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9 November 2023

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 7 November 2023

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 Tuesday, 7 November 2023 at 2:00 p.m. (IST) to discuss the unaudited financial results for the quarter and half year ended 30 September 2023.

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
Q2 & H1 FY24 Earnings Conference Call”


7 November 2023



HESTER



ICICI Securities



CHORUS CALL®

MANAGEMENT: **MR. RAJIV GANDHI – CEO AND MANAGING DIRECTOR, HESTER
BIOSCIENCES LIMITED**
**Ms. PRIYA GANDHI – EXECUTIVE DIRECTOR, HESTER BIOSCIENCES
LIMITED**
MR. NIKHIL JHANWAR – CFO, HESTER BIOSCIENCES LIMITED

MODERATOR: **MR. ABDUL KADER PURANWALA – ICICI SECURITIES**

Moderator: Ladies and Gentlemen, Good day and welcome to Hester Biosciences Q2 H1 FY24 Earnings Conference Call hosted by ICICI 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 Abdul Kader Puranwala from ICICI Securities. Thank you and over to you, sir.

Abdul Kader Puranwala: Thank you sir and good afternoon, everyone and I welcome you all to the Hester Biosciences Limited Q2 and H1 FY24 Earnings Conference Call. So, today from Hester Biosciences we have the senior management with us. Mr. Rajiv Gandhi – CEO and Managing Director, Ms. Priya Gandhi – Executive Director and Mr. Nikhil Jhanwar – CFO on this call. I thank the management of Hester Biosciences for giving ICICI Securities this opportunity to host this call and now I hand over the call to Ms. Priya Gandhi. Over to you, ma'am.

Priya Gandhi: Good afternoon, everyone. This is Priya Gandhi, Executive Director at Hester. Thank you for joining the call today where I will be providing an overview of our performance in Q2 FY24. Commencing with a comprehensive overview of our financial performance, I am pleased to announce that in the first half of FY24, our standalone revenue surged by 20% and our consolidated revenues saw growth of 28%.

However, speaking of Q2 FY24 specifically observed a slight dip in our standalone revenue by 8%. On a consolidated basis, we saw a marginal 4% decrease in revenue during this period. Delving into the division performance, starting with our Animal Healthcare Division, we've observed the 16% decline in sales during the quarter compared to the corresponding quarter. This decline can be attributed to the shift in the sales pattern of the goat pox vaccine GPV. In Q2 FY23, a surge in demand for GPV was driven by an outbreak of the LST, which is the lumpy skin disease in cattle resulting in concentrated sales for that quarter. However, this year due to the distributed immunization program the sales were spread across the first two quarters, thereby showing a higher differential in the compared quarters. This was about the division vaccine. Now regarding the health product. The discontinuation of our brands CuRx injection and iSumovet due to the change in a drug regulation prohibiting the use of ketoprofen for animal purposes has also impacted the sales of a health product in the division in this quarter. These two products collectively contributed approximately 5 crores in sales in the last financial year.

In response to this, we have introduced a new product called CuRx LA as a substitute for CuRx which was launched this month and additionally the substitute of the other brand that I mentioned iSumovet is planned to be launched in quarter 3. We anticipate these two products will help mitigate the sales loss resulting from the withdrawal of the mentioned brands in the following quarters.

Having said this, it's noteworthy that the segment has experienced a 10% growth on a YTD basis. This growth can be attributed to the robust sales stemming from the government tenders for PPR and GPV, as well as an upswing in the sales in the other health products of the division.

Now turning to our poultry healthcare division, we have experienced a 4% decrease in our overall sales in Q2 FY24. However, there has been a growth in the domestic sales after 6 quarters, but the decrease in the export sales has led to the overall decrease of sales in this division in Q2.

Mentioning a little bit about the Indian poultry industry now. This segment has exhibited an upward trajectory primarily driven by consistent consumer demand mitigating the challenges posed by elevated speed and operational costs. Notably, the prices of meat and egg have maintained stability.

About the pet care division. The segment has demonstrated a sustained upward trend primarily due to the strategic expansion and penetration into our new territory. This segment has achieved a sales of approximately 1.8 crore and remains on a trajectory of growth. We anticipate the expansion of this segment will be driven by the Tier 2 and Tier 3 cities with a particular focus on the segment in these areas.

Few of the financial performance. We have maintained an overall gross profit margin of 69% in Q2 FY24. However, the EBITDA and PAT experienced a decrease of 24% and 34% respectively during this period. This decline can be attributed to several factors, ongoing rationalization of our product mix, the withdrawal of two products in the Animal Healthcare Division due to changes in the drug regulation and overarching strategic emphasis on increasing the sales of health products across both the divisions to tap into a broader market. Regarding product segment, our vaccine sales continue to be an important component of our business. In line with this, all states in India have initiated an immunization program targeting the lumpy skin disease using our goat pox vaccine and we anticipate selling between 3 to 3.5 crore doses over the next two quarters.

Additionally, in Q1 FY24, we began the distribution of the CPR vaccine as a part of the national immunization program, which we have mentioned in the previous calls. This contract entails a supply of 30,00,00,000 doses of CPR vaccine with a completion expected by October 2024.

In the health product segment in response to the discontinuation of our two brands as I mentioned earlier, which is CuRx iSumovet due to the change in the drug regulation, we have launched new products to address this gap and we expect that these new products will recoup the sales loss which has risen from the withdrawal of the brands that I just mentioned.

Speaking of our subsidiary's performance for the quarter:

Hester Nepal generated a turnover of 73,00,000 driven primarily by the domestic sales of vaccines. However, there was an overall net loss of 70,00,000 despite of the impact of the export and international tenders built in Nepal. We are offsetting this effect by placing strong emphasis on leveraging on the potential of the domestic business over there primarily into the poultry segment.

Meanwhile, Hester Africa has sustained an export sale amounting 2 crores in Q2 FY24. However, the overall financial performance has reflected a loss of 4.9 crores primarily attributed to the foreign exchange fluctuations on borrowing as well as the weak purchasing power of the African countries in the public as well as the private sector.

Having said that, it's worth noting that our Africa plant is now equipped with 6 registered vaccines and an additional 5 vaccines are in process of being registered by the end of this financial year. The long-awaited harmonization of the registration process is currently being implemented. This will enable us to promptly market our vaccines to the other East African countries.

Moving forward on an overall basis, we are dedicated to introducing enhanced solutions through improved products both in the form of vaccines as well as health products. Within the Animal Healthcare segment, we are set to launch a line extension of one of our flagship products under the brand name of Protein C.

This growth and productivity tonic was a significant contributor to our sales and it generated a top line of 10 crores last financial year. This modified version will be indication specific, featuring refined ingredients to yield even more promising results. In the poultry segment, we are in process of launching a modified version of the Newcastle Disease Vaccine of crucial element in the poultry health. This version of the product will optimize performance and deliver superior output with plans for release by quarter 4.

Furthermore, we are gearing up to introduce line extensions for our two of our products within the Pet Care Division as well. These additions will fall under the nutritional and the parasiticide category aligning with the forthcoming seasonal demands in mind.

Additionally, we are focused on enhancing our operational efficiency both in the field as well as in the backend. We remain committed to honoring our commitments to all our stakeholders, both within our organization and externally. Our dedicated efforts are aimed at ensuring that we not only meet, but exceed expectations as we continue to work hard towards shared goals and objectives.

Finally, although a bottom line may have been affected, and it may concern you all, but our contributions in supplying vaccines for the immunization of cattle against the lumpy skin disease and for sheep and goat against the PPR disease have played a crucial role in enhancing the health and well-being of livestock in our country. This not only supports the food security initiatives in India, but also uplifts the livelihoods of small-scale livestock farmers in the country, thus making a positive impact on India's agriculture and economy.

This accomplishment is a source of pride for all of us at Hester and our stakeholders. With this I complete my presentation and thank you all for hearing me out patiently. We look forward to your questions and discussions. Thank you.

- Moderator:** Thank you. Ladies and gentlemen, we will now begin with a question-and-answer session. The first question is on the line of Keshav Garg from Counter Cyclical PMS. Please go ahead.
- Keshav Garg:** Sir, I am trying to understand what is the outlook for the coming second-half of the year and what kind of recovery in our revenues and margins do you see going forward?
- Rajiv Gandhi:** It is outlook on the H2 to the second half of the year. Am I right?
- Keshav Garg:** Yes.

Rajiv Gandhi: There have been a little bit of a slip in our margin and due to the exports there has been a hit because countries have not been able to import material and thereby our exports has been impacted. We are looking towards the exports picking up the poultry industry picking up both of these.

We can't go lower than this. So, both of these seem to be picking up as well as from Africa also, we hope that one or two products get registered in the nearby countries, and we immediately start the sale. So, these are a few things that we are at the moment looking up to.

Keshav Garg: Sir, would you like to quantify what kind of revenues and margins we can expect for the second half?

Rajiv Gandhi: Our focus is definitely on health products where margins are a little less than what they are of vaccines, but we would like to offset that percentage by a quantum actual jump in terms of INR. So, that would be able to offset that for sure. So that's something which we are looking at.

It would be inappropriate for me to give exact financial figures at this point of time on these aspects, but things seem to be turning around as far as exports are concerned that is all that I can tell at this point of time.

Keshav Garg: Sir, and also in our consolidated number the finance cost has seen a quantum jump from 2.5 crore in the 1st Quarter to 8 crores in the 2nd Quarter. I understand this is due to currency fluctuation etcetera. So, going forward, is expected to again come back to 2.5 crore levels?

Nikhil Jhanwar: So, this finance cost jump which is coming up is primarily because of the loan which has been taken in dollars in the African entity and there has been a significant fluctuation which has arisen in this quarter. It doesn't seem to be having the same trend in the subsequent period because this is a significant jump in one shot it has happened, but obviously it may not be 2.5 a bit higher on that, but not in the range of like 8 crores how it has happened altogether in one quarter only.

Moderator: Thank you. The next question is from the line of Vivek Tulsyan from Newmark Capital. Please go ahead.

Vivek Tulsyan: Sir, if you look at our animal segment on a quarter-on-quarter basis, the EBIT margin as reported on the consolidated numbers has improved quite substantially from about 8% to about 31%. What is the reason for this sharp improvement in the last quarter?

Nikhil Janwar: What you are asking in our consol results the animal healthcare the result has been 94 million against the sale of 328 million with almost like 30% and against that earlier it was 91 million against 378 million revenues correct. Is that the question?

Vivek Tulsyan: No, I was asking compared to last quarter the June quarter, it was 24 million on a revenue of 310 million. So, is that a very sharp improvement in margin?

Nikhil Jhanwar: June Quarter you're saying?

Vivek Tulsyan: Yes.

Moderator: Sorry, we are not able to understand your question.

Vivek Tulsyan: What I'm trying to understand is if you compare 1st Quarter margins versus 2nd Quarter margins for the animal health business there is a very sharp improvement in margin. So, I'm just trying to understand what is the reason for that?

Nikhil Jhanwar: See, what has happened is you see we have already started the sales in Africa continent and with that there has been the revenue which has been generated in Africa that has given the benefit into the segment results. African finance cost is sitting in unallocable or the finance cost side that is the reason though Africa has made a loss, but still at the EBITDA level, there are positive trends. So, that is one main aspect which has been increasing profitability and segmental revenue in this period.

Vivek Tulsyan: Yes, but if I look at the press release the Africa revenue was quite similar in the 1st Quarter compared to the 2nd Quarter. It was about 18 million in 1st Quarter and 20 million in this quarter.

Rajiv Gandhi: We are looking into it. We are just a bit confused ourselves. Please wait.

Moderator: Thank you. Mr. Tulsyan are you done with your question.

Rajiv Gandhi: He is done with his question. We have not been able to understand the question what we can do is that on a after the call he can talk to our CFO or sent an email, and we will address it because we are not able to really understand what is he asking. So, we will talk to him offline.

Vivek Tulsyan: Sure. Sir, I have just one more question and that is longer term in nature. If you look at our historical numbers, our EBITDA margins were in the range of about 35% when we were largely a vaccine driven business. But now the mix has changed towards health products as well.

What would you say would be the I understand current margins might be lower because of our investments in pet care and some of the other issues in Nepal and Africa, but if you exclude that, what would you say would be the normalized margin given the mix now of pet care of animal health and vaccine is about 50:50?

Rajiv Gandhi: I think what we hope to do that in three years' time we should come up to the margins what we had earlier on a plane vaccine business because by that time we would have gained a lot of traction. Our sales team would be performing very efficiently, that is definitely one of the goals as mentioned by Priya in wanting to increase the efficiency as even mentioned in our press note.

So, it is our desire objective to come up to those margins in the coming years in two to three years' time. We would not want to settle for lesser margins.

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

Rajiv Gandhi: Good afternoon to all of you Rajiv Gandhi over here. As always, we have tried to be as elaborate as possible in going through the work of the company. We shall continue doing so on our calls behind the scenes all throughout every quarter we are putting in our best. To make sure that we improve the functioning of the company, improve the governance of the company and with

now we have a specific objective to improve profitability, the bottom line of the company.

As stakeholders, please be rest assured that we are in that direction ups and downs do come, but that's part of the journey, not that we are trying to justify anything, but we are on track and we hope to again speak to you in the next quarter and probably we'll have some few additional things to talk on. Thank you.

Moderator:

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

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