10 February 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, 7 February 2020 at 2.00 p.m. to discuss the Standalone and Consolidated Unaudited Financial Results for the quarter and nine months ended on 31 December 2019, 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
“Hester Biosciences Limited Q3 FY20 Earnings Conference Call”

07 February 2020

MANAGEMENT:

MR. RAJIV GANDHI - CEO & MANAGING DIRECTOR, HESTER BIOSCIENCES LIMITED
MR. SAHIL SHAH - FINANCE DEPARTMENT, HESTER BIOSCIENCES LIMITED

MODERATOR:

MR. ABHISHEK SHARMA - ANALYST, IIFL SECURITIES LIMITED
Moderator: Ladies and gentlemen, good day and welcome to the Hester Biosciences Limited Q3 FY20 Earnings Conference Call hosted by IIFL Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Sharma from IIFL Securities. Thank you and over to you, sir.

Abhishek Sharma: Hi, thanks. Good day, everyone. This is Abhishek from IIFL Securities. I thank the Hester management team for giving us the opportunity to host this call. From Hester, we have with us today Mr. Rajiv Gandhi – CEO & Managing Director. I will now hand over the call to Rajiv bhai for his opening remarks. Over to you, sir.

Rajiv Gandhi: Good afternoon to all of you. And as always, it is a pleasure connecting with you on this quarterly call and discussing the financial results of our company. Please pardon me a little bit today because I have a sore throat and my voice might not be as clear or I might be coughing some time in between, so please pardon me for that. So anyway, welcome to all of you talking about the Q3 results and the 9-month ended results as you have already got the results with you.

I need to admit they have been below expectations for various reasons. The reasons being that though the poultry industry has now come out of its earlier issues in terms of niche prices etc., but as always the recuperating time probably is always longer than the time that one gets into it in a bad situation. So that is probably taking its toll on us to some extent and but we have already seen in this quarter in itself in January as well as towards in February, we see a remarkable difference in the sales on the positive side as far as the poultry industry is concerned.

On the animal health side, the trade business has more or less grown to our expectations. Yes, it was 50, but it has gone to approximately 43% in the quarter. But the tendering procurement from various states has been slow, but as always as happened in the past, before 31st March, the budget gets exhausted, the procurement is done including the payments are made. So this quarter it is not that we hope to get it, we get those orders, but we are very sure that the tender business would lead to a great jump as far as the Brucella and the PPR vaccine of the animal health division, these 2 vaccines are concerned.
Coming to the domestic sales versus exports, while the domestic sales have definitely been lower, the exports have shown reasonable amount of improvement, in fact on a quarter-to-quarter comparison, it has grown to around 2.5-3 times while on a 9-month comparison, it is showing a 66% growth. So the deficit in domestic sales has definitely been partly covered by the international business. Also talking about the bottom-line and the reasons for drop in the bottom-line, though the sales have been less in the last 3 quarters, we have kept up the pace and the budget in hiring sales people, marketing team. Of course, we believe that this was necessary for us in order to have a reasonable good spurt in sales. The spurt has not come because of the various market reasons, but the hiring has taken place. The hiring continued in Q3 and once we are out of this situation, I am sure it would show a very steep growth in terms of sales. So in our preparation for that, we have taken on marketing people and that has definitely added onto our personal cost.

In the current situation when there is less buying shown by our end users, at that time the product which are more necessary and which are regularly used are more actually sold rather than we trying to manage and manipulate our product selling in trying to sell the higher margin products. So in order to make sure that at this point of time, we continue to have as much sales possible. We have pushed on to the more needed products rather than focusing on the value addition etc. on the products which give us higher margin. So there has been an adverse change in the product mix temporarily, but in January, we have already started rolling back on to our original product mix, onto our original production forecast and within this quarter, we should be back on track in terms of selling products which give us much better bottom-line, much better margins.

In terms of credit, yes, whenever there is a problem, the cash flows, in fact the cash flows of our end users, the poultry industry has forced them to buy less and therefore this situation and clients, many most of them being very old as, from as old as 20 years, 15 years, 18 years, 10 years. So we have gone a little bit extra mile in giving them more credit that has also impacted our credit number of days. So these are the few things that have more or less impacted in terms of the topline as well as on the bottom-line.

Looking at things further from here, the PPR and the Brucella are the two main vaccines for which we hope to get into a good business, not only in this quarter, but now in the next coming year or in the coming few years. PPR through the tender, we would be supplying in this quarter to cover up this year forecasted for tendering. PPR supplies are still controlled and are bought directly by the states while the Brucella procurement has now been transferred from the state to the central. So on PPR while we hope to get good business in February as well as in March, the Brucella tender, the big tender was already released by the government of India. There had been 2 bidders, us and
another company. So hopefully once when the whole process is through, we have reasons to believe that we would also be getting a good chunk of the Brucella vaccine business that is expected to take place as per the tender from February this year to February next year. We now await the government’s further administrative procedure to get onto actual supplies, confirming and then supplies.

Another thing that I would like to notify is that Hester Biosciences has signed a technical collaboration agreement with an Egyptian company by the name of Novapharma wherein Hester India would give them technical knowhow to manufacture namely poultry vaccines and two other large animal vaccines and this knowhow would entail us to get technology transfer fees. And besides that on the business standpoint of you, Hester has taken of the exclusive marketing rights internationally from the Egyptian company wherein we would under our own brand market the vaccine. The main vaccine expected to be exported out of Egypt is the Avian Influenza for the poultry which neither has India allowed us nor has Nepal and in Tanzania, we are still struggling for that permission, but we are not very sure. So this is a sure shot for us to get the Avian Influenza vaccine for the international market which has a very big market and from Egypt, we hope to export this vaccine all across.

Coming to Hester Nepal, there seems to be reasonably good news for us in terms of topline and bottom-line. We hope to at the least touch a breakeven point in this financial year. In fact, we are hoping to be in the black, hoping to make some profit out of it, but the least we expect is that we will at least break even.

On Texas Lifesciences, it continues to support Hester India in manufacturing and supplying all the health products required for the poultry as well as for the animal health division and it is going as smoothly as possible and more and more products are being converted and taken shifted on to Texas. Therefore, we still see a reasonable good growth as far as Texas Lifesciences is concerned. On a 9-monthly basis, it’s 51% growth in terms of sales and on a quarter basis, it is nearly 23%.

Hester Tanzania, our trading arm in Tanzania has also started picking up marginally. In fact, we have even got a few permissions as late as in the last month. So with these things happening, our trading initiatives in Tanzania will take a big boost within a month’s time and we hope to see much bigger turnover right beginning from Q4 of this financial year.

For Hester Africa, the construction is going on as per schedule, there is no notable delay that needs to be reported and Hester India has already invested its full equity that it needs to be investing over there. The project is on track and it will commence as per the schedule date as what has been informed to us.
So yes, with a little bit of quite a lower than expected Q3, I do assure you all that, all
at Hester are working hard towards reversing this situation and we are more or less
convinced that this should be a temporary phase for us and we should be back up with
a full bounce this quarter or at the maximum by Q1 in the next financial year. So thank
you for being patient and hearing out all to me. In fact, in the call last time, we have
agreed upon that we will not have our finance person speak. So we have in our press
release added the profitability analysis as well as the balance sheet analysis figures
also, so it cuts down on to that. So after this, I directly would invite questions and if
there are any finance related, specific figure related issues, they would be answered by
Sahil Shah on behalf of our finance team. Thank you for hearing me out patiently.

**Moderator:** Thank you very much sir. Ladies and gentlemen, 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, it is regarding Novopharm, what is the investment made by Hester for this
arrangement?

**Rajiv Gandhi:** No, there is no investment. We are only giving technical knowhow for which we would
be getting a fee. There is zero investment by Hester.

**Ketan Gandhi:** Is it possible for you to share the tech consult fee to Hester from Novopharm? When
we will get it?

**Rajiv Gandhi:** I am not sure whether am I obligated to transfer to inform about the fees etc. but the
fees would be spread over a period of 1.5 years to 2 years’ time.

**Ketan Gandhi:** Fair enough. And sir when will they start Hester from Novopharm from Egypt for Avian
Influenza?

**Rajiv Gandhi:** That project it will take till 2.5 years before even the first sale starts from there.

**Ketan Gandhi:** Okay. So we are still 2.5 years away.

**Rajiv Gandhi:** Yes. But our technology transfer fees would be got in that much time.

**Ketan Gandhi:** Alright sir. My next question is sir, what is the pending CAPEX at Tanzania, India and
Nepal in next 12 months?

**Rajiv Gandhi:** The expenditure at Tanzania in Hester Africa has already been made. I will give it to
my finance person. Let him answer.

**Ketan Gandhi:** What is the pending CAPEX at Tanzania, India and Nepal?
Sahil Shah: Pending CAPEX at Tanzania would be around 25 to 30 crores. At present, there is no project expansion planning going on either in India or in Nepal.

Ketan Gandhi: Okay. So we have to spend only in Tanzania?

Sahil Shah: Yes.

Ketan Gandhi: And sir, can you please give me the gross debt in cash at consolidated level for Hester?

Sahil Shah: Gross debt is 95.48 crores as on 31st December 2019 on a consolidated basis.

Ketan Gandhi: And gross cash?

Sahil Shah: Gross cash is around 22 crores.

Ketan Gandhi: I have one more question and sir, what is the likely time and investment required to double the Brucella vaccine capacity for supply within India?

Rajiv Gandhi: It would be a process that I don’t think it should be more than 6 to 8 months’ time.

Ketan Gandhi: And likely CAPEX?

Rajiv Gandhi: I think we are yet planning on it. We could even try to work it out within our existing capacity. So then that would be at a minimal cost.

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

Prakash Kapadia: Couple of questions, Rajiv. On the Brucella and PPR, what kind of revenues we can look at in terms of over the next 2-3 years, then typically you know government business would have lower margins and higher working capitals. So if we could give us some sense on this initiative which the government is keen on doing and as you mentioned in your opening remarks, you see a good opportunity not only this quarter, but in the coming years, if you could give us some direction it will help.

Rajiv Gandhi: One is that the working capital requirement for government supply is not necessarily are higher because it is not that payments come late or anything of that sort. Sometimes there could be a delay, but those delays are even with the normal non-governmental business. So we do not really see that. In terms of our gross margins or the net margins as far as supplies to the government are concerned, yes, they are marginally less, but they fit well within the percentages that we are expected to achieve in our balance sheet. Not that, let us presume hypothetically that Brucella becomes the biggest selling
product that our margins would go down substantially. At the max, it could go down by 2-3%, nothing really more than that.

**Prakash Kapadia:** Does this get compensated by lower sales and other operating expenditure, so it is not so much of impact or not necessary?

**Rajiv Gandhi:** In the sense?

**Prakash Kapadia:** Government orders would require say lesser sales or lesser monitoring in terms of selling and distribution expenses.

**Rajiv Gandhi:** Yes. So in a way, if you look at it, if you differentiate it, it compensates, but the end, if you look at, when we count our per capita, per marketing or per employee sales and all, we think to include everything and then take the figures. But if you look at it in isolation, we could even not have any marketing team and we could only be doing tendering business and we could save a lot of money.

**Prakash Kapadia:** Yeah, obviously that is not the objective, I understand that. And directionally, what kind of turnover in terms of direction number or over the next 2-3 years what could..

**Rajiv Gandhi:** I think the Brucella business tendered by the government of India for the next 12 months should be approximately to the tune of around 60 crores.

**Prakash Kapadia:** And the other part, the PPR could be what, as much as that or lesser by the state government?

**Rajiv Gandhi:** Lesser. PPR would be far lesser than that. It could be say around 10-15 crores.

**Prakash Kapadia:** That is helpful. You also mentioned in your opening remarks about slight increase in receivable days due to the current input cost pressure and slowdown seen. So last few years if I look at our average receivable days, we are around 40 days. So what is it currently and by the year end, do we expect normalization?

**Rajiv Gandhi:** It has never been 40 days. In fact, I think earlier days, it should be around 60-70 that has been our normal cycle and it has gone higher to...I will give it to Sahil.

**Sahil Shah:** Receivable days are around 90 days currently, 90 to 95 days ranging between and earlier, it was around 60 to 75 something.

**Prakash Kapadia:** And this should get normalized by the year end or maybe six for once or by the first half of next year?
Rajiv Gandhi: It should get normalize. What happens, anything extended, the extension happens fast and the retraction always take a little longer time and we have even learnt it in this quarter itself. We were very enthusiastic, but the poultry industry still is recovering from the whole thing. So what has led from 65-70 to 90-95, I think it would take around 2 quarters for it to come back to its original level. I would not to talk about it conservatively.

Prakash Kapadia: And lastly on the marketing side, what was the number of employees maybe a year ago or as on March and what is the number today, if you could share?

Rajiv Gandhi: From around 50-62 we have got around now 150 people.

Prakash Kapadia: And this is just domestic we are talking?

Rajiv Gandhi: Only domestic. Companies have 400, 500, 600 people in the veterinary division, just for your information sir.

Prakash Kapadia: Lastly, I am still awaiting on the meeting revert, I have been following up with Sahil.

Rajiv Gandhi: Yes. You had sent us a long questionnaire and the meeting; we will organize a meeting. Some of the questions you might have to pardon us because it is a critical information, but we will organize a meeting for you Mr. Kapadia for sure. You will get a call from somebody in the next 24 hours.

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

Manish Gandhi: So my question is in budget. The government has announced that they want to eliminate FMD, Brucella and PPR. So if they walk the talk, so how big is the opportunity for us in PPR and Brucella?

Rajiv Gandhi: If the total budget given by the government when it formed the government, they had an outlay of 13,000 odd crores towards FMD and Brucella alone. Out of it, 60-70% would go to FMD. You can take it as around 30% would go 24:34 towards Brucella and PPR is beyond that. If the government really goes aggressive on PPR and Brucella because these are the two which concern us. It could take the requirement to approximately 200 crores.

Manish Gandhi: Per year?

Rajiv Gandhi: Yeah, per year I am talking, yeah sorry.
Manish Gandhi: So we have tied up in Nepal collaborating for making FMD vaccines and I asked you in an AGM, you said it is not economically viable in India as of now. So do you feel with government want to eliminate in 2025, anywhere in future it becomes economically viable?

Rajiv Gandhi: First a correction. We have expressed a desire to get into FMD in Nepal. We have not yet started. In India, the prices still recently were very low. Now the government has started, now the tender prices have gone up. So there seems to be a little change in the whole issue as far as FMD is concerned. But we do have a very strong desire to get into FMD. We are still studying on how and when to get into it. But yes in the long run, Hester Biosciences India would get into Foot and Mouth Disease, that is FMD vaccines.

Manish Gandhi: Right and that is great. And in your notes you have said that Hester Nepal is expected to achieve at least break even. So that is for the full year or only for the quarter 4?

Rajiv Gandhi: No, full year.

Manish Gandhi: That means, you are saying that will be making around 2 crores a quarter, next quarter. I don’t want the guidance of the next quarter...

Rajiv Gandhi: What I am saying is that I do not have the exact figure. But we will go beyond breakeven for sure.

Manish Gandhi: Yeah. So because we are at 9-month loss of 1.8 crores, is it sustainable for the next year and all?

Rajiv Gandhi: Yes.

Manish Gandhi: That is great actually. So in 10 crores turnover around approximately this year and we are, so that is great. Thank you so much.

Moderator: Thank you. The 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 what are the key markets that you are targeting from this Novopharm plant for the Influenza vaccine or the avian flu vaccine?

Rajiv Gandhi: There are few countries that allow the Avian Influenza, a few Southeast Asian Countries as well as African and Middle Eastern countries that we are targeting for Avian Influenza.

Viraj Mahadevia: Alright, okay. And is the competitive situation pretty high in this space or is pricing pretty good and margins pretty good?
Rajiv Gandhi: I think if the pricing is good, there is competition, but I think it is a good business to be in.

Viraj Mahadevia: Second one is, now that Hester Nepal will be breaking even in turning profitable like you mentioned, looking to increase the field force in Nepal?

Rajiv Gandhi: We have a field force in Nepal. We are trying to improve the productivity of the field force in Nepal, in fact the local sales has gone up to some extent also. And we are doing it as needed, we are reasonably covered at the moment in Nepal.

Viraj Mahadevia: Next question is given the time you spent in Africa obviously with the under construction and engaging with the authorities and studying the market, in how many years do you think we can hit India like sales in Africa of roughly 150 to 200 crores after commencement seeing FY22 is the first full year?

Rajiv Gandhi: 4 to 5 years.

Viraj Mahadevia: And last question, sorry very quickly, just on the previous question that was asked on Brucella and PPR by the Indian government, if I quote it you are saying roughly there is a 1000 crores market opportunity between Brucella and PPR excluding FMD. If I just take the 13,000 divided by 5 years.

Rajiv Gandhi: For 5 years you are talking?

Viraj Mahadevia: 13,000 is over 5 years, right. So per annum it is about...

Rajiv Gandhi: You divide it by 5 and then remove 70% of it, so the balance 30% to 35% is Brucella.

Viraj Mahadevia: Correct. So Brucella is about 3900 crores, so per annum is about 780 crores and you mentioned PPR is about 200 crores per annum. So between Brucella and PPR, it is about a 1000 crores market opportunity, am I right, per annum?

Rajiv Gandhi: No, PPR I did not say 200. This amount first of all doesn't include PPR. PPR is independent. So PPR would be approximately, the total of all put together for the 5 years should be around 200 crores.

Viraj Mahadevia: Alright. So PPR will be about 40 crores per annum.

Rajiv Gandhi: Yes.

Viraj Mahadevia: Brucella about 780, PPR 40, so roughly.....

Rajiv Gandhi: It could go beyond that.
Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Sir, Nepal shown good performance, so what is the reason? We get some tender or anything else you want to share?

Rajiv Gandhi: I think our people are working hard in getting business. You are also working on that, we knew very well. That of course there have been some tender businesses also, there have been some not tender business international also that we have got. So everything put together has definitely worked for us.

Ravi Naredi: And sir since I joined late, if it is repeat question, please forgive me. How much recovery possible in quarter 4?

Rajiv Gandhi: Recovery for sales?

Ravi Naredi: Sales, recovery.

Rajiv Gandhi: I think rather than me giving a figure because I have fallen short in the last 2 quarters when I have said something, let just allow our people to work hard at this point of time and we will at least do something better than what we did last year for sure.

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

Anirudh Shetty: I just wanted to clarify, this tender opportunity for Brucella and PPR that we just mentioned of over the next 5 years got 200 crores of PPR and about 520 for Brucella, is that only for vaccines or that include other cost that are required to deliver the vaccine?

Rajiv Gandhi: Only vaccine.

Anirudh Shetty: And in terms of competition you said currently there are just two bidders for Brucella and what is the competition like in PPR?

Rajiv Gandhi: There are I think probably 3 totally.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investments. Please go ahead.

Manjeet Buaria: I just wanted to check, in terms of a new CFO for the company, where are we in the process to appoint one?

Rajiv Gandhi: We are 33:14 (Inaudible) make the announcement.
Moderator: Thank you. We take the question from the line of Tanush Mehta from Dalal & Broacha. Please go ahead.

Tanush Mehta: Sir, could you just throw light upon the sustainability of Nepal and Texas business?

Rajiv Gandhi: Texas business is directly dependent on Hester India as well as now we are registering direct products from Texas Lifesciences in Africa and in a few other countries. So I think the base being small at this point of time, the growth expected in Texas Lifesciences should be reasonably good and we should be able to maintain a high growth rate all the time more than, I mean very easily in double figures and in higher double figures 20-30% at least on a year-on-year basis. And which is the other company you mentioned, Hester Nepal?

Tanush Mehta: Yeah, so it has been performing..

Rajiv Gandhi: Hester Nepal, we are getting a foothold as far as international business as well as local sales is concerned and we would make sure that we have left the bad days of being in the red behind and it will rise further from where we are at this point of time. One is because PPR tenders are getting more regularized internationally and secondly, even the domestic business is looking up upon us as far as Nepal is concerned.

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

Manish Gandhi: Just wanted to check till now in 9 months, how much we have done in Brucella in India, tender business?

Rajiv Gandhi: I would not have the figures. I would not even know better it is appropriate for us to give a product wise sales and I do not even have those figures at this point of time sir.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Rajiv Gandhi: Thank you all for being patient with me. I hope I have been able to answer all your questions. We are always there if at all there are any more queries, you can e-mail to us and as I started off mentioning that the results have been below expectations, but if you see my press note, my last sentence reads as our endeavor continues to enhance quantitative and qualitative values, be rest assured not only myself, but our whole team is working at Hester to make sure that we take things to the next level, leave aside at least coming out of this current situation. Thank you.
Moderator: Thank you. Ladies and gentlemen, on behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.