



HESTER

"Hester Biosciences Limited Q3 FY22 Earnings
Conference Call"

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HESTER



ICICI Securities



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MODERATOR: **MR. MITESH SHAH – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Hester Biosciences Q3 FY22 Earnings Conference Call hosted by ICICI 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 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. Mitesh Shah from ICICI Securities Limited. Thank you and over to you, sir.

Mitesh Shah: Thanks Lizann. Good afternoon everyone and welcome to Hester's Q3 and 9 months FY22 Earnings Conference Call. We have the senior management, Mr. Rajiv Gandhi - CEO and Managing Director; Mrs. Priya Gandhi - Executive Director and Mr. Nikhil Jhanwar - Chief Financial Officer participating in this call. I thank the management who give ICICI Securities the opportunity to host this call. Over to you, sir.

Rajiv Gandhi: Good afternoon. I was just cut off and I just got reconnected, so I hope I have not missed anything. I just heard your last sentence, but good afternoon everybody, I am Rajiv Gandhi - CEO and Managing Director, Hester Biosciences and as always nice to connect with all of you and talk to you about the general functioning of the company. Today, we are here to talk on the third quarter and the cumulative 9-month results for this financial year FY22. While the press note which has been published has, we have tried to be as elaborate as possible, nonetheless, I would like to just go through a few highlights and then I would request all of you to ask me whatever questions you have.

So for the quarter gone by as well as for the 9 months gone by, as you see on a quarter to quarter basis, the revenues have gone up only by 2% and there has been a dip in the profit while on the 9-month level, the revenues have gone up by 16% and the profit has gone up by 11%, to address the low revenue growth and the drop in net profit. Q3 for the financial year FY21, though it was the COVID year, it was an exceptional quarter for us, in fact Q3 last year as well as Q4 last year, both were exceptional because there was a major poultry disease outbreak in the whole country which led to a spurt of demand for a few poultry vaccines, so on a comparative basis and this quarter it has been going on in the normal way the growth has been normal, therefore,

on a quarter to quarter basis, it definitely appears that there has been some, there is hardly any growth. And talking about the profit, in FY21, due to the COVID period, the profitability also was again exceptionally high because at that time there was no movement of our sales people, there were no cost adding to the communications, travel, etc., for the sales people, though there was a big demand for poultry vaccines, so both combined has impact on a comparative basis on Q3 basis.

Another thing which I would like to highlight is that on a year-on-year basis, we have always had an additional income in the form of licensing fees as well as services. If you look at our FY22 Q3 quarter there has been no license fees while in the corresponding quarter, FY21 there was a licensing fee of a little over 3 crores and if you look at a 9-month ending period, we had around 10 crores of licensing fees and service while in this year, we have had totally only 3.65. So if we look at it, as that is also to be added in the revenues, therefore, it appears that our turnover has gone up by only 2% on a quarter basis, but if you really remove that and if you look at our pure product sales, it is actually up by 9% and if you look on a 9 monthly basis, it is actually up by 23%.

Coming onto the product that is the bifurcation in our cases, vaccines and health products, the growth between the two compared quarters is 0 as I told you we had an immense big demand during the COVID year in FY21 for the poultry vaccines which this year we have been having normal sale. So on a quarter to quarter basis, in Q3 the growth in vaccines is 0 and on a 9 monthly basis, the growth is being shown as 16%, but if you see on the health product side, on a quarter to quarter we have grown 42% and on a 9 month to a 9 month basis, we have grown to 49%. So overall, if you would analyze in terms of sales, whereas it does not show that, but there has been some growth as far as sales is concerned.

Talking about the profitability as far as the gross profit and the net margins, etc., all are concerned, as we are again comparing on a quarter to quarter when last year the expenses were less and the sales were very high, therefore definitely it has impacted and it has shown that there is a dip in our profitability and that dip also on a 9-month basis is seen because of the cumulative effect as last year the expenses were reasonably less all throughout the year.

Talking about the other developments as far as Hester Biosciences is concerned, we have been working on 3 vaccines that is the classical swine fever, the lumpy skin disease and the sheep pox vaccine and we hope to launch all these three vaccines in the first quarter of the next financial year. All these vaccines are in the final stage of their quality control test as well as regulatory approvals at this point of time. On the PPR side, I would like to say that the government of India had issued a tender for the buying of PPR vaccines, it was the national tender. We as Hester Biosciences India participated in the tender and we were L1 and we have got the contract for the supply for the PPR vaccines for the next 2 years as per the tender and that total quantity would be approximately 20 crores doses of vaccines in 2 years' time. Taking a price of it a little over Re. 1, we could easily say that our sales should be up by around, it would contribute to around 20 to 25 crores of sales in the next two years additional to what we have been doing so far, just on the PPR vaccines in itself. The animal health division, we are pushing it and we are making it grow, we are adding products, we are adding manpower, we are adding new territories and we hope to continue grow this division in India at a much faster rate than what the vaccine division will grow, because the baseline also for the health products is small as well as the market overall for health products in absolute rupee terms is much more bigger than the total market for the vaccines which are totally being manufactured by us.

Talking about our capacity enhancement projects, there are two projects that we are currently working on, one is increasing our capacity for the bulk antigen and second is, increase the capacity for the fill finish, for the finished vaccines. Both these projects are going as per the scheduled plan for completion, for implementation and we are very confident that by the end of Q4, we would be able to make the first vaccine in this. In Q4 we would be able to commercialize both these current expansions and with this expansion, our quantity would go up by 100% in terms of our capability to make the current vaccines which we are already manufacturing.

Coming to our subsidiaries, Hester Africa, we have received the licenses for the manufacturing, we have taken a few batches. Just 5 days ago, we had the final inspection for allowing us to start the marketing of the vaccines. The inspection has already gone through. We are awaiting the final report. Informally, we have already been told that we would be allowed to start the marketing in Hester Africa, so in the next 4 to 5 days, we should be making

the first invoice out of Hester Africa which would be a big historic event for us, yes, the sales would slowly build up, it is not that the day we get the permission, it would be a very big buildup sales, but we have taken 3 vaccines in production, the batches are ready for sale, one is the PPR Vaccine - Nigerian Strain that is used in Africa; second is the Newcastle Disease Vaccine for the poultry and the third is the CBPP, the full form is Contagious Bovine Pleuropneumonia Vaccine, so that is the third vaccine. We have already taken the batches and hopefully in the next few days we should be launching them. Texas Life Science continues to grow in as much proportion as what our health product business is growing because all our products are being produced over there and being marketed by us in Hester.

Coming to Hester Nepal, there has been some progress at Hester Nepal and we are further pushing the progress, the PPR tenders from FAO have just started trickling in and we are hoping that by the end of this financial year, we would actually cross the turnover that we had in the FY20, FY21 was very bad because of COVID there were no tenders, no movement, no flights coming in and out of Kathmandu and as you are aware, all our vaccines are only shipped through air, there is nothing that is sent by sea. Another interesting thing which I would like to highlight which probably I might have highlighted in the earlier quarterly call is that OIE which is the World Animal Health Organization, it is a French organization, OIE, earlier it was a French name OIE, but now they just use the word OIE, the full form is the World Animal Health Organization. They had put out the tender to create a vaccine bank for PPR vaccine. There were two companies that have won the tender, one is us and one is another Moroccan company. That business was to have started in this quarter, unfortunately it has not yet started, but if that business starts, hopefully in this quarter, we are very hopeful that in itself would recover, make us recover completely out of all the current situation that we are in at this point of time.

Talking about Hester Tanzania, our trading entity, the trading entity, we are working on the trading entity, at the same time we have acquired 50% stake in another trading entity in Africa wherein we want to transfer all the trading activity that is Thrishool Exim and through there we will now build up the whole trading activity and the base itself with Thrishool would be more than 4 million because that is what is expected to be done in this year as against the smaller turnover that we earlier had in Hester Tanzania. Hester Trishul looks

very promising and there are many initiatives in trading that we have embarked on and we are confident that this will become a very big venture as far as we are concerned.

Last but not the least, coming back to Hester India, we have now taken a decision to launch a pets division. This is a new division that would be launched soon. I would just request Priya to talk on this division.

Priya Gandhi:

Good afternoon everyone, so I think in the last press note, we had mentioned that we would be coming up with a pet division, so from that time until right now, there has been some progress at the backend wherein we have started identifying people, geographies, products that we want to get into. To begin with, it will mostly be pharmaceutical products and not biological which is, I mean Hester's trend has always been biological, but this time we are taking another approach wherein we are first starting with healthcare products and then we will slowly move onto vaccines in this particular division and we are hopeful that we will be launching first few products by the end of this upcoming quarter which is Q4 and in the next financial year, may be in the third or the fourth quarter, we would probably have the full range of products that we intend to launch. Thank you.

Rajiv Gandhi:

So that makes us give an overall of all the things happening at Hester. That completes our presentation. Over to all of you for your questions.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia:

Sir, I have two questions, number one is regarding the COVID vaccines which we are preparing, so in our press release also and also in our initial address we have mentioned about spectacular growth which we are expecting in that volumes in that, my question was regarding the margins and returns on those vaccines compared to what we are doing right now? Will there be any change in that and how much of that if you can give some guidance?

Rajiv Gandhi:

Thank you for your question and I would like to apologize that in my briefing, I completely overlooked the COVID-19 vaccine project. Let me just brief you on that project and I will also answer your question. The current status of the project is that the construction work is going on, there have been a little bit of

a delay because a lot is dependent on important consumables as well as imported equipment and everything to be shipped from Europe has definitely got delayed in that shipment, so we hope that by this quarter being ended, we are able to start working, complete the construction and by approximately April-May start doing the trial production. Everything is going on very systematically as far as this project is concerned, we are very confident and we already feel proud that we would be having one of the best BSL3 facilities in the country once it is ready. Now, talking about the business generation from this project, our facility has been created to produce approximately 70 lakh doses of the drug substance for the Covaxin which will be supplied to Bharat Biotech and let us presume that we would slowly build up this. We begin with 20 lakhs and then in the next 2-3 months we will come up with the 70 lakh capacity and we would supply it to Bharat Biotech while we are still working on the margins etc., for this project because this currently is, everything is being worked on at this point of time as you understand this agreement with us as well as Bharat Biotech entering into agreement, all has happened due to an emergency situation in the country and we are all working towards it, but having said that we are confident that our turnover should definitely shoot up sizably with this project coming through. In terms of profitability, I would like to not address or talk anything on it at this point of time, I would at an appropriate time, probably before the end investor's call through a special call or a press briefly we would definitely give these details.

Ankit Kanodia:

And my next question was regarding our Tanzania operation which has just begun, so as per our channel check what we are hearing is that there is a lot of problem in the sense that even the government, some of the governments, not particularly in Tanzania, in Africa have delayed their payments, so as and when we are entering this space and geography, what would be our mix in terms of government orders and also in terms of private orders, any guidance you would like to give?

Rajiv Gandhi:

Yes, at the moment we are focusing on the private market, on the trade market because that is something which is always, we would not want to, we have not constructed the whole plant just based on any tender business and some of the vaccines are to be produced for the first time, so they have never even being tendered before, so that is definitely not an approach that we are looking at. We are looking at selling it in the private markets, create the demand, create awareness and sell. Once the tender business comes up, we are even

hoping to do the tender business, but if at all and whenever it comes up, we will take a call at that point of time on how to supply, how to secure our payment, but currently we want to take the risk by creating the demand rather than looking or worrying at the tender business because that is the real long way to go. If you really look at it, any tender business which starts in any country for any particular vaccines, etc., it is only in the starting period and then ultimately it has to come down within the private sector and to be sold, distributed, manufactured by the private sector. So we would want to start this focus right from the beginning and let us see how it takes us further.

Ankit Kanodia: One last point if I may ask, regarding the Covaxin which we are doing, so is it fair to assume that whatever revenue you may get through that vaccine, it would be, the bulk of that will happen only in FY23 and may be some in FY24 and then we might not have any revenue from them assuming that COVID would be a history by then?

Rajiv Gandhi: Yes, the revenues have to be looked only FY23, definitely not in FY22, 23, 24, we all wish, hope and pray that COVID goes away and that the need for the vaccines also goes down because that is what we all wish and pray, but considering that we are manufacturing it and we are giving it as a preventive dose and therefore the government has also pushed and everybody is pushing for a preventive medication in terms of vaccines, we are also preparing plans on what next to be done with this beautiful facility created by us, how we take it further, what are the other vaccines that we will be manufacturing, this is our path, our gateway to get into human vaccines, but we do not want to dilute our thinking at this point of time. We have taken up a national responsibility, so we are only focusing on the COVID vaccines. Yes, after two years, we are pretty sure that in the next 6 months' time, we would have planned and if COVID continues for any reason, be rest assured our focus will at that time remain only on COVID.

Ankit Kanodia: And if the COVID is history by then and what would be our, this capacity or this facility will be available for our poultry and animal vaccine or should we have to do some CAPEX related to that?

Rajiv Gandhi: We will then on this facility, it is a BSL3 facility, our focus ideally would be on human vaccine.

Moderator: Thank you. The next question is from the line of Kuntal Shah from Oaklane Capital. Please go ahead.

Kuntal Shah: I just had two questions, IVRI, IHPE and lot of governmental organizations keep licensing technology, what is the plans we have on licensing the technology from government institution and also from third party commercial institution considering now we will have that BSL3 both for animals and human? And secondly question on, what is the breakeven on Hester Africa which we breakeven, at what level of sales after we breakeven at PBT level?

Rajiv Gandhi: Answering your first question, in terms of technology, Hester for its animal vaccines, we have bought technology from Indian Veterinary Research Institute, we have also bought technology from other international institutes etc. We are always open and looking at acquiring technology, in fact we have also acquired the technology to make new Brucella vaccine and that technology has been bought also from the government of India from Indian Council of Agricultural Research. So even the vaccines which I just mentioned classical swine fever vaccine, sheep pox, lumpy skin, all these are bought from Indian Veterinary Research Institute. It is our endeavor that whenever any technology is available, we are one of the first, it is on record, even if you go and visit any of this institutes, we are the first to pitch to buy that technology. We shall continue that spirit in acquiring new technologies and wherever BSL3 is to be used, yes, we will use it. One thing is that if we use it as human, we cannot do it, for animal if we use it for animal, we cannot use it for human, so we will have to take a call. Our current call is very clear, human. Let time pass by, let us see how things unfold, but for the moment it is clear on the human side. Coming to your Africa question on the breakeven, I think our breakeven should be at approximately utilization of around 20 to 25% capacity.

Kuntal Shah: Just one followup question on my side, is there a plan to even license the technology for manufacturing human vaccines?

Rajiv Gandhi: As I just answered the first question that we all wish and hope that COVID goes away, but at the same time, if COVID remains we will continue with making the bulk antigen, the drug substance for Covaxin. If the situation changes, be rest assured that it would be our next endeavor to search what next in human vaccines.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: You may have already discussed this, but I joined a little bit late, just wanted to understand when is the Africa unit going to start and is there any target for your revenues for FY23 from the Africa business? Number two is also on the Covaxin opportunity, just wanted to understand in FY23, any targets for that also that you see and when is that production likely to start? Those were the couple of questions that I had?

Rajiv Gandhi: I did answer them, but nonetheless, in brief I will answer it once again. One was the Africa, we have already got the manufacturing license, we would be getting the marketing license in the next few days, so within a week from now, we would start marketing the first 3 vaccines which we have already produced. In terms of forecast, there were well defined forecast plans everything before even the COVID year, then came in COVID, we are a little bit grappling towards on how to redefine the forecast thing, the marketing activities in Africa. I do not have a precise answer to give you at this point of time. We are working hard. Let this one quarter go, let us move a little further, then we will firm up things because of COVID and many other issues, things have gone a little away, but I think given these 3 months' time, we should be able to be a little sure on things. In terms of the Covaxin vaccine drug substance project, we have created a capacity to manufacture 70 lakh doses that should build up slowly from the first one 20 lakhs going on towards 70 lakhs. Hopefully by April-May, we should be taking the trial production and based on that we will be taking the commercial production and that is what it is.

Mithun Aswath: I am just trying to understand on the Covaxin opportunity in terms of our revenues for next say that anything that we have targeted?

Rajiv Gandhi: We are in talk with Bharat Biotech, we have yet to firm up the exact revenue model, not that everything is undecided, but the models are yet under definition, so once that happens, by the time, we reach the commercial as the stage of commercial manufacturing selling, everything would be well defined. As you are aware, this has been happening due to an emergency situation. There is a lot of support that has been given to us by BIRAC by the department of biotechnology, everybody is involved and once there is more clarity on this, I would definitely give this information to you all as well as to our shareholders.

- Mithun Aswath:** Sir, if you allow me a followup, I just wanted to understand the Covaxin opportunity similar in terms of the margins that our vaccine business is giving up because we have done a reasonable amount of CAPEX, right for the Covaxin opportunity as well, so just wanted to get a sense on that?
- Rajiv Gandhi:** The margin for any loan licensing agreement, for any job work agreement are always going to be less than those margins of the product which we are manufacturing from basic, where we are manufacturing the final product and we are marketing, so that margins are bound to be lesser than what it would be for our existing vaccines.
- Mithun Aswath:** And sir, just last one, on the animal products business, we have seen that, I think there is a little bit of may be a loss in this quarter, so just wanted to understand what is our thought on this because I think this was one of the areas where we want to focus and grow quite aggressively, so just wanted some thoughts on that?
- Rajiv Gandhi:** In terms of, we are talking about the quarter ended 31st December, is that what you are looking at?
- Mithun Aswath:** That is right.
- Rajiv Gandhi:** I will just give it to Nikhil, our CFO, let him address this and I will address the subjective part.
- Nikhil Jhanwar:** Good afternoon sir, so as regards the animal healthcare products, if we see overall for the 9 months, there has been positive profit. As regards to the quarter, since there has been increase into the marketing expenses during this period and to that extent there is a nominal loss of Rs. 10 lakh which has happened in this quarter, so that is the overall scenario which has happened.
- Mithun Aswath:** Just, what is the outlook on that business, because I think there was quite a large focus on that and that was one of the areas where we are going to see quite a bit of growth?
- Rajiv Gandhi:** Yes, health product is the segment which would be growing faster than the poultry segment and we are confident that we will grow this business. We are aggressively spending more, I would not use the word spending, wrong word, we are investing more which on the marketing, so on the balance sheet term

point, anything that we talk subjectively as investing it goes in the balance sheet as an expenditure, so we are increasing the field force, we are putting in lot many other, we are adding products, adding people to develop products, so those are the areas which have actually caused for this, but you could just say that this is a very small aberration, a temporary aberration, we take it as an irrelevant situation.

Mithun Aswath: And if you don't mind, just one last one in terms of your 2-3 year outlook, you had mentioned that the domestic business could double in terms of revenues and the Africa business could give you another 250 crores, so that will be, may be tripling of your revenues over the next 3 years, I just wanted to understand in terms of CAPEX, are we pretty much through for all this and it is more about splitting the assets or to reach that target of say 750 crores, we would need further CAPEX as well, if you could just give us the clarity?

Rajiv Gandhi: The current capital expenditure that we have made at this point of time in increasing, as what is shown in our press note as I have mentioned to increase our antigen production as well as the fill finish, this would definitely first of all make our capacity multiplied by two of what it is at this point of time. With that in place, with Africa coming in place, let us see we are reasonably aggressive, but the CAPEX now required to reach higher milestones like 400, 500, 600 crores, the ratio or the input/output ratio would definitely be on a very positive side towards the output.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Sir, my first question is, I just wanted to understand the gross profit margin movement, if I look at it quarter-on-quarter and 9 months 11% to 4.7%, would this be extend primarily due to the product mix which is health products doing much better than vaccines or is there anything else that contributes to this?

Rajiv Gandhi: I think, sorry, not that I think, I am sure of it that the margins on vaccines are more than what the margins on the health products are. With the growth of the health product, there could be a little bit squeezing of the margin, but in days to come, if you look at absolute figures, we will still come out to be far ahead. Yes, now, our focus, definitely we would want to keep it on the health products, but on the same time, look at the other opportunities that we are getting in terms of the PPR vaccine being supplied to the government, etc.,

which will again give us a big boost in terms of revenue, etc., which again would be having good margin, so I think overall, yes, I do admit that there could be a dip in the margins, etc., but over a period of time, I do not think that we should remain disturbed or it should be at lesser levels.

Anirudh Shetty: Sir, just wanted to de-average this a little bit, how is the gross profit margins compare segments, if I just compare vaccines versus health, how do the GP margins compared and at a larger scale, health is a bit small today, but at a larger scale, how was the EBITDA margins compared for this two segments?

Rajiv Gandhi: Vaccines would be more, health products would be less.

Anirudh Shetty: Would you be able to quantify it, sir?

Rajiv Gandhi: I would not have those details with me right now to be able to give so detailed quantifications, I am sorry about it.

Anirudh Shetty: No worries, I just move onto the next question, if I just look at your key products both on the poultry and the large animal vaccine side, if you look at PPR, Brucella, Goat Pox, what I wanted to understand is, typically on a per bird basis or animal basis, how many doses of these vaccines would be required over the life of the animal?

Rajiv Gandhi: In poultry, in a Broiler, the life of the broiler in itself is 6 weeks and as per the vaccination schedule, one, you can say 2 doses of Newcastle, 2 doses of Gumboro, only two vaccines. In terms of Layers, there are multiple vaccinations to be done, in which you have 5 to 7 doses of Newcastle, may be 2-3 doses of the inactivated Newcastle, then you have the Gumboro, then you have the Marek's disease Vaccine. There are fixed schedules at which these vaccines are given. On the cattle, sheep, goat, PPR vaccine normally is given every 2 years, one shot every two years. Brucella is given once in the life time of the animal to the female calf. So the vaccine, it depends upon the disease, like for example, MMR is taken only once in the life of human being. In Covaxin, we all are running around to take the third dose, fourth dose, so each vaccine has a different application in the host body, like for example lumpy skin disease that has to be given probably once in a year, so likewise there are different for different vaccines.

- Anirudh Shetty:** Just one final question, I just wanted to understand the supply chain for the pet animal business a little better, how will the manufacturing be done with? Will you be doing it through Texas or are we partnering with someone else and also how would the distribution work? Are we looking to set up completing new distribution team for this product and if you just quantify how many people we are looking to hire for this?
- Rajiv Gandhi:** In terms of manufacturing, we have Texas, we have many other options also, because pet is again, a specialized very different, where the product mix is different, the need is different, everything, Texas is one of the companies which could produce a few, then there are many other options that we have. In terms of marketing and distribution, it will be a completely separate marketing and distribution set up, of course our depots which are there in Bangalore, in Chandigarh, in Pune, the depots would be the same, but further from there, the distribution because pet products are not sold through the normal animal healthcare dealers or the actual users, so it would be completely different.
- Anirudh Shetty:** And are we looking to do outsource manufacturing for pet animals or are we looking to set up unit?
- Rajiv Gandhi:** At the moment, outsource, sorry your question is, do we produce for others or we buy from others?
- Anirudh Shetty:** No, sir, for the pet animal products, we can use Texas, but for the products that Texas can't do, will we do?
- Rajiv Gandhi:** No, we will buy from elsewhere, we will not be producing at the moment by ourselves in Hester.
- Moderator:** Thank you. The next question is from the line of Apurva Mehta from AM Investments. Please go ahead.
- Apurva Mehta:** Rajivji, I just wanted to ask, what is the amount of CAPEX we had done for developing this Covaxin facility, can you quantify that?
- Rajiv Gandhi:** For the Covaxin project, our investment should be approximately 60 to 70 crores.

- Apurva Mehta:** Is there any cost overrun in project because we were, I think we were at 40 crores kind of thing and I think you have already 62?
- Rajiv Gandhi:** All budgeted that way and we are looking at still increasing the capacity while it is going on, but there has been no cost overrun or anything of that sort.
- Apurva Mehta:** And any more CAPEX for next year, any big CAPEX needed or we have done with the CAPEX overall?
- Rajiv Gandhi:** For the moment, we have done, but we never know what is in store for us next year. On the animal side, we are more or less done. On the human side, all depends upon how the drug substance demand for Covaxin goes on. Based on that we might even look at getting into a fill finish for human vaccines or this might continue. So at the moment, the situation is a bit fluid.
- Apurva Mehta:** And normally, what will be the payback period for this type of CAPEX in a normal circumstance kind of thing if we want to?
- Rajiv Gandhi:** In normal circumstances, nobody just produces the drug substance and gives it, but we are looking at a payback period of between 4 to 6 years.
- Apurva Mehta:** For our project, this project?
- Rajiv Gandhi:** Yes.
- Apurva Mehta:** And when we are looking at Hester Africa which we are going for in a big way, what kind of marketing trend would need or what kind of expenses you have to offer and do it and what is your sense of getting, going into market when you are moving in Africa and are we easily able to sell it or can you throw some light on that?
- Rajiv Gandhi:** Marketing of our vaccines in Africa is definitely going to be a little bit an uphill task. I would not use the word challenging because that is not the right word, but yes there are going to be many things that we would have to resolve one by one. You must keep in mind that while our facilities are multipurpose facility to produce many vaccines, most of the vaccines that we would be producing are going to be for the first time introduced in the African continent. So it is something till today there was no vaccine, so there was no market, but now we are creating a vaccine that might create a big market, so it is like we are

all working towards it. It is a very long-term project that we have taken, but it is not that our returns are going to be delayed, etc. There has been good help from the Bill & Melinda Gates Foundation in this project financially and we are reasonably sure that we will overcome all these hurdles. We will create a marketing setup. We have already appointed distributors in quite a few countries. We have a few sales people for the moment only in Tanzania. We will start hiring even more people. It is just that we were waiting for getting this approval. Now that we have got it, now that we are sure on how we are going to take it further, now we will embark on defined plan.

Apurva Mehta: And we will be launching these three products which you have mentioned earlier?

Rajiv Gandhi: In the next 7 days.

Apurva Mehta: And there are any competition for this product from overseas or anything, I think Africa and any manufacturer in Africa who must be producing other than that?

Rajiv Gandhi: There are a few government labs, there is one private lab in Morocco, there is one private lab in South Africa, but besides that there is nobody else producing or even marketing any of these products. None of these vaccines are at the moment even coming from Europe into Africa. It would be noteworthy for all of you that vaccines in Africa today are sold at anything between 3 to 10 times the price at what they are sold in India. It is not our endeavor to exploit and sell vaccines at a higher rate. We have commitment to the Tanzanian government, we have a commitment to the Bill & Melinda Gates Foundation that we would make sure that this is addressed well, no exploitation is done, yes, our costs are high, therefore our product selling prices would also be high, but we don't take this as an opportunity to sell a vaccine at 10 times the price because that is not looking at an opportunity that is exploiting which we will not do.

Apurva Mehta: And on this tender project of government of India which is going on, we had got this order of almost 20 crores vaccines during 40 years?

Rajiv Gandhi: The PPR?

- Apurva Mehta:** Yes, PPR, any other tenders which we are trying to, bigger tenders coming in the way or any other tenders which are there on the pipeline?
- Rajiv Gandhi:** At the moment, there are no other tenders, but the state governments are buying some other vaccines like lumpy skin disease, sheep pox vaccine, etc., goat pox, they are buying through state tenders.
- Apurva Mehta:** And the peak turnover for this vaccine is around 20 crores for the whole 2 years contract? 20 to 25 crores?
- Rajiv Gandhi:** Yes.
- Moderator:** Thank you. The next question is from the line of Irshan, an Individual Investor. Please go ahead.
- Irshan:** Most of the questions have been answered, sir, could you just give me out whether revenue and profit figures at Nepal, Tanzania and Life Sciences?
- Rajiv Gandhi:** Nepal, I will request Nikhil to give the figures and then if there are any questions I will answer.
- Nikhil Jhanwar:** In case of Nepal, the sales have been Rs. 7 crores and overall there is an loss of 80 lakhs in the 9 months period and in cases of Texas 20 crores is the overall sales with Rs. 1 crore as profit and in case of Tanzania 2 crores has been the sales and 11 lakh is the loss in that entity.
- Moderator:** Thank you. The next question is from the line of Yasser Lakdawala from M3 Investment. Please go ahead.
- Yasser Lakdawala:** Could you help us understand what is the contribution in your institutional tender business to our total revenues?
- Rajiv Gandhi:** Hester India?
- Yasser Lakdawala:** Yes, in Hester India
- Rajiv Gandhi:** At the moment, maximum institutional business would be in the whole, so around 4 to 5%.

- Yasser Lakdawala:** Rajiv bhai, also I probably wanted to understand is, what is the strength of our field force in India and how do we measure the productivity as and like in pharma we have MR productivity, so do we have similar metrics sort of field force?
- Rajiv Gandhi:** We have around, between 200 to 250 sales people in the field and in terms of measuring, there are systems in place, I would not really know these inner details, but there are all these systems, just a minute, Priya would want to answer this.
- Priya Gandhi:** Sorry, would you want to know how much is the per person or what is your question exactly?
- Yasser Lakdawala:** Yes, in per person in terms of productivity, like in pharma we have measure the MR productivity, so what is the productivity for field force in India and for our consolidated business as a whole?
- Priya Gandhi:** No, there is a measuring methodology which we use in our case as well. Speaking of the strength for poultry healthcare, the number of people are less compared to animal healthcare because the whole division works a little bit differentially, so of course the per person productivity in poultry would be a little bit more because the number of people are less while the turnover in the poultry healthcare is more, while in animal healthcare it works a little differentially. It is more to do with how you are seeing pharmaceutical company's work wherein the numbers of people are more while per person is little less.
- Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.
- Anirudh Shetty:** Two questions from my end, so if I look at your working capital days last 8 to 10 years, our inventory days had improved substantially, we would have been about 190 days in FY12 and now we are around 100, 110, so just wanted to understand what was the primary reason for such dramatic improvement and going forward do you see further scope for improvement in this number?
- Rajiv Gandhi:** One thing is, as the business progresses, we become a little bit wiser and wiser on how to manage all these things on the lighter side, but over the period we are dealing with people all across the country who are not doing a very

structured business, so we keep on trying to educate them, enforce things on them, force them on inventory management, we become strict on payment, so these are the things that we do to really try to manage the inventory well. We make them plan for what they would want to sell, etc., so I mean it is just that management. There is nothing else that we really have done towards this.

Anirudh Shetty: And do you see further scope for improvement from here on?

Rajiv Gandhi: Further scope for improvement, we are trying continuously, I do not know at this point of time, but we are continuously trying to make sure that inventory, we try to become as efficient as possible, that's all. I wasn't ready for this, neither have I studied this before answering the question, so therefore my little bit of an inability to really give you on a statistical manner.

Anirudh Shetty: And my final question is, just a followup on the Hester Tanzania question, given that, one is, there is a huge pricing difference and vaccines as we note is inherently profitable, but we also have certain understanding with the government of Tanzania and Bill & Melinda Gates Foundation, so I don't want to get a specific number, but if I look at it and compare it with our India or vaccine business, would the margins be more or less broadly similar at a larger scale or?

Rajiv Gandhi: More.

Anirudh Shetty: It could be higher?

Rajiv Gandhi: Will, not could, it will.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for the closing comments.

Rajiv Gandhi: Thank you all for your questions and as always it has been nice, this interaction has always been nice and be rest assured, we as a team are working hard towards ensuring that the company progresses well, does everything. If there are any speed breakers, we try to make sure that the speed breakers are crossed and we again regain the speed and try to take the business further without really compromising on the philosophy with which we have been do so far and I think that is about it. There is nothing more. Thank you all and

hoping to hear from you all and hoping to talk to you all again in the next quarter. Thank you.

Moderator:

Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.