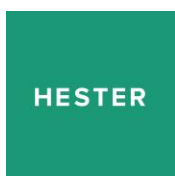


**"Hester Biosciences Limited  
Q3 & 9M FY2021 Conference Call"**

**30 January 2021**



**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:** Good day, ladies and gentlemen, welcome to the Q3 & 9M FY2021 Earnings Conference Call of Hester Biosciences Limited hosted by IIFL Securities Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I 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 can open the floor for Q&A. Over to you Sir!

**Rajiv Gandhi:** Good afternoon everybody. This is Rajiv Gandhi from Hester Biosciences as always nice being connected with all of you on this call every quarter. We had our Board meeting today and a press note has also been released which has tried to be elaborative within the press note, so that there is a lot of information that is already passed on. Nonetheless, as recap, I would like to go through the working of Q3 as well the 9 Months at Hester.

Talking about sales on a quarter-to-quarter basis, we achieved 52.82 Crores thereby showing a growth of 22% against the corresponding Q3 of last year. On a 9-Monthly basis we did a turnover of 145.32 Crores as against 127.99 Crores giving us a growth of 14%.

In terms of net profit we have done reasonably well as far as Q3 is concerned. There has been a rise of 72% on quarter-to-quarter basis, Q3 FY2021 we achieved 13.29 Crores as against 7.73 Crores. On a 9-Month annual basis the growth has been 18%. We achieved 31.04 Crores in

cumulatively for the three quarters as against 26.22 Crores as what it was last year.

As you are aware, we have two divisions, one is the poultry healthcare division and the other is the animal healthcare division. The poultry healthcare division on quarter-to-quarter grew 32% from 30.02 Crores in FY2020 to 39.61 Crores in this financial year. On the animal healthcare division side, animal healthcare division products include cattle, sheep, goat and swine products. We registered a 4% growth from 9.48 Crores to 9.90 Crores. I would like to mention over here on the 4% growth is that on the corresponding quarter last year, we had a very big tender business, government supply business which was not there at this point in this quarter and therefore the growth seems very negligible and it gives a little bit of distorted growth rate but if you look at the 9-monthly three quarter cumulatively, we have grown 19% from 25.88 Crores to 30.83 Crores. So, this has been the overall growth as far as we are concerned in terms of our division, in terms of our sales and our net profit.

There has also been an improvement in the gross profit margins on the EBITDA, the net profit margins as well as on the EPS. Talking subjectively on performance, other parameters we have the two divisions, but within the two divisions, we have two subgroups that is vaccines and the health products. Vaccines if you talk about both poultry and the animal divisions, both put together we registered a 20% growth on a quarter-to-quarter basis and 12% growth on a 9-monthly basis.

On the health product side, we registered a growth of 48% on a quarter-to-quarter and 31% on a 9-monthly comparison. In terms of our geographical coverage, the domestic sales grew by 43% on a quarter-to-quarter, 20% on a 9-monthly comparison, but our exports reduced considerably by 51% in Q3 and 5% totally if you take the 9-months. Now this has happened because the demand of our products within India has shot up tremendously and therefore what we did was to make sure that the demand in the country is met more so there has been many

restrictions in transporting exporting material from one country to the other so all that led to us focusing on the domestic market in which we have done reasonably well.

Since the last two calls, you would have heard me talking about the Brucella tender. There was a tender then it got cancelled then there was a retender, we have already put in the bid. The bids have been opened. Hopefully by the supplies under that tender for the Brucella vaccine should come in.

Last but not the least on the current situation on the overview in the last nine months or the last three months, you all would have read quite a bit on the bird flu that has been coming in the news Hester even sent a press note I think on 21 January 2021 in which we had clearly stated that our sales have not been impacted by bird flu and in fact, we have been able to register a growth even in these days. We have a strong team. We have a strong product in terms of health products, all other vaccines, so if a poultry farmer is used to a regime of using proper vaccines of which are currently available, using good feed additives, health products, having a good sanitization program, it has definitely helped them even in this bird flu time situation and that has therefore not impacted on our sales.

Taking things further from here what next? Last time as committed to setup a division for herbal products in this quarter before the yearend we would be introducing a reasonable wide range of herbal products and probably when we talk again, I would be able to give you some feedback on how many products we have launched, etc., on the herbal product side.

The vaccine because of the current situation, wherein there is a lot of demand within India, for our vaccines also, we have embarked on an expansion plan. We want to increase our vaccine capacity and hope to finalize these expansion plans within a months' time and we would then start the implementation of these expansion plans as far as vaccines are concerned.

There has been quite bit of a demand within India as well as we see the Brucella vaccine, the LSD vaccine, all these things put together are definitely making us look that suddenly there has been a sudden big rise in the demand for vaccines within India as well as internationally. Till such time our capacity increases, we will internally as any case what we had decided earlier, we will push our healthcare products, the non-vaccine products, which have now also would include herbal products and as you have seen there has been a sizable growth even in our health product business, so we will try to grow the business in that manner, try to squeeze out as much as what we can out of the current facility in terms of vaccine production and this is the way that we would take our business forward.'

As you all maybe aware in quite a few years that we have been trying to look at expanding the business by acquiring a company maybe on the manufacturing side, may be on the distribution side, we had earlier twice taken permission from the board to raise finances, in considering that that permission had lapsed, we had taken the permission again, but we are near to being close to choosing at least one option for manufacturing and one option in the distribution side and we are very seriously looking at it, so hopefully if things go well, we could put ourselves on an extremely high expansion growth which would even cover, and I am talking both these opportunities internationally. So, we are looking forward that we can just get on to a higher orbit if any of these things materialize and to take care of this we have taken the board's permission to raise finances up to Indian Rs. 200 Crores.

Last but not the least to give you an update on the COVID-19 vaccine, which we are developing in collaboration with IIT, Guwahati the process has been slow at this point of time. IIT Guwahati team is working hard to develop the master seed as soon as we get a breakthrough in that we would take over the master seed, do the animal trials and then take the whole project further. We are keeping our fingers crossed. I am sure we

would see some light at the end of the tunnel within a short time. So, that gives an overview as far as Hester India is concerned.

Hester Nepal we have tried to keep the sales as much as last year though this year we had many high plans, aspirations to take this Hester Nepal to an extremely new heights but unfortunately because of the COVID, things just could not happen and in Nepal the lockdown impact was higher because it is land locked. Of course our vaccines go by air but there have been a lot of difficulties in even shipping out the vaccines from Nepal. Things are now getting back to normalcy. Hopefully that should help us to take things further.

Texas Lifesciences our company which manufactures health products for us as you can see there has been a growth in the sales as well as if you look at it on the profit side, there has been a little bit of a dip on the profit side, because in these shortage times, transportation times, there has been quite a few problems in terms of getting raw material at the right price, paying more to get them transporting them etc. but having said all these things, 95% to 98% what is produced in Texas comes to Hester and the bottomline of Hester is anyway now known to you so somewhere or the other you have seen that we have made up for this nonetheless having said that we are very conscious to ensure that the bottomline at Texas Lifesciences definitely goes up than what it is at this point of time.

Hester Tanzania our trading arm in Africa in the country of Tanzania, it has been going a little bit slow over there. There has been a marginal rise. It is not that it is not there, but nonetheless things have not been no active. The things have taken a longer time to reach there. Things have not even reached there. Once they have been delivered, there have been high transportation costs, etc., so there has been a little bit of turbulent but it is a small venture, it is a small investment, which we are aiming to make it big, so if you really go to see, it is not at any consequential at this point of time, nonetheless in the days to come, we hope to make it fully as part of our whole thing and a big contributing entity for us in Africa.

Last but not the least, Hester Africa, things are moving over there. The lockdown impact and the disease impact have been different in the country of Tanzania as against what it has been in India or anywhere else in the world. In India, and most of the other countries from March 2020 there had been a lockdown situations which went all the way up to June, July in some cases currently there is a lockdown, there is an international embargo, there is domestic lockdown. Tanzania was relatively free in all that period but now it seems that in the African continent there has been instances of COVID etc., so earlier we would not be able to reach there. Now when we can reach there it happens that though we are very confident that there is nothing in Dar es Salaam that has impacted us we have our senior people there. In fact, I myself was there around three weeks ago, but ultimately we need people to go and work there and do the installations etc., and of which also 80% is done, but at the end it is not within us to force somebody to go there immediately. There is a regular coaxing, convincing being done and people are going there, therefore our production first commercial batch to be taken has got delayed. We now hope to do it in the month of May or June, so if you really look at the timeline earlier we were talking in the first quarter in the first month of January, it has moved, this has moved six months in a way though internally we had even tried to prepone that January commencement to even in the last few months of 2020 but that did not happen. January did not happen. We have reasons to believe that our confidence will not be shattered now that we have given the date of May or June. Everywhere on record I have maintained June 2021 nonetheless, we will try our best to make sure that we do it a little bit faster than that. So that is all from my side. I am now open to take questions. Myself as well our CFO, Chetas both are here and we would be happy to answer any queries and questions. Over to all of you!

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.

- Ketan Gandhi:** Sir, do we have any vaccine for currently in India for flu?
- Rajiv Gandhi:** No.
- Ketan Gandhi:** Sir, can you please share the technology transfer update on Novopharm and when we will be able to get the income from that?
- Rajiv Gandhi:** We have already in our last quarter, you would have seen an income as other income also that so, part of it is in bits and pieces, the technology transfer amount that we are getting, it is an ongoing process. The whole project should get over in approximately one and a half to two years' time and a lot also depends upon their speed on how they would be handling it so, we are going as per our commitments but we have to honor and we have to go with their timeline rather than our timelines.
- Ketan Gandhi:** Sir, it is a bookkeeping question. The consolidated debt and cash and another question is linked with that only that if debt is currently at a very low cost and why are you thinking of valuating equity for the capex?
- Rajiv Gandhi:** Yes. I will talk about the capex part, yes. We are quite now enjoying our financial position. It is increasing well. So, that is why our debt ratio it is comparatively reducing now and we have now much cash benefits with us.
- Ketan Gandhi:** I want the consolidated debt and cash. I want the figure of the consolidated debt and net cash?
- Rajiv Gandhi:** That is part of the consolidation. It is 114 Crores consolidated.
- Ketan Gandhi:** Consolidated debt is 114 Crores. My other question Sir, what is the equity other than that, what is your thought process Sir?
- Rajiv Gandhi:** The thought process is that we want to take a jump, which is we see one or two good opportunities and this is the way we have completely planned ourselves to take it further. I mean in a way, you can always say that debt is always cheaper finance in a way because there is a fixed rate of interest



and reducing etc., equity, but there is also something like debt equity ratio. There is also something like how do we take the project ahead. There has to be a balancing between debt and equity. It would be very easy to say take debt 200 Crores in the project, but things do not happen that way that easily.

**Ketan Gandhi:** Sir, how has been the working capital in December 2020 versus December 2019 and March 2020?

**Rajiv Gandhi:** There has been a sizable improvement. I do not have the figure with me unfortunately, but there has been a sizable improvement. I can assure you on that.

**Ketan Gandhi:** Going forward also there will be improvement for the next 12 months?

**Rajiv Gandhi:** I think going forward also we could continue the current, we would have already reached as I do not have the figures I am not really exactly able to tell you the number of days, but what we have reached by now in the current situation with the demand of our products, etc., I think even maintaining the current credit period would be good enough for us to be able to be very honest. We are already better than what we were even in the pre-COVID days.

**Ketan Gandhi:** Thank you. I have more questions, I will get back in the queue.

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

**Viraj Mahadevia:** Congratulations on getting back on the growth path. I had a couple of questions, Rajiv Bhai. One is you have created all these capacities with the expectation of tender business coming, which unfortunately has not fructified and has been delayed. Is it not possible to divert some of those capacities to some of the newer opportunities you are seeing i.e., are some of not your existing capacities fungible, so you do not need to make more investment?

- Rajiv Gandhi:** The tender business has been more looked at from Nepal and in India this is the first time that we are so aggressively looking at tender business that is Brucella. The tender is out. The quantities have been decided, everything, so in a way if the tender goes through which has reasons to believe it will go through and the purchasing will start and the immunization program will start, then if that happens, as per the document that has already been given to the people who had bid for that tender I see no reasons in worrying as far as that is concerned. Other thing different vaccines need a different type of production capabilities, different type of setup, so it is just not possible to have a room and today make vaccine here and tomorrow change a few things here and there and make vaccine B that is not possible as far as biologics is concerned.
- Viraj Mahadevia:** Next question is you mentioned in your note that you are looking to divert some of the overseas supplies with the domestic market because demand has become so big. Does that make sense because inherently I would think that export orders are better pricing and profitability? And what has suddenly changed in the domestic market that the opportunity has become so big?
- Rajiv Gandhi:** See opportunity has become big in the domestic market and our profitability is more or less the same while we are exporting and what we are getting over here. So, our logic is here we have something already sizable. So might as well fulfill that rather than get into a splinter business at 10 places where each supply in the big scheme of things is inconsequential but all that put together within India makes an extremely big impact on our topline. To give you an example, if we are supplying \$50000 worth in one country, \$95000 in one, \$100000 in three, \$35000 in one, in case, rather than that there is a \$200000 order extra coming from India in itself at this point of time, when there is a need of products over here, might as well to us to recover that opportunity would be difficult over here while in those countries as our business is small, it would be relatively easier for us to recover those opportunities.

**Viraj Mahadevia:** Can you outline your capex plans for current quarter and FY2022, the new financial year and share any updates on the capacity expansion split between Brucella, LSB, COVID-19 if at all and other such as SMB?

**Rajiv Gandhi:** As I mentioned that in the next few weeks we would be finalizing the plan. Now there are a few avenues we are at a crossroad where we need to take a decision. So, it would be more appropriate for us to give a consolidated statement with all the avenues already exhausted and the avenue taken and then come to you and then take it further. So, today to give you some information, in bits and pieces, one way we are taking 200 Crores, we already have a firm plan to put in some 30 Crores, 40 Crores, 50 Crores another 150 Crores we will put in, let me come together with everything rather than talk in bits and pieces.

**Viraj Mahadevia:** Understood. Last is what is the pending capex in Tanzania?

**Rajiv Gandhi:** Around 10% is left. Around less than 5 Crores.

**Viraj Mahadevia:** Is that to fund the project cost increase due to the delay?

**Rajiv Gandhi:** I am talking about the allocated budget. There is no overrun in the project for your information even with this time delay there is not a single dollar of overrun in the Tanzania Hester Africa project. You might have seen the photograph in the press note Viraj today.

**Viraj Mahadevia:** I did. Thank you very much. All the best. I will come back in queue.

**Moderator:** Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

**Ravi Naredi:** How are you?

**Rajiv Gandhi:** All good. Thank you.

**Ravi Naredi:** Sir, anything you want to say for financial year 2022 projections either in topline or anything?

- Rajiv Gandhi:** We have certain thoughts ideas in mind and to give, it will be more than what we think we have planned. That much I can tell you, otherwise we would not be looking at taking money. We would not be looking at projects. I would not make a blatant statement that in the next few weeks we will come back to you with our plans, etc. Give us some time. I mean to give you a very crudely we have been growing at a good percentage, 5%, 10%, 15%, 20% the time has now come for us to do something big.
- Ravi Naredi:** That is very nice. Sir, when will the production start for Africa project and it will contribute?
- Rajiv Gandhi:** May, June.
- Ravi Naredi:** May, June 2021?
- Rajiv Gandhi:** 2021 yes.
- Ravi Naredi:** Sir, what is the COVID vaccine plan, anything you had made in the past statement anything progressing there?
- Rajiv Gandhi:** It is not progressing as what we had thought so that is the fact. My press note also mentions a line that we are still working on it.
- Ravi Naredi:** All the best Sir. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Manish Gandhi an individual investor. Please go ahead.
- Manish Gandhi:** Congratulations on good set of numbers. Rajiv bhai I have always been appreciative about your growth mindset. So, my first question is as we are choosing to temporarily produce more in India rather than going for export so what has happened in the short time. Is it that the demand is unprecedented which we did not think of or is the capacity constraint from competitor is also paying part or the third thing is the Brucella you are seeing more demand in what you had thought about?

**Rajiv Gandhi:** To answer your question in reverse, not even one vial of Brucella has gone in the tender so everything is yet to come. Opportunity is number one. To answer your second last question, the manufacturing constraint of competitors I am not aware of the competitors manufacturing constraint, so I would not be able to comment on that. Answering your first question now there has been reasonable good if you recollect last to last year, we had increased our marketing force and everything, probably all this is leading to us gaining more and more demand and increasing the thrust etc., but the bottomline is that there has been a good demand for our products and things are looking good for us. I mean that is my answer. It is very easy to say that we created demand, we displace competition, but I mean those answers would not be really comforting answers to give you. The fact is that we have been putting in efforts and we are getting the business right now.

**Manish Gandhi:** It is nice to hear. This is not a short-term budget either you see long-term trend of your efforts in the last two years, increasing your sales person and everything? That is good.

**Rajiv Gandhi:** I think so, we are definitely restructured a few things and all this is helping us towards that.

**Manish Gandhi:** Just one more question, I had asked two years back also, in AGM or something, so I always appreciate the new, new things, new opportunity you always look for always a growth mindset, so how do you think about because as we have a big opportunity in Brucella, we have many things to do, in Nepal and we have a huge capacity coming in Tanzania and still you are and of course the new manufacturing you are looking at India, still you are looking at another opportunities in international market for acquiring manufacturing, I just want the thought process and above. How you think as an entrepreneur?

**Rajiv Gandhi:** Your question is very good, very valid. First of all, expansion in India for products that are to be used in India and certain products which can be

exported from the Indian plant. The expansion in Africa currently that we are doing is specifically for the African specific animal disease and the third what about our expansion plan. Our expansion plan wherever we do, whether it is Africa which we are trying to do, we are looking at setting up or acquiring a good distribution network and/or if we go into manufacturing acquiring or setting up to manufacture something on the health product side, so that is something which was never covered in any of our earlier plans and now that is now being incorporated into those things and the turnover to asset ratio in health products is far more better than what it is in vaccines in terms of sales to assets. So, we have reasons to believe that assets, now created on the animal health side would churn out much more higher turnover than what it would by putting as much money in a vaccine plant.

**Manish Gandhi:** Thank you so much Rajiv Bhai. All the best.

**Moderator:** Thank you. The next question is from the line of M.J. from GormalOne. Please go ahead.

**Manish Jain:** Congrats on a very successfully getting inclement **(inaudible) 34:50** weather. I just wanted to understand on your marketing team expansion plan. When do you think you will go for the next round of marketing team expansion in India and your export markets?

**Rajiv Gandhi:** First of all Manish, you changed your name from Manish Jain to M.J. I heard, so any reason for that change. As far as the next round of people that we need to hire now over here we are looking at taking up more people say from the first quarter of the next financial year nothing to do expansion in terms of marketing in this quarter, because things are moving okay and we always need to have mix between getting more people, getting more sale, but at the same time, improving the efficiency also and counting on the sales per sales person so that is an important thing over here as far as India is concerned. As far as international Africa is concerned, we hope to start creating the whole distribution marketing

network probably mid first quarter next year or towards the end of the first quarter and that is how we would take it further. We would do it say around five to six months from now as far as Africa is concerned. The reason being we have delayed this in Africa is that production in a vaccine plant, it cannot happen that today we switch it on, today is the inauguration and here there are millions of dollar vaccines worth available. It is a slow process. So, while the production would build up, our marketing team would build up and whilst the marketing team is not there but the production is there, we can always sell it through distributors and take it further.

**Manish Jain:** Perfect. Just one housekeeping question; someone asked earlier, your gross debt is 114 Crores how much is the gross cash?

**Rajiv Gandhi:** I do not have that figure right now in front of me. I would not mind sharing that with you Manish offline, but I do not have that right now with me.

**Manish Jain:** I will join back the queue. Best wishes for your aggressive expansion plans.

**Rajiv Gandhi:** Thank you.

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

**Kishore B:** Congratulation on good set of numbers. I just have a question, maybe your thoughts on this like any plans on expanding the vaccines for pets like dogs and all?

**Rajiv Gandhi:** We have a desire since a long time to get into those vaccines as well as into foot and mouth disease vaccines, but we are very clear if we get into pet vaccines, we would like to tie up with some international companies for international marketing. The pet market size is very small in India as compared to what it is internationally. If you really do a survey in United

States, there is more sales through the pet market rather through the organized poultry or cattle, goats, sheep and swine, but that is not so in India. In India it is minuscule. So, we want to get into it but we will do it at an appropriate time if we get some international handholding as far as pets are concerned. What was your second question?

**Kishore B:** This is my first question. Since we are setting up plants in US and Africa, since we have a good market for Petcare as well?

**Rajiv Gandhi:** I have never mentioned we are setting up anything in the United States. So that is not an idea that we are looking at, at this point of time.

**Kishore B:** That is it. Thank you Sir.

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

**Viraj Mahadevia:** Rajiv Bhai nothing else at my end. My questions have been answered for now.

**Rajiv Gandhi:** Thank you Viraj.

**Moderator:** Thank you. The next question is from the line of Ankit Kanodia from Smart Sync Service. Please go ahead.

**Ankit Kanodia:** Really good set of numbers. I would also like to thank you for sharing the detailed view and would request you to continue with this in the future quarters as well. In that way it helps to understand. Most of the questions have been answered. I just wanted your view on what is our long-term vision and strategy for our company as we are aggressively looking for expansion in different markets, in different segments as well. So, how do you see our company, a broad vision if you can say, say three years or five years down the line, maybe 2025 how do you look at it? What are the key risks to our vision? What can go wrong? What are your thoughts, if you can give some colour that would really help us to take a long-term view?



**Rajiv Gandhi:**

Thank you for complementing me for the press note. I think last two three times, we have been giving more in detail, but since from the time, I know we have always been trying to give as much information as possible through the press note, because whether I give it in the press note or somebody finds from the balance sheet ultimately everything is anyway in public domain, it might as well give it so that your most of the questions get answered through the press note or through the releases. Coming to vision, animal health business is a good business, growing business, all across the world. In India if you look at it poultry is reasonably consolidated growing at around 8%, 10%, 12%, cattle farming, dairies, etc., we see a metamorphical change in India in the next five to 10 years wherein a scattered backyard population of 1, 2, 5, 10, 20, 30, 50 cows would get consolidated into a big dairy farms wherein you have hundreds of cattle giving milk, etc., so this is something which we are looking forward ourselves in India which will make our business grow probably, five, tenfold even a little change happens in that whole characteristic of the dairy industry. Sheep goat farming is also now taking up. There are people who are getting into organized sheep and goat. Till five years ago, there was any hardly sheep or goat available. If you go to see we have started goat pox vaccine. We are the first people in the country to manufacture the goat pox vaccine. There is still no second person who is manufacturing lumpy skin disease is again another disease that is coming up. For vaccines a disease means an opportunity, but overall I do not see it at that and I do not even mean that the disease it is better for us, but overall animal health industry is going to restructure itself further in the large animal segment, restructuring in itself even without much increase in population, it is going to give a very big business to not only us, but to all animal health companies. We are looking at other geographies like Africa, which is a continent where things are even much more scattered over there than what it is in India. In fact poultry farms are even immensely scattered what they were more than 25, 30 years ago over here. So, we are looking at such economies where the growth potential is very high. On the flipside you might say or it might be termed as a risk that we are

looking at areas which are risky and how we would mitigate those risks, etc., to that my answer is the risk mitigation is also a process which is evolving. I do not have a risk mitigation plan today on how will I mitigate risk in the next four, five, six, eight, ten years in the African continent whether there is a political problem, whether there is a social problem, whether there is a bird, animal population, disease problems etc., so the risks are there could be sometimes diseases which create a massive problem. There could be and we are looking at developing economies, so the problems in any developing economy could come on us, but these are macro problems that we have and as the world is in itself becoming more enlightened with people having all information, all over the globe, everywhere, however rural you are, I think, all these things will help us mitigate our risks and take our business further and at some point of time we are looking at a up geometrical progression, spiraling growth and hopefully we should be doing far more in terms of topline and bottomline in the next two, three years from now.

**Ankit Kanodia:** Thank you so much for your detailed answer. Just a followup just as we had a very good association with Bill Gates Foundation in terms of our African business, do you think if we can have a similar sort of association even in our domestic business that takes care or mitigate some of our political related risks because in such a big organization is with us we somehow that kind of a confidence that some sort of political risks can be mitigated? What is your view on that?

**Rajiv Gandhi:** My view on that and you are taking in India, I personally feel that India as a country the way it is going, the way there is progressed, I think the political risk is the least of the worries I think, at this point of time in our country and things are looking upwards so that risk I personally feel that we do not need any mitigation to any political risk. As far as the Gates Foundation is concerned, here the role that that can play with us is very small. I mean they have got a big office, they are doing a lot of great fantastic work, but it should also be within their objectives to do certain things in certain geographies in certain countries so it might not match

between their objectives and our objectives of doing things over here. The banks in India are there to give us money, the system is quite robust over here, so I do not think really we need an international institute; however, big it is to help us search for a business in this country.

**Ankit Kanodia:** What about the competitive intensity given your market is going to expand as per your understanding in the next four to five years?

**Rajiv Gandhi:** There will be more competition that will be coming in, in days to come and this is part of the churning process. There will be more competitors. There will be something new again happening. There will be something bigger demand happening, busy shifts, so there will be something happening somewhere in the country and it will be going on. To pinpoint all these things is extremely difficult. Certain things you just have to move on, not that we do it in a rash manner, but we move on with a sort of a clear consolidation and take things as they come while we move.

**Ankit Kanodia:** Thank you so much Sir. Really appreciate your detailed answer.

**Rajiv Gandhi:** Thank you.

**Moderator:** Thank you. The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

**V.P. Rajesh:** My question was that given all the expansion plans you have what do you think the revenues and margins will look like in five years?

**Rajiv Gandhi:** As far as our margins are concerned, if we can keep these margins or a little bit higher margins at a bigger turnover of 400 Crores, 500 Crores, 600 Crores nothing like it and in terms of other geographies like if you have seen even in a small turnover we did reach a breakeven analysis at our plant in Hester likewise gross margins being good as what they are I do not see any difficulty as far as maintaining margins is concerned. The whole challenge is how do we take the whole thing further once the plant starts registration in different countries, etc. So, I do not think margin is an

issue as far as we are concerned. Plus we are doing business in such geographies where in any case the margins are higher.

**V.P. Rajesh:** That is helpful. I am sorry, I did not get the revenue growths that we can be at in five years?

**Rajiv Gandhi:** The revenue within five years from this point of time, if you take a simple 25% growth on a year-on-year basis and if you are talking of five years, we are anywhere talking of doing or getting more than double, but we are getting into an expansion mode, we will get Hester Africa into it, so it should be substantially more than that. I am not able to give a figure, neither am I avoiding to give a figure, but let us leave it to the way it grows. There are all signs which show that we are growing fast.

**V.P. Rajesh:** How is your organization setup to grow like this, because obviously getting into a hyper growth phase, so if you can just comment on how organization you have selected?

**Rajiv Gandhi:** We have built this organization in the last 22 years. We have reasonable stability in our organization, but as we grow fast, you need more and more people. There is always a challenge to get the right type of people to get the right type of job done, so those challenges as much remain with us as what it would be with any other company, anywhere and we just have to move forward and keep the selection process on all the time and get the right people for it. I think that is the only thing. There is nothing really more than that.

**V.P. Rajesh:** Just a housekeeping question I think your press note is fantastic. Thank you for sharing such detailed comments. I just could not make out whether the percentage revenue received from other products. You have given the growth, but the percentage? I am sorry. My question was that what is the percentage of revenue from vaccines in the current quarter versus the rest of the products?

**Rajiv Gandhi:** 75% vaccines.

- V.P. Rajesh:** Do you think this mix will change in five years and how will it change?
- Rajiv Gandhi:** It has to change. Health products should become substantially bigger than vaccines in years to come for sure.
- V.P. Rajesh:** But any guidance on the percentage side?
- Rajiv Gandhi:** Well, you know we took a big team last year. We wanted both to become equal by this year it has not happened, but I am sure in the next two years, there will be a diametrical shift. If you go to see till two years ago, we were 90% on vaccines and only 10% on health products, now it has come down to around in the 70%. So slowly that shift is happening.
- V.P. Rajesh:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.
- Manish Gupta:** Just want to again express appreciation for the details that you are providing in the press release and just a request, if you can also attach the balance sheet when you are providing this press release I think, it will save a lot of questions and also provide a little bit more transparency.
- Rajiv Gandhi:** Balance sheet we have on half-yearly basis is what my CFO is just speaking to me and I have just repeated what he told me. So, if offline you can tell me what exactly you think could help us to have more clarity in a press note, without really distorting the norms of declarations and publishing, we are more than happy to do it.
- Manish Gupta:** So, Rajiv Bhai, the norms is that the balance sheet is declared six months and full year, but there are a lot of companies who publish balance sheet every quarter and now given that we are growing at a rapid pace and because you provide so much of transparency I am just saying it will help all the investors rather than asking like people ask you questions on gross debt, you answered the question on gross debt. So, you are sharing all the

information. If you publish it on the balance sheet then nobody will have to ask you questions on working capital, gross debt.

**Rajiv Gandhi:** I understood. It is a good idea. I have understood that. Let me see. Another difficulty we have when we have to do consolidation between four, five, six companies those small it becomes a little bit of a difficult proposition for us to do that. Having said that it is an extremely valid point and I think we should get into it.

**Manish Gupta:** Thank you so much Rajiv Bhai.

**Moderator:** Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

**Apurva Mehta:** Congratulations on excellent numbers. I just wanted to ask that this big expansion, which you know, obviously trying to do is what will be the payback period, ballpark, what we have just envisaged that it will have two year, three year or four year payback period kind of thing or you must have something in your mind before going to a big expansion?

**Rajiv Gandhi:** We are working on one or two options to give you a payback at this point of time, Apurva Bhai it would be like me giving you an offhand figure on the payback period of time and etc., I think we know what is the ideal situation is. Let us work on it and then once the project is ready that anyway you would have to build or make up a payback period. So we will do it. Right now, I am not able to really give you an answer neither am in avoiding to answer. It is just that I do not know myself.

**Apurva Mehta:** Majority what the transformation of your company from a vaccine company to a mix of animal health and vaccine, so this capex is being made towards the animal healthcare?

**Rajiv Gandhi:** What happens is that even if capital expenditure is made equal on the vaccine and the health products side, but the turnover churned out for the health products from that investment would be far more than the turnover

churned out from the vaccine, but still we need vaccines which are also growing. Rest all our clients get and when we are talking of distribution increasing our distribution network, there it is altogether, it is a trading entity, distribution, marketing entity, so then there the whole calculations are different as against when we invest in a manufacturing.

**Apurva Mehta:** More towards the animal side, not towards the poultry side.

**Rajiv Gandhi:** Ultimately yes, our animal health division has to grow much more than faster than what our poultry division is growing at this point of time and in both the divisions the health products should be doing much more than the vaccine in days to come on a percentage basis because the health products percentage is small at this point of time.

**Apurva Mehta:** What utilization do we have in the vaccine side, you must be utilizing maybe 80%, 90% of the vaccine capacity?

**Rajiv Gandhi:** Yes. I think what you mentioned is perfectly I would have answered the same.

**Apurva Mehta:** Thanks a lot and wish you all the best for the big expansion.

**Rajiv Gandhi:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen, as this was the last question for today, I would now like to hand the conference over to the management for closing comments.

**Rajiv Gandhi:** Thank you all for this one-hour call in hearing me patiently. I hope I have been able to answer your questions, if not all, most of them. Our endeavor is always to answer as much as what we can. Certain times, we are not able to answer, not because we do not want to but because I myself do not know have that information. When I am sitting on my table and something is asked I may not have that information, but be rest assured, our endeavor is to be as transparent and open. Some of the suggestions

even given today, I would love to implement that like in terms of quarterly balance sheet etc., etc., those are very challenging desire, but nonetheless I think we should try to work towards that. We all, myself, our team, our CFO, production, marketing team, all are working hard towards taking Hester Biosciences to the next level and it is all your questions, I mean when you ask questions, when we make notes, while answering to you, it also gives us a lot of introspection, it also gives us ideas on what to do, certain things which we would have never thought, we suddenly get a spark, so this interaction helps me personally, it helps the company and that makes me very happy to talk to all of you on every quarterly basis and so I think that is about it from my side. Thank you all and hope to see you next time in the next quarter.

**Moderator:**

Thank you. On behalf of IIFL Securities Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines. Thank you.