

HESTER

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CIN L99999GJ1987PLC022333

29.06.2020

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

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

Respected Sir/Madam:

Subject: Submission of Transcripts of earnings conference call

We hereby submitting a transcript of Earnings Conference Call held by the Management of the Company with investors on Friday, 26.06.2020 at 2:00 p.m. to discuss the Audited Standalone and Consolidated Financial Results for the quarter and year ended on 31.03.2020, for your information and record.

You are requested to take the above on record.

Sincerely,
For Hester Biosciences Limited



Rajiv Gandhi
CEO & Managing Director
DIN: 00438037

Enclosure: As above



HESTER

“Hester Biosciences Limited Q4 FY20 Earnings
Conference Call”

26 June 2020



HESTER



C H O R U S  C A L L ®

MANAGEMENT: **MR. RAJIV GANDHI – CEO & MANAGING DIRECTOR, HESTER
BIOSCIENCES LIMITED**
**MR. CHETAS PATEL – CHIEF FINANCIAL OFFICER, HESTER
BIOSCIENCES LIMITED**

MODERATOR: **MR. RAHUL JEEWANI – IIFL SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Hester Biosciences Limited Q4 FY20 Earnings Conference Call 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 '*' and 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 Institutional Equities. I thank the Hester Management team for giving us the opportunity to host this call. From Hester, we have with us today Mr. Rajiv Gandhi – CEO & Managing Director and Mr. Chetas Patel – Chief Financial Officer. I will now hand over the call to the management for their opening comments post which we can have the Q&A session. Over to you sir.

Rajiv Gandhi: Good afternoon everybody and as always it is a pleasure to have you all on the call and it is always my pleasure to give you sort of an overview on the functioning of the company, the results and then take any questions that what you might have for me or for the company. As far as our results are concerned, considering that FY20 has been a year below expectations in terms of sales and profitability, we have tried to be as elaborate as possible in our press note trying to cover most of the issues, nonetheless, I shall still go through all the points and then we could have Q&A session. We would not go through all the financials as they are already there with you through the press note as well as through the results. So I would just address the subjective part of the discussions.

Now, talking about the overview of the financial year that is FY20, the year has been below expectations, the bottom-line has been marginally in fact lower than what it was in FY19. If you recollect and if you have been following, you would have seen our comments and the results Q1, Q2, Q3, the poultry industry had been in a reasonable recessionary condition all across that. So the last year recession for the poultry industry mainly the maize prices had been very high throughout the year, almost unaffordable by the poultry farmers, wherein you are aware that 75% of their budget goes towards their

feed cost and 50% of the feed cost comes from maize. So Q1, Q2, Q3 had been reasonably tight, in fact very bad for the poultry industry.

As things started improving in the beginning of Q4, but that improvement against it very less because the COVID issue came up and there were very strong rumors even before the lockdown came in that eating chicken and eggs would cause transmission of COVID onto the people who would eat them, so that again crashed actually even more. The crash was even bigger than what it was in Q1, Q2, Q3 for people and that impacted us even before the COVID lockdown happened. Incidentally, last year before the year began we had started planning for getting into the market into additional territories, get a little bit aggressive on the marketing distribution and area coverage side. So we hired more people, made in roads and investments into territories where we were earlier not there, so we made all these expenses and unfortunately on one side, our expenses went up and on the other side, the market did not. So in short, this has been the main reason why the business got impacted last year throughout. If you see, we have been able to maintain more or less our gross profit margin, so it does give an idea that with the GP ratio being more or less intact, it is the other expenses that really cut into our bottom-line.

On the animal health side also, things were going reasonably well, not really well but there had been problems even the dairy etc., all the year around but the government tenders were expected in a big way in February and March specifically the Brucella vaccine which because of this COVID situation, the procuring of the Brucella vaccine has just come to a standstill at this point of time. Just a few days ago, we got a call from the necessary agencies for the Brucella vaccine as you are aware the government had allocated 1,568,000 crores for animal husbandry which include immunizations of all animals or cattle, sheep, goat, against Brucella, PPR and Foot and Mouth Disease. Hester is an active supplier of the PPR vaccine as well as the Brucella vaccine. With the Brucella vaccine having gone to the central tender under that scheme, the states started to not buy the Brucella vaccine. Unfortunately, they did not buy and the tender procurement not happened.

There are two companies who bid and who have been probably allocated the Brucella supplies that is Hester Biosciences and Indian Immunological. So we definitely feel that all these things have contributed a lot to the results that you see on the topline as well as on the bottom-line going further from here.

Having already created the team, we have decided to consider not to displace anybody, not to try to cut the team, etc., but we have tried to get in a lot of efficiency into our system in terms of, even the lockdown period has given us a few learnings which otherwise probably it would have taken longer time, but it has also showed us a way how to be more efficient without actually doing all the travel and going farm to farm, place to place in order to get business, trying to work more intelligently, use social media platforms like teleconference, video conference. It has actually helped us to a great extent and we are also working on various policies internally for our people to partly work from home, etc., wherein we would be able to reduce our administrative expenses to some level, we will be able to reduce it.

As I said, going further the Brucella vaccine orders are expected to come in the next one or two months, I am pretty sure there cannot be any delay in that. Also, we have further rationalized our product mix pricing optimization has been done. Keeping in mind mainly the bottom-line, we have very clearly put our focus which have high gross margins, which have low distribution cost, so that all this could also lead to a direct improvement onto the bottom-line. Our trust is going to be the health product side, on the poultry as well as on the animal health division side. The reason been as you are already aware on the poultry vaccines, we have near to 35% market share and our forecasted growth is more or less a little more than what the market would be growing on a year-on-year basis, definitely eat a little bit into the market share on a year-on-year basis, but on the cattle, sheep, goat, swine side, we believe that there is a lot of potential because we are relatively very small in that segment and we propose to put in a lot of efforts, energies focused into those areas and we haven't chosen additional products with high gross margins, etc., so that is going to be our focus area.

At the same time, we have created a laboratory which would be used as part of the marketing strategy in order to get samples to test samples from various dairies and give them the report on the health status of their animals, etc. We were already doing this in a laboratory for the poultry. That lab was at Anand, we have extended that scope and we have also gone onto the large animal side in order to make a better penetration.

On the internal issues, we have set up the manufacturing science and technology division with the focus on implementing innovation and best

services and solutions for poultry manufacturing. We believe that there is a scope to improve the efficiencies within our manufacturing system and we are working towards that as well as we are looking, we have embarked on various field trials, etc., between our products, competitor products, not that we are not doing it before but we have gone in full earnestness with setting up of this manufacturing science and technology division.

As I mentioned to you, we are expecting the Brucella orders in the next 1 to 2 months' time. Hopefully, if that crystallizes it would give us an absolute and immediate jump in our turnover. As far as exports are concerned, exports have done reasonably well, they grew at around 63% and this year we hope to grow them 100%. In fact during March, there were 3-4 consignments which got stuck up just because the freight stopped, shipment stopped, otherwise we would have grown the exports more than 63% nonetheless, we have now again started the exports, shipments have already started taking place and we believe that in Q1 itself there would be reasonable amount of progress as far as exports is concerned and of course also for the domestic sales.

On the poultry side, we have signed a technical collaboration agreement with an Egyptian company wherein will be giving technology for them to produce poultry vaccines and we have also taken international exclusive rights for marketing. Our main idea and intention in this collaboration is one, to give them the technology and earn technology fees from them and two, get the marketing rights specifically for the Avian influenza disease vaccine in poultry which today neither does India allow nor Nepal nor Tanzania allows us to produce that. So taking on exclusivity is only going to complement our range, it is not going to eat away or conflict with anything that we are doing as far as all the other three places are concerned. That was about Hester India.

Talking about Hester Nepal, last year was the first time that we saw the company come out of the red. We had reasonably good tenders coming from the FAO and everything last year seem to be going on track. Hopefully, this trend should go on from the second quarter onwards because FAO just from last week has again now started issuing tenders. They have already issued a tender for animal vaccines but that does not include the vaccines that we produce but we hope that this would soon get onto the PPR vaccine which we are actively supplying all over the world under the FAO tenders. Nepal, if this trend goes on, not only will we do good in exports but we have also put in a

lot of efforts and lot of focus in trying to become the largest poultry vaccine supplier in the country of Nepal itself. We have succeeded, we have created a very strong distribution network, we have people on the ground and this is progressing reasonably well, so we hope that the Nepal trend from year on improves as whatever we have seen in the results of last year.

The Texas Lifescience, another of our subsidiary continues to provide Hester India with all the health products and non-vaccine products on the poultry as well as on the animal health side. We have been getting more and more products from Texas. There has been an increase in the turnover also and I think within this years' time we would have totally converted everything, whatever we buy from outside onto Texas Lifesciences except a few products for which we do not have the permissions and we would not be expanding at Texas Lifesciences but otherwise we would get everything over there. Besides, we have also started registration process directly from Texas into Tanzania and also into the neighboring countries that is Kenya, Uganda and we hope that these registration activities are far more quick than things and we should be able to even export products from Texas Lifescience.

Another thing I would like to state in terms of registration activities in Africa, there are 4 or 5 associations made between neighboring and group countries. We now might allow a common registration between them. Hopefully, in a year's time that should go through thereby reducing our registration activities to one country in that group rather than all 4 or 5 countries and that would make us register at 5 or 6 places instead of around 40 countries. So that seems to be very good positive approach that has been taken in the Africa continent by the respective countries.

Talking about our distribution in Hester Tanzania, things are being put in place, infrastructure created well, down the line distribution network in place, sales people in place and now slowly we are trying to grow the business having made the full network and we are very confident, in fact we would be making a big shipment from Hester India to Hester Tanzania as well as from Hester Nepal for the PPR vaccine for our own stock and sale at Hester Tanzania in the next may be 60 days' time.

Lastly, Hester Africa, our big project in the African continent to manufacture animal vaccines, the project is going on stream so far, delays have been very

minor, they have been no stoppage of any work etc. In Tanzania towards the construction of this project, everything seems to be going on track. Hopefully, if international flights do begin from July that would help our teams to go there for the installation as well as the commencement of those machines which are to be used there for the production. So this is a brief on Hester India as well as its subsidiaries. As I said, I have not gone through the figures specifically. I now leave it open to the house to ask questions and hopefully, I should be able to answer all.

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, what is the likely time and cost for develop in COVID-19 vaccine and what will be the Hester fair of cost and who will create the manufacturing capacity?

Rajiv Gandhi: We are a little bit too early to give the timeline for the cost. We would be starting the animal trials by November and based on that we would take it further. At this point of time, I would say that the earliest that Hester Biosciences could come out with a COVID vaccine would be some time end of next year.

Ketan Gandhi: And any idea about the cost, sir?

Rajiv Gandhi: No idea about the cost, difficult question because I myself don't have an answer to it at this point of time.

Ketan Gandhi: My second question is, what is the likely CAPEX for India, Nepal and Tanzania for FY21?

Rajiv Gandhi: The CAPEX, you are talking about the capital expenditure that was made in the last financial year or I have not understood your question.

Ketan Gandhi: What is the likely CAPEX for India, Nepal and Tanzania?

Rajiv Gandhi: Likely CAPEX in this, okay we have already completed the full capital expenditure. In Nepal, there is no CAPEX needed. In Hester Africa, we have already completed our capital over there and we are yet to spend 20 crores which will be coming by way of loan and grant from the Gates Foundation and

as far as Hester India is concerned, we have not planned any expenditure at this point of time, though we have some projects in hand but we would take it as it comes depending on the first 2 or 3 quarters we would take a call but no CAPEX at any of these places, otherwise.

Ketan Gandhi: Even Tanzania?

Rajiv Gandhi: Yes, Tanzania, our investment in Tanzania has already been done. It is just that we need to get the loan and the grant from the lender, so that is whatever is pending that would come.

Ketan Gandhi: And sir, my last question is, timeline for commercial production in Tanzania and breakeven time?

Rajiv Gandhi: The end of this calendar year is the time wherein we hope to commence commercial production and breakeven time in the second year, in 2022 we will breakeven.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from Anived PMS. Please go ahead.

Prakash Kapadia: If I look at India, 50% of the chicken consumption is out of home consumption, so what gives us confidence of recovery as the way things are, the segment will take time to recover given the current situation, any thoughts on that?

Rajiv Gandhi: As I mentioned to you that I agree with you that the recovery period in terms of restaurants and all this is going to be a little slow, but even home consumption, if that even gets back to its normal level, there would be a reasonable improvement as far as the demand is concerned and we are definitely also going to focus on the large animal segment. I will tell you honestly, on the poultry side, I have been talking to many companies, feed manufacturer, etc., in rural India we are viewing everything in terms of urban areas where there is restaurants but rural areas has less of that and there is a lot of home consumption in rural areas. Today's economy, if you see the recovery rate of rural India is faster than that of urban area, so this also to a great extent is going to neutralize the lesser demand that is going to be generated from urban areas. This is a very detailed discussions I have had with the big players who are making feed, medicines, health products and supplying

ancillaries to the poultry, so this has been sort of a common consensus that we have come to.

Prakash Kapadia: But rural would still be a much smaller market right to offset because urban would be much higher market given the spending?

Rajiv Gandhi: It appears, the perception of it is that way that rural market is small. The consumption in rural market is extremely high and even today if you go to see, if you would be seeing various aspects of the economy, rural economy is recovering much more faster than urban. I fully agree, it can't substitute and take over all eggs and chicken that restaurants would buy in an urbanized area but nonetheless the rate of recovery is reasonably good and we have reasons to believe all the feed manufacturers that in the next 4 months' time the whole thing should come back to normal as what it was before.

Prakash Kapadia: And cost of production of chicken was Rs. 80-Rs. 85 and media reports now suggest the selling price is over Rs. 100 which was a very low few months ago, so is that the trend which you are seeing, Rs. 100 to Rs. 105 of selling price and is that aiding the sector if any in terms of sentiment?

Rajiv Gandhi: The current prices of poultry meat are definitely high, it is around Rs. 110 to Rs. 120 and even in normal cases, the prices should definitely hover a little bit plus or minus 100, I mean that is normally the trend which everybody is looking at this point of time.

Prakash Kapadia: On the balance sheet side, obviously because of lower sales, we have seen receivables and inventory both go up primarily because of lower sales, so what are we doing to mitigate credit risk if any, bad debts if any or any obsolescence risk in inventory at our end?

Rajiv Gandhi: Let me address the amount receivables issue first. We are reasonably in control as far as receivables are concerned. Our credit policy has been well defined right from the beginning, yes there has been some leniency given in these days because the situation has been such that there is a need to become a little bit lenient, but that leniency does not diminish our chances of recovery or anything. In fact, if you take historical data, we have hardly had any bad debts and the same trend should continue without a doubt. In terms of inventory is concerned, yes, there is an increase in inventory, we are working on it. Our

production levels will be low a little bit at this point of time, so we have to liquidate the inventory which is there and we will take it as it comes but it does not seem as a problem in terms of our inventory goods expiring on the shelf, neither do we feel there is a problem as far as receivables is concerned.

Prakash Kapadia: Lastly Rajiv from my side, you mentioned in the opening remarks about the employee addition and specific geographies which you were targeting, so obviously that has been a major factor for employee expenses being higher by almost 39%, so if you could give some perspective on number of employees in terms of sales and business development last year, as of date and which are these geographies which we are targeting?

Rajiv Gandhi: It would be inappropriate for us to give you a breakup of what the staff we have in marketing, etc., I can tell you one thing that we had 80 people earlier, now we have up to 140 to 150 people in the market.

Prakash Kapadia: 80 to 150 employees.

Rajiv Gandhi: Yes, I mean it is little less than 100% jump.

Prakash Kapadia: And in terms of North, West, South, which are the regions which we feel there is potential and room for us to grow and the road ahead for us?

Rajiv Gandhi: For poultry, it is West and South; for the cattle, it is North and South. Overall, South is the biggest market if you take for livestock animal husbandry, etc.

Prakash Kapadia: And we have headroom to grow because we have a very low market share or what?

Rajiv Gandhi: Yes, we have a very big headroom to grow as far as the animal health division is concerned and also the poultry health product side is concerned.

Prakash Kapadia: And if things come back to normalcy from the second quarter onwards, is it possible we lend the year with at least the PAT of FY19 in FY21, assuming things go in the direction of recovery, hence Q2 onwards things normalize?

Rajiv Gandhi: It would be inappropriate for me to give commitment in terms of profitability but you could be rest assured that in terms of our ratios, our margins, we have

left the past behind. With Q1 itself, we are back to where we are on our original historic margins and we shall continue with that.

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

Kuntal Shah: My question is pertaining to you have answered the question on the Brucella, but can you elaborate what are the plans for FMD and especially in India and the CAPEX you are likely to incur for the same and what is the assessment of state of global and India tender for PPR and has PPR procurement shifted from states to central procurement?

Rajiv Gandhi: PPR continues state at the moment, Brucella has completely shifted to the center, FMD is completely to the center. We have a very firm desire to get into the Foot and Mouth Disease vaccine, we have been looking at various avenues. At this stage where we are and considering the current economic situation etc., we would not really want to look at all these things in the first and second quarter. Once we are in the third quarter, we would want to revisit all these things but for sure at some point of time, we will be in the Foot and Mouth Disease vaccine over here as well as in Africa.

Kuntal Shah: And sir, status of tenders for PPR globally and India?

Rajiv Gandhi: I am sure the tenders and all will start again as far as the United Nations FAO is concerned. In India, we have already started getting tender supplies have to be made but tenders have already, we have already started getting tenders and we are already processing, quoting, all this has already started now.

Kuntal Shah: Sir, I see in your consolidated balance sheet that capital work in progress is now 74 crores, presumably this is large part of it towards Africa plant, so how is the grants which are being received accounted for it. Is it capital received or how is the accounting of the grants?

Rajiv Gandhi: Capital received, the grant would go as the capital received.

Kuntal Shah: And sir, already last year 25 crores increase in trade receivable and inventory also went up, so now 3 months have gone by roughly, any improvement visibility in reduction of both or what is the timeframe when you think your inventory and the trade receivable is normalized?

- Rajiv Gandhi:** There is a reduction in the amount receivables as well as on the inventory and it will be seen in the first quarter itself and I think that in two quarters, this should all come down, recede back to its normal level as where we were earlier.
- Moderator:** Thank you. The next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.
- V. P. Rajesh:** Just one question, trying to understand how much you have spent so far on this COVID drug that you are working on?
- Rajiv Gandhi:** At this point of time, our expenses have not been, it is within a very inconsequential range at this point of time. All our work besides giving them the technology know-how, the commercial agreements that what we have signed with them and besides that, to create minor changes in the infrastructure over here. Besides that, there is nothing much that we have spent at this point of time. We have innumerable offers from other companies who are also willing to work with us on the COVID-19 project and any expenses and anything that will do, we will take it during the second, it would be all discussed and planned in the second quarter of this year but we have innumerable offers wherein there are companies who are willing to collaborate with us on this vaccine development further.
- Moderator:** Thank you. The next question is from the line of Ashish Shah, an Individual Investor. Please go ahead.
- Ashish Shah:** I just wanted to understand in the Nepal plant, how much percent of your topline would be domestic and if you could give hint as to how much it was previous years and now?
- Rajiv Gandhi:** 90% export and 10% domestic.
- Ashish Shah:** And do you see this stay in the same or would you think domestic, there might be an increase?
- Rajiv Gandhi:** We want the sales to go up and we want 95% exports, but I feel that our exports should oscillate between 80 to 95% and it is an export oriented unit in any case by the way.

Ashish Shah: Secondly, wanted to understand you have increased your sales marketing team like you mentioned from around 80 last year to 140-150, are you planning for further increasing it in this year or would you be going ahead with just these numbers?

Rajiv Gandhi: I think, there is no, we are not going to increase any field force in this year and we will just consolidate everything what we did last year and that is about it. In fact, we will get in more efficiency into the system. COVID has taught us this lockdown as to how to sell more intelligently rather than just run around, so I think there will be a lot of efficiency that we will get into the system and I firmly believe that there will be a reduction in some of these cost and in selling costs even with these many people with us.

Ashish Shah: And lastly, because of the poultry industry that now is in little bit of a difficult condition, are you seeing lot of farmers getting out of the field, I don't know if they have any other alternatives to go to and may be larger players would be coming bigger?

Rajiv Gandhi: At the moment, we don't see farmers getting out of the business, etc., but overall there is consolidation happening in the poultry industry where the integrators are trying to get into the small farmers like Godrej, Suguna, Venky's, they all are definitely trying to increase their reach and get in small farmers within their scope of integration but at least we do not see any farmers who are shutting down or getting into a desperate situation. There was a bad situation in February wherein eggs and meat were just not being sold because of the COVID fear and all these things, but no, we don't see any such things.

Ashish Shah: With these larger integrated players growing bigger and let us say, taking away some of the smaller farmers areas, would that mean reduction in your market size or you not see that as a concern?

Rajiv Gandhi: Our market size is directly proportion to the number of chicken on the ground, so whether it is produced by A or B or C, our market size is not going to go down and our business goes down if the number of chicken reduces, otherwise no.

Moderator: Thank you. The next question is from the line of Manish Gandhi, an Individual Investor. Please go ahead.

Manish Gandhi: I just have one question, it is regarding corona vaccine and overall human vaccines, so why now and now in past we thought of venturing into human vaccines and what expertise we bring compared to say big companies in India and abroad, many are pursuing the same, can you please just share your rationale behind it?

Rajiv Gandhi: Vaccine manufacturing, whether it is human, whether it is veterinary, the process, the intellect, the capabilities, the requirements are more or less the same and egg-based vaccine whether for poultry or for human goes through the same process, if there is a bacterial vaccine, if it is through a fermentation process, it goes through the same, whether it is human or animal. As far as human vaccines are concerned, it always goes through my mind, it had always that you know what about human vaccines, like yes, it always would come into anybody's mind, not just mine. We had been working for over a year with IIT Guwahati on other projects and that is the time when this thing came up and therefore we took this as an opportunity to foray into human vaccines and even the platform that we are going to be using for the COVID vaccine, it is the paramix of virus which is for the poultry, so based on that we took the plant into it and now let us see how this trend takes us further and how faster get into human vaccines.

Moderator: Thank you. Next question is from the line of Viraj Mahadevia, an Individual Investor. Please go ahead.

Viraj Mahadevia: Couple of questions from my end, one is, when will you hire local sales team in Tanzania and other African markets, you talked about building the sales team in India by almost 100% but how about Africa?

Rajiv Gandhi: In Tanzania, we have already hired people and they are already at the floor level at few places in the country of Tanzania. The rest we are working at the moment through distributors in each countries and once we size up the business a little bit wherein we sort of see a comfort level that here is the distributor, here is our stock point, here our stocks will be there and then based on that comfort level, we will take the whole thing further in hiring people but being a foreign continent, we would go a little slower and take the whole thing one step at a time in hiring people but that is not going to slow down in creating a distribution channel in each of the countries.

- Viraj Mahadevia:** So you are saying that we are hiring, currently we build small team in Tanzania and other countries are going through distributors and we will keep it that way until the business starts to ramp up?
- Rajiv Gandhi:** Yes, once the distributor and we are even very clear like even in Tanzania we had a distributor. That distribution started selling our products, we appointed that distributor as our exclusive distributor with a clear understanding that in days to come, we will change over to Hester Biosciences, Tanzania which we did and now the distributor is also one of our employees over there. So we are going in a gradual manner, being a foreign country, a different social setup, a different commercial setup, I think it is better to understand the culture, people and the commercial and the commerce and then get into it.
- Viraj Mahadevia:** Any chances of any debtor defaults in poultry in India given your sort of bloating receivables that you mentioned?
- Rajiv Gandhi:** No, we have not had, I think our bad debts, I think it is 0.6% or something that we had, something of that sort.
- Viraj Mahadevia:** And any receivables, in terms of receivables aging, may be this is the question for the CFO, any receivables over 120 days that are not coming in?
- Rajiv Gandhi:** No, he says there are 1 or 2 which are minor but that is not a concern area at all.
- Viraj Mahadevia:** What are the key products being developed for poultry and large animals to R&D? Can you give a sense?
- Rajiv Gandhi:** Our R&D development, in terms of poultry is concerned, we are looking at developing one is diagnostic kits, two we are developing on the poultry side, we are trying to do on the PPR side, we are even developing a thermotolerant PPR vaccine as well as trying to make a PPR vaccine which can be given through nasal spray which right now it is to be given injected, so that is something that we are developing. On the poultry, we are also developing a combination of a Newcastle and Gumboro vaccine so that two can be given in one shot. I am not prepared with anything more, it doesn't come to my mind right now, Viraj.

- Viraj Mahadevia:** Nothing else like Anthrax or any of the other diseases in the fields that you are targeting actually?
- Rajiv Gandhi:** No, for Hester Africa, we are trying to do R&D for around 16 type of different vaccines, so that all is going to happen in Africa. We can't do that research over here; all will be there in Africa. Over here, there are vaccines which we have already developed, but we have not yet registered which are the HS, BQ, they are already developed, but because the market being small, we have not commercially taken them, so that way we have 2-3 such products also. I would not be able to remember the names, I remember these two products in cattle but for poultry, more or less everything is covered, we have the full range and in poultry we are now looking at improving the efficiencies in production etc., at this point of time more.
- Viraj Mahadevia:** And sorry, just last question, you mentioned earlier that PPR is a state subject still and those tenders have started, Brucella has moved to center, can you give us a sense of the likely sales in PPR for state and Brucella for center in the next 12 to 24 months?
- Rajiv Gandhi:** I personally think that Brucella vaccine tenders under the scheme should come up to anything a little less than 100, it should come around 100 crores or little less than that.
- Viraj Mahadevia:** Per year, sorry?
- Rajiv Gandhi:** Yes, per year and PPR it should be approximately 12 to 15 crores.
- Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity. Please go ahead.
- Anirudh Shetty:** In the human vaccine, is our focus only going to be on COVID or are we opened to other vaccines as well may be sometime in the future?
- Rajiv Gandhi:** We have a few plants already in mind, we are discussing and partly working on it, it would be very inappropriate for me to divulge or discuss all that at this point of time but sooner than later at the right time we would definitely come out with those details. COVID cannot be the only, it is not the end, it is a beginning.

- Anirudh Shetty:** Sir, my second question from the Hester Nepal plant, so we have certain plants which can generate some revenue but assuming the SA opportunity turns out to be much bigger than the current capacities, is their scope for further expansion?
- Rajiv Gandhi:** Yes, at our plot we can go up by capacities to some 4-5 times. Without constructing anything, by making more investment in plant and machinery up to some 5 crores we can in any case double the capacity and plus we have enough space over there to build two labs of the size of what we already have right now.
- Anirudh Shetty:** We are currently going to cater to the SA, opportunity but say many years down the line once the vaccination is done with, how do we plan to use this facility? Where will the bulk of the vaccines be catering to?
- Rajiv Gandhi:** You mean to say after the PPR business is over?
- Anirudh Shetty:** Yes, assuming the vaccination is done, and you have achieved success, how do we plan to use the plant for that?
- Rajiv Gandhi:** I will tell you; this will take 10 to 15 years. To be very honest, I don't have a plan on hand at this point of time, but something or the other will come up and we will work towards that but at this point I don't have a plan on what would we do after 10 or 15 years.
- Anirudh Shetty:** And sir, on the Tanzania plant, I understand we are looking to cater to the entire African continent, can you just give us some sense on as of today, what is the nature of the opportunity? Is it very untapped opportunity? How are the farmers getting their vaccine? Is it a very high cost for them as of now which we can kind of bring down? Can you just throw some light on that please?
- Rajiv Gandhi:** Currently, the vaccines available in the African continent, what is available is anything from 5 times to 10 times the price may be sometimes even a little more than that and that is also true for health products as well. May be health products may not be that high but at least 4-5 times definitely than what it is available in the international market and some of the vaccines which we are going to be producing they would be offered for the first time, so in a way there are two things in this one is, lesser sale with a high price or more sales

with normal international prices. Either way, we feel that we would be able to achieve an ex-turnover as forecasted.

Anirudh Shetty: And sir, my final question is on the SMDP, so sometime in the future if we are looking to do it in India, Africa as my understanding is right, but can you just throw some light on the India piece, what is the size of the demand? Who is the competition right now? How does the margin ROCE tend to be in this business vis-à-vis our existing categories?

Rajiv Gandhi: You are talking about the Foot and Mouth Disease?

Anirudh Shetty: Yes sir.

Rajiv Gandhi: See as we are not in it and though we have worked on it, I am not actually right now sitting with the papers or these figures right in my mind but what I know is that the FMD market right now the price, I think the market for the FMD vaccine should be approximately 1000 crores in India and I think there are three players who are selling Foot and Mouth Disease vaccines, one is Indian immunologicals, one is Brilliant and the third is Biovet. These are the three companies.

Anirudh Shetty: And would this require a separate manufacturing plant if we desire to enter it?

Rajiv Gandhi: Yes, it would require a separate building, it cannot be produced in the same building, so whenever hypothetically we go into FMD, it would be a new investment that we would do.

Moderator: Thank you. The next question is from the line of Manish Jain from Gormal One. Please go ahead.

Manish Jain: My question was primarily on exports business, roughly looking at all the global situation and the Indian situation, when do you see exports will overtake the size of the domestic sales?

Rajiv Gandhi: You mean to say the sales in India vis-à-vis exports, we are working very hard towards trying to get into international business. To be honest, if things go right and if everything gets structured well, I don't think it could take more than 2 to 3 years to overtake the Indian sales. Opportunities are tremendous,

we are looking at specifically the African continent. If we are working hard towards trying to structure these things and that is what is our desire.

Moderator: Thank you. The next question is from the line of Ashish Shah, an Individual Investor. Please go ahead.

Ashish Shah: Mr. Rajiv, just one more question I had was in this past year in FY20, how much was your domestic sales of this PPR and Brucella through tenders?

Rajiv Gandhi: It would be inappropriate to give precise figures, but since you asked, I think PPR would have been around less than 10 crores, a little bit less than 10 crores and Brucella would have been approximately 4 to 5 crores.

Ashish Shah: And with the state governments like you had mentioned earlier sometimes, they delay the tendering process and all, so now with the Brucella moving towards central government, do you think that will help expedite the process or do you not see much change on this?

Rajiv Gandhi: No, it will help expedite the process, though there is a delay because of this COVID situation, everything was to happen in February end and it has got delayed, but I have reasons to believe that this should hasten up the whole thing.

Moderator: Thank you. The next question is from the line of Viraj Mahadevia, an Individual Investor. Please go ahead.

Viraj Mahadevia: One more question, regarding your P&L, in your console P&L, you mentioned that some of your expenses have been borne because you expanded your fieldforce. I assume that comes under employee benefits expense, but your other expenses have also grown by about 15 crores, can you give us a sense of where that growth has come from and why?

Rajiv Gandhi: Salary as well as conveyance, all this selling, marketing, see what happens is hiring a person is one expense, telemarketing, conveyance, travel, all these even adds up. In fact, those expenses are on a 1:1 as much as the salary or even little more rather.

Viraj Mahadevia: So you are saying effectively these people have joined well out on the field marketing?

Rajiv Gandhi: Yes, in minus COVID times, yes.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management of Hester Biosciences for their closing comments.

Rajiv Gandhi: As always, it has been nice to talk to everybody and I hope I have been able to satisfy everybody with the answers for the questions that you all have had. You are free to reach up to Chetas or me at any time for any specific questions. I will do my best and please do ask questions for which we have the answers and which we are not pushed onto giving any classified information but besides that it has been nice as every time and just to sum up that this year has been below expectations in terms of sales and profitability. In terms of profitability, I could assure each one of you that we will climb back to our ratios in terms of profitability and we are working hard also towards ensuring that the sale goes up and it goes as per the forecast that we have made without considering the COVID situation. We do not know how much we will succeed in that, but as I said profitability be rest assured. So with that, I thank all of you and hope to connect with you if not earlier in the next con-call with the next board meeting and we would be probably declaring the Q1 results of this financial year. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.