 days from the day we start till the day we get the finished production, so probably in the next three to six months' time, we should be in a position where orders would not be lost due to any reason.
- C Srihari:** I mean to say you would plan to keep a finished goods inventory right, so are you planning to increase that?
- Rajiv Gandhi:** Yes. We could keep it in the semi-finished mode and then take it up as soon as we get the order.
- C Srihari:** It is possible to quantify that vis-à-vis let us say maybe 100 days ramping it up to some kind of a number?
- Rajiv Gandhi:** It would be difficult for me to really quantify the number of days. This is a process that we would be evolving and even after planning, there could be some sudden order for something, etc., but it would be difficult for me to really give you a quantification. I am not able to give you a number for this.
- C Srihari:** Fine. You mentioned about a capex coming on still in December, so what would be the extent of capacity hike?
- Rajiv Gandhi:** Our capacity for our killed vaccines would go up by approximately... I think it is around 30% we would increase our capacity.
- C Srihari:** Finally on the large animal vaccines side considering that you already achieved three fourths of the sales that you had for last year?
- Rajiv Gandhi:** I think we have near to 100% of the sales of last year.
- C Srihari:** So are you increasing your guidance for the current fiscal?
- Rajiv Gandhi:** Sorry.

- C Srihari:** Are you revising your guidance for this division in the current fiscal?
- Rajiv Gandhi:** In the sense that we would want to maintain what we had earlier committed. We will continue to work hard towards even achieving more sales. We need to do a lot good even on the health products side and I would not personally like to give any specific guidance towards the whole thing, but be rest assured that we are working to a way that we do not lose any orders and we continue the hard work to get more orders.
- C Srihari:** To get an idea, let us say you have reported close to INR 7 Crores on the large animal side in H1, so do you think that is applicable or it will be much better than that?
- Rajiv Gandhi:** Even if we take it at that our forecast was to grow the division by approximately 50%, so I think we are working towards the 100% growth.
- C Srihari:** Fine that answers. Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.
- Manish Jain:** I just had a few questions. First one was INR 29 Crores of capital WIP is stated in the balance sheet when do you expect to complete this and how much additional capex will be required in the current fiscal year?
- Rajiv Gandhi:** I will request Jigar to answer.
- Jigar Shah:** It will complete in this January or February of 2018 and I think more of INR 5 Crores to INR.6 Crores will be more additional amount we have to invest for this capex also.
- Manish Jain:** Thanks and second question was on the large animal vaccines profitability, which we have demonstrated in the September quarter, this is on a very small sales base? Can this profitability be maintained as and when you do sales in future in this large animal vaccine segment?
- Jigar Shah:** In one word, yes.
- Manish Jain:** Thanks and my last question Jigar you mentioned the total consolidated debt figure, I missed that?
- Jigar Shah:** So do you want again the total consolidated debt figure right?

- Manish Jain:** Yes for September 2017.
- Jigar Shah:** For September 2017, it is INR 75.68 Crores.
- Manish Jain:** Thanks. I will join back in the queue.
- Moderator:** Thank you. The next question is from the line of Afzaal Mohammed from Karvy Stock Broking. Please go ahead.
- Afzaal Mohammed:** Sir you said in the press release that you are planning for unexpected tender business, so that you do not have to divert product supplies. So are you having any supply constraints on capacity constraints currently?
- Rajiv Gandhi:** It is not capacity constraints. We just need to more work in progress stock and try to work out the whole thing. Any tender business anywhere in the world, which we are now learning as earlier we were never so much executing tender orders. Tenders come. It comes suddenly then there could be a little bit of slackness and then again it comes. Now we cannot build a capacity to make sure that the highest time of orders that we get in our capacity to that level, so we are working out a system within our parameters, minor changes yes. Minor capex, yes, but nothing really more than that. The rest is look into our planning mode, get ourselves into a little better planning mode not that we are bad, but now take these things also into consideration.
- Afzaal Mohammed:** So you are basically saying that you would not expand capacity, but work on some efficiency improvements?
- Rajiv Gandhi:** The word efficiency I would not use in this case. It is something because as I said tender business getting it at one go big that does not... non execution is not because of our deficiency, it is because of too large an order coming together at one time. So we need to plan for that.
- Afzaal Mohammed:** Okay. So Sir what is the size of current PPR order currently on hand?
- Rajiv Gandhi:** I would not get into the specific. Please pardon me for that, but this information is a little bit sensitive in nature and we would like to keep it to ourselves, sorry.
- Afzaal Mohammed:** No problem Sir and in this September quarter did you execute any PPR domestic orders for the Government of India?

- Rajiv Gandhi:** Yes, we have executed PPR orders.
- Afzaal Mohammed:** Did you execute any PPR exports for FAO?
- Rajiv Gandhi:** That we have exported from Nepal.
- Afzaal Mohammed:** But you have executed certain orders?
- Rajiv Gandhi:** Yes of course. There is not a single order from Nepal that has gone that order received and not executed. nothing at all. So we are good at that.
- Afzaal Mohammed:** So did FAO ask you for any submission of any batches for review?
- Rajiv Gandhi:** Yes, we need to get the batches tested by the central laboratory in Africa and that certification is important, which we have. Before the batches are supplied they need to be tested by the African Union Laboratory and it is all in place. It is an ongoing process.
- Afzaal Mohammed:** So you have submitted the batches and have you received the certificate?
- Rajiv Gandhi:** Absolutely.
- Afzaal Mohammed:** So you are almost ready to start commercial supplies?
- Rajiv Gandhi:** Every batch that is supplied needs to be tested by them, so it is an ongoing thing. It is not something that happens only one time.
- Afzaal Mohammed:** I get it, so in this fiscal FY2018 you expect to execute any FAO large orders, significant orders?
- Rajiv Gandhi:** We would love to. Our preparation was to execute five times more than what we have done. The tendering business is slow as I said, but it should pick up and hope it picks up fast. It will. We do not see any bleakness in the whole thing. We are extremely confident. It is a worldwide eradication program, so one cannot even just blame FAO for all these things or any agency or anything. It is the whole machinery that they are trying to put in place taking 200 countries into confidence, so probably things are going a little slow, but once they catch up, I think then there is no stopping at all.

- Moderator:** Sorry to interrupt Mr. Mohammed. Sir may we request that you return to the question queue. There are participants waiting for their turn. Thank you. The next question is from the line of Aniruddh Shetty from Solidarity Investment Advisors. Please go ahead.
- Aniruddh Shetty:** Thanks for taking my questions. The first question was your revenue has gone up year-on-year by almost INR 8 Crores and the cost of goods sold has come down by almost INR 1 Crore, so our sales have gone up, but the material cost has declined in absolute, so just wanted to understand that is there any tax impact over there because excise has been considered on your raw material in this quarter?
- Rajiv Gandhi:** No. It is basically our efficiency in production that is the only. All duties and all these are not relevant when you see our gross margins, all those duties and all are not relevant to our thing. It is just that we are improving our efficiency and we are tweaking our product mix in order to maximize our profitability.
- Aniruddh Shetty:** Sir if you could throw some light how do we understand as to where does this settle down, at what contribution margin this can settle down?
- Rajiv Gandhi:** It all depends upon what is the product mix as what I told you. Currently, we see a brighter future because the vaccines that seem to be getting in demand have higher margin mainly the large animal vaccines. Therefore, I think as the share of those vaccines go up, we would definitely be able to improve our profitability a little bit even compared to what it is today.
- Aniruddh Shetty:** Sir my next question was whether the tendering business, which happens in India, is it completely online or there is offline tendering as well?
- Rajiv Gandhi:** It is online.
- Aniruddh Shetty:** So all the tenders come out online and everybody applies online on that?
- Rajiv Gandhi:** You can even see all the tenders yourself yes.
- Aniruddh Shetty:** I have two questions for Jigar. The first one was if you could just help what is the interest cost for Nepal right now for the first half?
- Jigar Shah:** I do not have an interest cost figure right away, but I will definitely pass it to you offline. I can say the date of the Nepal plant, but interest cost I do not have right away.

- Aniruddh Shetty:** So what the debt of Nepal plant as of September?
- Jigar Shah:** September ending date is INR 27.47 Crores.
- Aniruddh Shetty:** Sir the incremental debt, which we have taken, is that for the Africa project right now?
- Jigar Shah:** No Africa project, there is no cost or any other numbers are of the African project. We have only equity amount of INR 2.2 Crores in the first quarter of this financial year. This quarter, there are no numbers are of the Africa project and that is from the Indian plant and nothing from Nepal and these all figures are of standalone Indian plant and not the Nepal plants.
- Aniruddh Shetty:** For Nepal what are the employee expenses for the first half?
- Jigar Shah:** I do not have the figures right away. You send me the email, I will give you the detail about that.
- Aniruddh Shetty:** Okay. Thank you.
- Moderator:** Thank you. We will take the next question from the line of Amit Kadam from LIC Mutual Fund. Please go ahead.
- Amit Kadam:** Sir my question is on the working capital, so we have seen a drastic improvement in the working capital over last one year, so just wanted to check, so like if our incremental revenues come from export and also from the African nations through FAO tender, how do this networking capital would play a part in it whether it will go up or how is it placed vis-à-vis our existing domestic business?
- Rajiv Gandhi:** I think we would be able to maintain our working capital level. May be there would be a little increase in the work in progress as far as the stocks are concerned otherwise I think that is in terms of stocks, but in terms of working capital, we should be able to maintain this level for sure.
- Amit Kadam:** So like going forward be whatever the product mix or the geography mix of the business be, 55 to 60 days will be a kind of sustainable net working capital days for us for the business as well?
- Rajiv Gandhi:** Yes.
- Amit Kadam:** That is all Sir. Thanks.

**Moderator:** Thank you. Due to time constraints, we will be taking the last question that is from the line of Manish Jain from SageOne Investment Advisors. Please go ahead.

**Manish Jain:** Yes Jigar just wanted one clarification. We have stated that Nepal loss is INR 1.9 Crores and in that in your commentary you mentioned it is INR 0.3 Crores in the September quarter, so for the full year, can we say that this can be on a declining trend and when do you expect it to break even?

**Jigar Shah:** Yes it will be declining trend and I think it will be maximum... if you multiply by two to this INR 1.9 Crores, then it is a two, but it will be definitely lesser than this. That is sure.

**Rajiv Gandhi:** Hopefully, we should be getting orders to change the complexion of the Nepal plant.

**Manish Jain:** Fair enough and second question was that for six months the sales have gone by INR 8 Crores whereas the EBITDA has gone by INR 7 Crores and in similar trend is visible in September quarter? Sales have gone up incrementally by INR 9 Crores and EBITDA has gone up by INR 7 Crores, so as your sales rise, do you expect a similar trend to be maintained?

**Rajiv Gandhi:** It depends upon the vaccine product mix, which vaccine, which we are able to sell, etc., but we will actually try to maintain at minimum the current profitability that we have shown over here.

**Manish Jain:** Thank you so much. Best of luck.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Abhishek Sharma for his closing comments.

**Abhishek Sharma:** Thanks Lizanne. Just wanted to see if Jigar has any comments to make.

**Rajiv Gandhi:** I think Jigar does not have any comments to make and from my side, all that I would want to say is that it is always nice to address and answer questions because it becomes a learning process for ourselves and some of the questions, which we have not been able to answer, please do send us an email. As committed, we will send the same. Our endeavour is to work and make the company more and more efficient not that we are inefficient, but improve the efficiency and take it further and make sure that the topline and the bottomline both are in line with each other with the rising trend. Thank you.



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**Moderator:**

Thank you. Ladies and gentlemen, with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines. Thank you.