

HESTER

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23 August 2022

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001

Scrip Code: 524669

To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra - Kurla Complex,
Bandra (E), Mumbai - 400 051

Symbol: HESTERBIO

Dear Sir/Madam:

Subject: Transcripts of earnings conference call held on 10 August 2022

Pursuant to Regulations 30 and 46(2)(oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the transcript of the earnings conference call held by the Management of the Company with investors on Wednesday, 10 August 2022 at 2:00 p.m. (IST) to discuss the unaudited financial results for the quarter ended 30 June 2022.

This is for your information and records.

**Sincerely,
For Hester Biosciences Limited**



**Vinod Mali
Company Secretary &
Compliance Officer**

Enclosure: As above



HESTER

“Hester Biosciences Limited
Q1 FY2023 Financial Results Conference Call”

10 August 2022



HESTER



ICICI Securities



CHORUS CALL®

ANALYST: MR. ROHAN JOHN - ICICI SECURITIES

MANAGEMENT: MR. RAJIV GANDHI - CEO & MANAGING DIRECTOR, HESTER
BIOSCIENCES LIMITED
MS. PRIYA GANDHI - EXECUTIVE DIRECTOR, HESTER BIOSCIENCES
LIMITED
MR. NIKHIL JHANWAR - CHIEF FINANCIAL OFFICER, HESTER
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Moderator: Ladies and gentlemen, good day, and welcome to Hester Biosciences Limited Q1 FY2023 Financial Results Conference Call hosted by ICICI Securities. As a reminder all the 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. Rohan. Thank you and over to you Sir!

Rohan John: Thank you Seema. Good afternoon everyone and welcome to Hester Biosciences Q1 FY2023 Earnings Conference Call. Today, we have the senior management with us, Mr. Rajiv Gandhi - CEO & Managing Director; Ms. Priya Gandhi - Executive Director; and Mr. Nikhil Jhanwar - CFO on this call. I thank the management for giving ICICI Securities team the opportunity to host this call. Over to you, Sir.

Rajiv Gandhi: Good afternoon to you. Good afternoon everybody on the call, as always nice being again once in three months with all of you and present to you the working of our company Hester Biosciences. The results were declared today, the press note has also been circulated and I am sure you have both these documents with you. This is one of those rare times after a very, very long time that I am addressing everybody with results which show a down in the revenue as well as a down on the profitability side etc.

Having said that, first let me just go through briefly the financials and then give you my explanation of the functioning of the company etc. Our sales revenues have gone down by 14% and in that if you look at the sale of vaccines as against the health product vaccine sales have gone down by 30% while the health product sales have gone up by 42%. Now the reason for the profitability to go down is that the vaccines are much more profitable than the health products. Therefore a decrease in the vaccine always leads to a decrease on the profitability in the company. At the same time, if you have noticed since the last two years I have always been stressing that we as a company would like to de-risk and make sure that all divisions contribute equally to the top line as well as to the bottom line and we take on the business further. So that at no point of time do we get stuck up because of one branch doing bad or one branch doing good etc.

On the vaccine side, the reason for this low sales being on a comparative basis is that the corresponding quarter last to last year was exceptionally good because it was a disease situation in the country while there were it was an impact on COVID, but because of the disease situation we had an unprecedented sale for a few of our vaccines and that pushed up the sale to an extremely high level. So one issue is that the last year's quarter we are comparing to an exceptionally good poultry vaccine quarter year before last. So that on a relative basis also that makes a difference.

On looking at it absolutely in this year the poultry industry has been going through a lot of problem in the last one years' time or at least nine to ten months time. Feed prices have gone up, poultry production costs have gone up. So, inputs everything has gone up, output has not, it is not even just been stable, but at times it has even gone down. So it has impacted the poultry a lot and many poultry farmers have reduced the population of the birds at their farm. So there has been an actual de-growth it is not that we have lost any market share at all. There has been a de-growth in the poultry industry, which has led to this lower sales. Also there has not been any exceptional condition as which was there last year. So these are the reasons due to which the vaccine sales have gone down.

We have been continuously pushing all the division and the health product division did well showing a growth of 42%, but on the other side the profitability of the health product is lower than that of vaccines. So that has impacted the bottom line. Having said that we are taking things further and while we will continue to push the health product division harder and harder to get higher and higher sales. We are definitely looking into the profitability situation as far as health products are concerned even last year the input costs on the health product all raw materials went up tremendously. We were not able to pass on those costs onto the consumers. So by way of that we have lost in our profitability which otherwise was planned on the last to last year's margin, but we could not achieve those margins just because we could not pass the cost on and it is not that we could not, we did not want to pass on these costs we are growing our business, we are stabilizing ourselves and at this point we did not want to unnecessarily rub the board too much by completely pushing on our costs onto the end user.

So these are the reasons for which we have had a downside on the profit and the sales side because of the less sales in vaccine. Another thing is that we have also been putting in a lot of effort last year on the market development side. We have hired people, our team has grown up by one and a half times over what it was at the beginning of the year. So all these costs have gone in and the outputs of course on the poultry side we have not been able to get those outputs. So these are these additional costs that have also put in ahead that have gone in. Another aspect while comparing the two quarters last year and last to last year please also keep in mind last to last year because of COVID there were many restrictions on travel and therefore our cost on sales was relatively lower and this year it has actually been higher. So at that time the cost were lower, the sales was very high of poultry vaccines. So everything fit in last to last year while everything is on the other side as far as the sales is concerned. But having said all that going further from here we are very confident that this thing is now going to be arrested I think with this quarter gone the Q2 gone we have definitely arrested the de-growth, the downtrend and now we are definitely on an upward swing. This is assured I mean you could take this as an assurance from me.

Now certain indicators which I can give you at the moment, which would prove my point that we are now on an upside, lumpy skin disease is a current big problem throughout the country. We are one of the only suppliers of this vaccine and it has given us a tremendous sale in this quarter as far as lumpy skin disease is concerned. We have reasons to believe that this vaccine would be used now on year-on-year basis. This vaccine is to be given to cattle once in a year, so the vaccine gives immunity for one year and then you have to again give it after a year. So we hope that there would be a continuous repeated business as far as lumpy skin disease is concerned.

Talking about the other vaccine PPR vaccine for sheep and goat the national tender was already floated we were L1, we have been given the mandate to supply the PPR vaccine across the country. Unfortunately the supplies did not start in the last quarter, but we believe that they will start in this quarter in the next 30 days time that also is going to give us an extremely, extremely big boost as far as PPR vaccine is concerned for supplies to all over the country. The tender details are all public there is nothing just known to us the requirement it specifies approximately 20 Crores of business supplies to be made by us to the government in 15 to 18 months. These months have already

passed by these supplies could go up the time period for which they want the supplies may be lesser time. So that is one of the very, very big upside that we are looking at this point of time. Another thing is that you would have recently read in the paper just it was two days ago the Government of India has now allowed to manufacture and sell the H9N2 avian influenza vaccine for the poultry that also is likely to give us some boost not a very big boost but it is definitely going to help us give some boost because our other vaccines like the Newcastle disease vaccines etc. We were giving them in a very fortified manner which was giving a lot of protection to birds against H9N2, but now we will be making a dedicated vaccine for H9N2 which will reduce the sale of our Newcastle vaccine to some extent, but it will now directly give us sales in H9N2. So these are the indicators specifically on the vaccine side which give us reasons to believe that we have got a very big upwards trend coming up for us in this quarter as well as in the coming quarters.

Last, but not the least there is the pet care division, we have launched the pet care division after I finish my talk I will request Priya to talk a little bit on the pet care division she will give you an idea of the issues in the pet care division.

Other developments that we are working on over here in the companies we are currently looking at developing the classical swine fever vaccine, the sheep pox vaccine, the new version of the Brucella Vaccine all these vaccines are under R&D and hopefully in the next six months time to eight months time we should be ready with these vaccines as well which would again give us some sales from all these three vaccines. As you all recollect we have been expanding our animal vaccines infrastructure there are two expansions that are on the way which are already fully paid for, I mean, the Capex is already completed in both of them. One being the bulk antigen production capacity, so that is something which is about to commence and we should be starting in the next three months time and that should give us a big boost and it will double the production capacity of our current vaccine. So this could be used for poultry as well as a few large animal vaccines. The other expansion was for the fill finish that has got a bit delayed because we are nothing to do internally, nothing to do with us, it is just that the supply of equipment we are dependent on international, we are dependent on a foreign company and therefore there is a delay by them it is an unprecedented long delay as I said nothing to do with us. We are just keeping our fingers crossed hoping to get the parts required and we soon get into it, but that should start in Q4. Sorry the bulk antigen

would start in Q3 itself while the fill finish would start in Q4 it was a mistake that I made. So these are the updates as far as the animal vaccines is concerned. Looking into the business of our subsidiaries Esther Nepal there also we went through a tough time in the last quarter because there were zero tenders from FAO, but we have been talking to FAO, they say that now things are reviving and they would start because the mandate to FAO is very clear towards eradication of PPR, so they say that they are working hard towards it, we have reasons to believe that this tender business should start, but as I mentioned in my earlier calls, in my earlier quarters, we are also now putting in a lot of effort from there to get domestic business up. Now that activity is slowly gathering more and therefore hopefully the local business should also increase as well as we should start getting the tenders from FAO for the PPR vaccine to be supplied to all across the globe. Esther Africa five vaccines have been commercially made we have got the NOC to start marketing three of them, two we would be getting in the next few weeks time and we are quite ready to take on the marketing of these vaccines. Today the situation worldwide being a little bit on the recessionary side due to various reasons inflation the geopolitical situation, the whole programs of African countries though they had earlier committed to us they are a little bit slow in that, but all this has to pick up and has to happen at some point of time. A lot of many of my comments are that this has not happened, that has not happened in India, in Nepal, in Africa, but at the end of the day this far, and how much far more, it cannot just go on and on like this and it is not just wishful thinking that it will all improve I have full reasons to believe that things should turn around and we should be able to take things further. So Esther Africa we are more or less said we manufacture a pure lumpy skin disease vaccine over there and today if you see on internet worldwide there are problems of lumpy skin. They are suddenly shot up, we would again be one of the very few companies in the world through Esther Africa making a lumpy skin disease vaccine Uttarkashi strain and that also we are hoping that we should get lot of international inquiries for that and then CBPP and Gumboro vaccine, Newcastle vaccine in poultry and PPR also from there for the Tanzanian market. So all our efforts are in and I think all of these efforts should pay off now within the short time.

We have a joint venture with Trishul on the distribution site, that company has also started performing well in fact though not mentioned in our press node we have sort of we are 50% owners by Hester India is a 50% owner of Trishul where we have shown a quarterly profit of equivalent to 1.47 Crore which is

50% of the profit that is as much as our shareholding is concerned. So the actual profit is multiplied by 2 Crore, a little over Rs.3 Crore. So that is catching up and we are going to be doing a very aggressive distribution in beginning from Tanzania and then taking it further to first East Africa then to Southern African countries and then to West Africa. So this is all as far as our animal vaccines health products business is concerned, talking a little about the COVID vaccine, the Covaxin drug substance which we have an agreement with Bharat Biotech for which we have got funding from BIRAC. The project is at the moment we are having validation of the facility, we just recently had a meeting with Bharat Biotech and we are putting in a structure so that in the next three months or so we should be able to go on-stream and take up the first batch for the Covaxin drug substance for Bharat Biotech for them to produce the Covaxin vaccine. This facility as I mentioned it is a multipurpose facility, it is not restricted to Covaccine. There are many questions and even last time what happens if the Covaxin demand goes down. We have already put in a strong plan what if and we are ready to implement that plan the moment we get any indication on the changing demand for the drug substance for the Covaxin vaccine so we are fully prepared it is not of any concern to us at this point of time on what will we do with the facility in the event of a drug substance not being required for the production of Covaccine.

So with this I complete my presentation to you on Hester on all its matters except for the pet which I now give it I request Priya to talk a little bit on the pet division. Over to you Priya.

Priya Gandhi:

Thank you. Good afternoon everyone, this is Priya Gandhi. So sometime around the end of quarter four in financial year 2022 we as a company wanted to introduce the pet division to become an overall animal health company to address various species just along with poultry and animal health care. So we decided to include the pet division. While in quarter one our sales have been non-consequential, if I speak of the top line, however there has been a lot of backend working that has gone in the quarter we have established a full-fledged sales force which works out of Delhi, Calcutta, Bangalore, Bombay to address all the four regions of the country. We have identified a couple of products, we already have 11 products which are out in the market. Various products to address anti-infective, parasites, grooming products, nutritional, therapeutic products. There are 10 to 11 products which are already out in the market from quarter two onwards we are also looking at more and more

products to address to launch in the pet division. Speaking of the distribution and supply chain for now it is going to be very similar to what it is for the poultry as well as animal health care divisions where it is going to primarily be through secondary sales wherein we have appointed distributors, we sell through veterinarians because quite a few of our products from the 11 products that I just mentioned are prescription-based products so they will have to be given via veterinary doctors or retailers through prescriptions so this is the model that we want to follow for now if I speak of this YouTube distribution like I mentioned these made sales in the last one, one and a half months only because before this we were establishing manufacturers with such that we could keep the product quality intact. So we wanted to identify manufacturers that could do justice to this one prerequisite that we have. So a lot of efforts have gone into all this backend planning in the last four months and hopefully from the second quarter the top line will start shooting up and of course from Q3, Q4 onwards we are also going to look at launching more and more products in this division. Thank you.

Rajiv Gandhi: That completes our presentations. We now await question.

Moderator: Thank you very much Sir. We will now begin with the question and answer session. We take the first question from the line of Ankit Kanodia from Smart Sync Services. Please go ahead.

Ankit Kanodia: Thank you for taking my question. My first question is related to, if you look at our revenues. So from FY2019 till today it has been close to that 180, 200 Crores mark and we all know how our planning therefore is Nepal and Africa has been delayed for whatever reasons we have been and on that we have scaled up our team to manage the new sort of growth which we expect to come plus there has also been some expansion plans going forward which is under the way. So even I think it would be shared within that probably the markings and the return ratios for FY2023 would take a hit however what would give you the confidence that maybe in FY2024 things are going to look up if you can give some color both qualitatively and quantitatively that would be really helpful.

Rajiv Gandhi: Was it your observation or is there a question.

Ankit Kanodia: The question is basically how confident we are that FY2023 and FY2024 would bring back some growth because if you look at the years before FY2019 we were a highly growing commodity.

Rajiv Gandhi: What has happened is I agree with you from 2021, I mean, more than that 2019-2020, 2020-2021 yes there has been a little bit of a disruption from what we should have mean otherwise, but it is somehow and what has happened is all our expansions also came during that time. So it makes us look even slower than what otherwise we would have been had there been no expansions today we would have been in a much more comfortable situation as far as profitability and all that is concerned, but everything all happened to the same time, recessionary condition same time, our investments same time, geopolitical situation same time, but I am sure in these coming months to come, coming one year we will be able to completely turn around and we will be able to reach up to the expectations as what we have built for ourselves what I have made known to all of you and take it further it is not that I am trying to not give a specific answer but there is a level of confidence in me to make sure that all these things will turn around completely.

Ankit Kanodia: Thank you so much Sir and my next question would be related to the companion market which we have recently started. Any ballpark number as in when do we see this becoming a number in terms of sales where it would be meaningful to our overall total revenue, any guidelines or any target we have in mind.

Rajiv Gandhi: Yes, I could take that question instead of Priya. See the pet business is a completely different marketing as against the other products. Other products are B2B that is B2C and even creating demand there is an emotional quotient involved in pet business as against a pure economics for the other production animals. As per our forecast, as per our financial planning, in this financial year itself we should be able to break even as far as the sales are concerned and going further how big we would be yes there are plans made but we would not really want to get into discussing this at this point of time I mean we have been passing through tough times for the last two years just let us breathe and let us just put our head down and take it further trust me this division is also going to give us a lot of pride and a lot of awareness we would be the only company in the country that has business for production animals as well as pet animals.

- Ankit Kanodia:** My last question would be related to the Africa business. So now that the commercial commencement has happened and we do have a sizeable capacity over there. So any ballpark guidance you would want to give I am not looking at as a number per se, but in terms of capacity utilization any target we have in mind 80%, 60%, 100%.
- Rajiv Gandhi:** See any vaccine plant built anywhere in the world the capacities are always higher than what it is needed at a point of time because the cost to make it a little bigger are humongously high. So we have got a good sizeable plant, even if we are able to achieve around 20% of our production capacity within the next around six to eight months time we would be more than happy and it would be as per our forecast.
- Ankit Kanodia:** Thank you so much Sir and all the best.
- Moderator:** Thank you. We take the next question from the line of Manish Jain from Gormalone LLP. Please go ahead.
- Manish Jain:** Hi! First question was just a housekeeping question for Nikhil Jhanwar on the pending Capex for FY2023 and planned for FY2024 and what is the current gross debt and gross cash on consolidated basis.
- Nikhil Jhanwar:** The standalone it is 154 Crores and CFS it is 256 Crores, and as regards the pending Capex maybe I need to also work it out and...
- Rajiv Gandhi:** Very nominal Capex, all the Capex has happened over here in Africa everything it is just that now this Capex has to start giving results including the COVID drug substance that also Capex has already been incurred.
- Nikhil Jhanwar:** I just wanted to know on Avian Influenza we are talking of sales only in exports or both India and exports.
- Rajiv Gandhi:** India and exports start off with India in fact the moment we got this notification we have floated it out to many countries and we have started getting inquiries for the H9N2 Avian Influenza vaccine but we will start off by selling in India and in the meantime of course international countries other countries you need registration. So that would happen subsequently, but it would happen.

Nikhil Jhanwar: Moving on to lumpy skin disease given the kind of very aggressive flaring up of the disease across India especially in Gujarat, Rajasthan, Punjab in other states. Should the demand come from the market are you able to satisfy all the demand which can come up.

Rajiv Gandhi: Yes, it could be a little staggered at this point of time because the rush has just suddenly commit, but let it be by end of August, mid September we should be able to give as much quantity as desired.

Nikhil Jhanwar: And my last question was before I joined in the queue it was on we have mentioned we are making some change or improvement to the Brucella vaccine what exactly are we doing in that.

Rajiv Gandhi: We acquired the technology from Government of India are to produce a subunit vaccine and they call it Delta Per Brucella vaccine, Delta Per 2 Brucella vaccine. So that is the technology which we have acquired and government is also waiting and they are supporting us fully pushing us to if that make that vaccine and in terms of improvement it would be a little less costlier vaccine in terms of manufacturing and it would give as much or better production.

Nikhil Jhanwar: Just one related question on lumpy skin disease, was given the kind of disease prevalence do we also have a complete lumpy skin disease treatment option that we offer right now.

Rajiv Gandhi: See lumpy skin disease is a viral disease and there is no direct cure for the lumpy skin disease, but as always in us human beings also whenever there is a viral attack you address the bacterial infection and that reduces the intensity onto the animal onto the cattle there is no direct treatment for lumpy skin disease prevention is the only method at this point of time.

Nikhil Jhanwar: Great thank you so much and I will join back the queue.

Moderator: Thank you Sir. The next question that is from the line of Yash from Mandawewala Family Office. Please go ahead Sir.

Yash Mandawewala: Sir, can you talk a bit more about this lumpy skin disease outbreak how severe is it and how does it affect the livelihood of the dairy farmer that is one. Secondly have the vaccine supplies for this disease already

started for us this is in India and what could be the revenue potential opportunity for us from the lumpy skin disease vaccine.

Rajiv Gandhi: As far as first I will answer your question on lumpy skin disease it is a severe it is a massive problem to the cattle owners because the cow falls sick and it gets lumps all across its body it also gets fever and there are other symptoms in fact if you go on YouTube we have even uploaded a film on lumpy skin disease so which would help you understand the disease itself it is a viral disease there is no other cure for it and it also results in complete stoppage of giving milk and death is the end in many cases. So it is a very big loss-making disease for the cattle farmers it is a disease which is of very high economical importance for them. As far as the vaccine is concerned we produce a vaccine called the goat pox vaccine Uttarkashi strain and the goat pox vaccine is also effective against lumpy skin disease internationally there is also another goat pox vaccine which is effective against lumpy skin disease even international animal health organization also recommends that. So having made the goat pox vaccines around two years ago the same vaccine is being administered against lumpy skin disease but at a higher dose in goat you give it as 1 ml in cattle you give it up to 3 ml against LSD and it is Uttarkashi strain. We have already been producing this vaccine for 2 years it is just that we have had to ramp up the manufacturing and we have to supply it, supplies have already started in a reasonable big way in this month and next month it would be an all time higher supplies that we would be making on the lumpy skin disease vaccine.

Yash Mandawewala: And the potential revenue opportunity for us if we just take those three or four states where the outbreak is.

Rajiv Gandhi: I mean it could go in a 5 Crores. See it is very difficult to give exact opportunities in terms of vaccine and we would not even want to get into those specific details and discussion but it is an opportunity which could take us absolutely to the next level that is what I can tell you for sure.

Yash Mandawewala: Great that is very helpful that is it from me. Thank you very much.

Moderator: Thank you Sir. We take the next question from the line of Mr Mithun from Kivah Advisors. Please go ahead Sir.

Mithun Aswath: I just wanted to understand the kind of Capex that you have done in Africa now also in India you are doubling your capacities I just wanted to understand by when do you think these will actually get utilized because right now I think you have the problem of plenty in terms of capacities of both say the COVID vaccine, the vaccines in Africa as well now even in India you are doubling capacity but if you are not going to see demand from the poultry and these other spaces how are you going to manage to grow and optimize these capacities because it has been quite a long time since you have put up even the African facility and nothing has actually taken off that was the first question. Second question was on the 60 Crores in terms of amount that you will receive as a grant for the Covaxin facility that you have created I just wanted to understand if Covaxin does not take off would you still be able to get that grant that was my second question.

Rajiv Gandhi: Let me answer the second question it is a multi-purpose facility and even if at the moment it is planned to make the Covaxin drug substance which we will do it in the next few months and so there is nothing that is going to stop BIRAC from giving us completing the whole grant I mean we have already received the first run. So there is nothing that is going to stop us from that and after producing this vaccine we are ready to even repurpose the facility for any other vaccine that comes up, but nothing is going to stop BIRAC from giving us the grant amount, and the first question is capacity utilization across all the plants. As I mentioned even in my talk that today it appears that we have everything more capacity, less sales, yes this is a typical phase that we are going through at this point of time but things are going to change as far as Indian capacity is concerned we are very sure of the demand that is going to be coming up over here these new cattle vaccines are going to come up poultry this is only a temporary situation yes the temporary means it could be sometimes for two months, it could be some sometimes for six, eight, ten months. But it is surely a temporary situation with this H9N2 now being allowed in India of course we would have a marginal sales increase, but internationally it has opened up a completely new territory and an opportunity for us and our facility was made in any case without even taking H9N2 or anything it is not that now we have H9N2 so now we feel that oh now we are secured there is nothing of that sort we are anyway in good shape and the demand is going to go up and we are going to be taking it further African continents we have had innumerable meetings in the last three, four years with all countries all department of animal husbandry assembling all confirming their requirements everything

including the meetings have been attended by FAO by the African Union there is a lot of dependency on this plant, but unfortunately COVID geopolitical situation everything is just added on together which there was nobody had even expected this. So give some time and I am sure all this would straighten out if you ask me exactly when two months, three months, eight months, nine months, I am not able to give you an absolute picture because nothing of these things are in my hand but at the same time I would not say anything is out of control demand is slowly improving let us take the case of Esther Nepal we never had an idea that we would sell even more than Rs.1 lakh or Rs.2 lakh material in a month in the country itself over there. Today our local turnover has reached to nearly approximately 6 Crores or something of that sort and it is increasing, it is even increasing day by day. So as we are moving as these situations are changing we are also adapting ourselves and we will make a headway and we will get through all these things as I said it is not that I am wishing, it is not that I am optimistic I am reasonably confident when I say I am confident is that being prepared for the worst and then working for it, it is not just optimism, we hope for the best so I think we just need a little time and when things happen for example lumpy skin disease had we not had all these capacities this vaccine bought goat pox vaccine nobody in the country was willing to buy the goat pox vaccine three years ago we were the only company then another company bought the technology and we bought it thinking sometimes let is at least buy the technology keep it and today look at it I mean this quarter and the coming quarters are going to be quarters for lumpy skin disease vaccine never ever we would have experienced thought that we will have this much of sale. So I mean these are all vaccines diseases COVID the world rushed to make COVID vaccines the people made millions and billions in terms of doses in terms of money a lot work got done so I mean we are at it and this we have created an infrastructure that could help us do many things in the near future.

Mithun Aswath: Sure that sounds great. Thank you.

Moderator: Thank you very much. We take the next question from the line of Mr. Dhanraj Jain. Please go ahead Sir.

Dhanraj Jain: As I understand animal health care division includes health care products and vaccine.

- Rajiv Gandhi:** Yes.
- Dhanraj Jain:** So while going through the results, segment results I see there is a loss in animal health care in the year ended March 2022 and every quarter there is a loss. So on 58 Crores sale we are losing 1 Crore 68 lakh something. So what would be the breakeven since for this.
- Rajiv Gandhi:** See what has happened is that with increasing in little sales we have invested a lot on the marketing and on the distribution side and we recruited nearly 50% more people than what we had last year and we are now more or less nearing towards a breakeven analysis and I think around Rs.4 Crores to Rs.5 Crores of additional sales of health products gives the breakeven for the purpose of segment of animal health products.
- Dhanraj Jain:** And for vaccine.
- Rajiv Gandhi:** And vaccine anyway we are profitable.
- Dhanraj Jain:** My next question is regarding this consolidated revenue, if we take the standalone revenue and consolidated revenue for June quarter is almost same at 5 Crores.
- Rajiv Gandhi:** Yes it is the same.
- Dhanraj Jain:** Despite there is in note #6 of the auditor they have shown the revenue from the subsidies at some 9 Crores so this they enter, transfer or like what it is.
- Rajiv Gandhi:** No, so what happens is we are required to give the details of all the subsidiaries Texas Life Sciences which manufactures health products sells it to Hester and Hester then in turn gets sell to third parties. This turnover of subsidy gets eliminated both in the sales and purchase and that is the reason it does not get replicated into the console results but as a procedure related party transaction...
- Nikhil Jhanwar:** Because it is a related party transaction from company of Hester to company b Hester itself.
- Dhanraj Jain:** No, but there is a revenue from Nepal and Africa also because they must not be supplying to you.

- Rajiv Gandhi:** No Nepal and they are not supplying but then those sales are very minimal, low at this point of time.
- Dhanraj Jain:** Noted. Thank you sir.
- Moderator:** Thank you very much. We take the next question from the line of Mr. Rehaan from Sicomoro Advisors. Please go ahead, Sir.
- Rehaan:** My question is with regards to the consolidated segmental results for the June 2021 quarter you have shown an operating loss of 36 million in the animal health care segment in these results. So last year this was shown as a profit of 6.8 million just wanted to know what the reason is for this divergence and if it is reclassification can you please clarify what has been reclassified.
- Rajiv Gandhi:** Sorry if you can clarify 6.8 I am not able to get we are looking at the console results correct.
- Rehaan:** Right console results, the segmental results where you have shown animal healthcare. So the 6.82 was a profit that was shown in last year's results while it has not shown in this quarter I think something has been reclassified is what I assume. So I just wanted clarification on that.
- Rajiv Gandhi:** Can I just look into it offline and revert to you on this because right now I do not have the number with me so maybe let me have a look into this question and revert to your offline again.
- Rehaan:** Sure I would appreciate that. Thank you.
- Moderator:** Thank you Sir. We take the next question from the line of Alisha Mahawla from Envision Capital. Please go ahead.
- Alisha Mahawla:** Hi! Sir, good afternoon, thank you for taking my question. I just wanted to understand that we have multiple levers for growth that all aligning for the remaining part of this year's opportunity from lumpy skin disease, the PPR tender that will start, the Covaxin opportunities if it does will come from Q3, Q4 and also have we commercialized three vaccines so that they are going to commercialize three vaccines in Africa so what is the kind of growth that the company is aspiring for this year.

Rajiv Gandhi: For Africa we have already commercialized three vaccines or four vaccines. Four vaccines we have already commercialized one is about to get commercialized or that is already commercialized. Yes, two are in the pipeline sorry I earlier said five, four are commercialized and two are in the pipeline. So now in terms of sales from Africa concerned we are looking into the sales to a few governments specifically for the CBPP vaccine as well as the Newcastle disease in poultry Gamboro in poultry and even the lumpy skin disease worldwide from there. So these are the opportunities that we are looking at it would be a little difficult for me to give a quantification of these things at this point of time, but overall I think by next quarter we should be able to generate reasonable amount of sales over there and we hope that by mid next year we are already breakeven as far as Africa is concerned.

Alisha Mahawla: That is helpful giving us some color on the Africa business I am saying on the overall consolidated business considering the opportunities in India the lumpy skin which we are saying in India plus globally plus the PPR tender etc. I think on a consolidated basis what is the kind of growth that the company is targeting for this year.

Rajiv Gandhi: Madam I have the same answer for you what I answered earlier. We are working towards it and the lumpy skin opportunity is huge I do not want to give you the figures you can wait for our next quarter results for that. The PPR tender is 20 Crores, FAO was to buy nearly 0.5 billion b not million, billion in PPR vaccine the moment that starts I think we would be grappling to even put in one or two freeze dryers to make sure that we supply to them it is just that this has not happened at this point of time.

Alisha Mahawla: And with respect to your margins while you did mention that your gross margins were impacted because vaccine which is the higher margin business degrew this year. On an overall basis what is the kind of sustainable margin that we are working with.

Rajiv Gandhi: We could go back to our margins which were there a year ago and you could be rest assured that we would be at the least up to those margins which we had at the least. So I think we are for sure our gross margins we would definitely be in the higher 60s up to 70 we should be able to touch those margins. Our PAT we have been talking at around 35% to 40%, we should be able to manage those margins. So I think that is what we are looking at.

Alisha Mahawla: Okay thank you.

Moderator: Thank you very much. We take the next follow-up question from the line of Mithun from Kiva Advisors. Please go ahead Sir.

Mithun Aswath: Hi! Just a question on some of your subsidiaries. I think the African you have a distribution company which is set up where you have only 50% state and you have Texas life which you have a 50% stake and the Nepal subsidiary also you are not of 100% any reason for why having minority or majority but not 100% stakes in these subsidiaries and could it be easier for us to kind of consolidate some of these entities since we are a small organization why so many entities have been created. Thank you.

Rajiv Gandhi: Trishul in Africa Tanzania was an already existing distribution company and we proposed and they agreed up to 50% so therefore the 50% and we feel that being a distribution company I mean it is fine as long as we are put in over there and we are able to distribute we are okay with it. Texas was an existing company where we used to get our products manufactured we bought in equity so that we have a larger control of that business. So therefore we bought up to 55%, as far as Nepal is concerned, we have a local partner and it would be very interesting for you to know our local partners are there in electronics who are assembling Samsung TVs over there and it is just that we went to Nepal and we were at one point of time looking at a 100% subsidiary but after being there after meeting the local people we did think that there is value addition in case if we have a local person and therefore we went on with that model in Nepal and we have a local partner who is absolutely non-executive in every which manner everything is being managed by our team and so all these things there has not been a fixed calculation in terms of balance sheet towards 50%, 55% it is like a partnership evolves and we make that person as a partner and we go on with it. So that is the way it has been, in Africa we are 100% owned, I mean, Hester India owned 100% of Hester Africa we have gone fully our way because there was no reason to look at any partners and we even were working with the Gates foundation we had a lot of internal strengths towards that and we went alone so I would not put any logic it just evolved that way.

Mithun Aswath: Just one other point I think there was a very large tender the government was talking about in the order of 100 Crores for the Brucella vaccine and there was

a very large development that the government was looking at for the whole animal's healthcare and I have recently read even I think you have been appointed at the senior position for the same I just wanted to understand how that rollout happening you are talking about this other vaccine PPR where the size is 20 Crores but can we see that the larger game plan that the government has for animal healthcare being rolled out quite quickly now as COVID dissipates the government focus comes back on other issues.

Rajiv Gandhi: Yes, government focus will come back on it has already rather FMD, Brucella, Rabies, PPR, now lumpy skin, even goat pox, sheep pox vaccine, it is putting in a lot of thrust in all these areas and in days to come it is going all these things are going to become big and we would be there at a time when the moment comes we would be there and we would take the business forward Brucella tender last year did come out we did need bid we were L2 and we did not agree to the terms to supply at the L1 rate therefore we kept ourselves out of it for this one year now this one year is about to get over and there is going to be re-tendering again.

Mithun Aswath: I just wanted to understand because you are part of that national committee for advisory, I just wanted to understand what is more of a three, four year strategy of the government in terms of size how clay that could help us kind of understand the opportunity.

Rajiv Gandhi: So the committee has been formed I am definitely a part of it, but no meetings have been called so far. So we are hoping that the meeting would soon be called, but it is with a clear intention to put a thrust on animal health and mainly on the prevention side mainly on the vaccine side who may ensure that the preventive medication, preventive care is taken so that diseases do not come out because it is always more expensive in terms of treatment as well as in terms of loss when you are trying to cure for a disease I mean you have already done the damage you have lost eggs, you have lost milk, you have lost meat, all these things and then you try to cure it. So government is very clear in looking at prevention medication, so one of the objectives of this committee would definitely look into preventive medication which is vaccination.

Mithun Aswath: Just trying to understand in terms of outlay anything the government has talked about.

- Rajiv Gandhi:** No, government has not spoken anything about the outlet they had the earlier budgets to which they have allotted money but now they have not yet specifically spoken on the outlet.
- Mithun Aswath:** Okay thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question for the day. I would now like to hand the conference over to the management for closing comments. Over to you Sir.
- Rajiv Gandhi:** Yes, as always it has been nice to interact with everybody on the call and as it not only that I am giving information but some of the questions also put our own minds to think and it gives us also ideas and it keeps us also as much alert and as usual we will again come back on to the next quarter call and we would take all the questions etc. There was one question which we were to take offline, so for that our CFO will take that question offline he has already noted the name of the person and he has also got the number through the listing that we get over here when we are addressing the calls. So thank you all very much and hope to again speak to you in the next 90 days time and I would also put across I would request Priya if she has anything to say.
- Priya Gandhi:** Thank you all for joining today's call, while our Q1 results have been a little bit disappointing, but we do have a lot of hope just and we have reasons to believe that in Q2 and Q3 we will pick up. Also with respect to companion animals some of you did asked a few questions and in our press note as well we have not given too much information but, I mean, if I get a chance offline I will be more than happy to speak about it in detail with any of you, but yes we are working on this division full-fledgedly such that the dependency on any one division of the stress on any one division like the poultry or the animal kind of gets distributed and also it helps us achieve our objective to become an overall animal healthcare company. So I will see you all and talk to you all in the next quarter. Thank you very much.
- Moderator:** Thank you everyone. On behalf of ICICI Securities that concludes this conference call. Thank you for joining us and you may now disconnect your lines.