



NEOGEN
CHEMICALS LTD.

February 4, 2022

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 Scrip Code No: 542665	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 Company Symbol: NEOGEN
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Sub.: Q3FY22 - Earnings Conference Call Transcript.

Dear Sir/ Madam,

With reference to the captioned subject, please find enclosed herewith the Earnings Call Transcript of the Company's Q3FY22 Earnings Conference Call held on Monday, January 31, 2022.

The transcript is also being uploaded on the company's website at www.neogenchem.com.

Kindly take the same on your record.

Thanking you,
Yours faithfully,

For Neogen Chemicals Limited

Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131



Encl: As above



Neogen Chemicals Limited
Q3 FY22 Earnings Conference Call
January 31, 2022 at 4.30pm IST

Moderator: Ladies and gentlemen, good day and welcome to Neogen Chemicals' Q3 FY22 Earnings Conference Call. 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. Nishid Solanki from CDR India. Thank you, and over to you.

Nishid Solanki: Thank you. Good afternoon everyone and welcome to Neogen Chemicals' Q3 FY22 earnings conference call for analysts and investors. Joining us on the call today are senior members of the management team, including Dr. Harin Kanani, Managing Director and Mr. Ketan Vyas, Chief Financial Officer. We will commence the call with opening thoughts from the management team, post which we shall open the session for Q&A, where the management will be addressing queries of the participants.

Let me leave you with our standard disclaimer. Certain statements made or discussed on the conference call today may be forward-looking statements. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q3 FY22 earnings presentation, which has been shared earlier.

I would now like to invite Dr. Harin Kanani to share his perspective on performance and progress that the company has made. Thank you, and over to you, sir.

Dr. Harin Kanani: Thank you, Nishid. Good afternoon and a warm welcome to everyone on our Q3 FY22 earnings conference call. Our result documents have been shared earlier and are available on stock exchange websites. I trust, you have got a chance to go through them. I will share my perspective on the performance, key developments and outlook going forward. Later, our CFO, Mr. Ketan Vyas, will take you through the financial highlights for the period under review.

We reported strong all-round performance during third quarter of the financial year, backed by higher contributions from the recently commissioned Phase I and II Greenfield expansion at Dahej SEZ in Gujarat. More importantly, we registered by far our highest ever quarterly revenue of Rs. 133 crore in Q3 of



FY22, which was in spite of a challenging macro situation. Let me reiterate, that this is just the beginning and we have exciting plans lined up to take Neogen to the next phase of growth.

Let me share some financial metrics here for Q3 FY22. Revenues expanded by 56% year on year, while EBITDA increased 41%, translating to margin of 18% and profit after tax grew by 23%. Our Organic chemical business registered a gain of 53% while growth in Inorganic chemicals stood at 70%. Overall, we witnessed favourable demand and firm realisation trends across our segments.

In a key development, we raised Rs. 225 crore, through issuance of equity shares on preferential allotment basis at an issue price of Rs. 1,402.12 per equity share. We saw participation from some of the high quality and marquee institutional investors. The main objective of the fundraise is to support the current growth momentum, while capitalising on the upcoming high potential opportunities across advanced intermediates, custom synthesis and contract manufacturing and lithium-ion battery material space. This fundraise will make us further ready and help us gain first mover advantage in several emerging demand areas that hold great potential over the next few years.

The immediate plan is to deploy these funds to repay our debt and strengthen our balance sheet, which can then be leveraged as we invest into our expansion plans. Our new CAPEX announced last year to manufacture electrolyte for lithium-ion batteries advanced chemistry cells is progressing well, and we remain on track to commercialise this by September 2023.

Once commissioned, this initiative will help us test the market and reach out to all market players that consume electrolyte for lithium-ion batteries. With the experience of over three decades in the lithium chemical sector, we remain confident of delivering a successful initiative in this emerging space. Going forward, establishing our presence here will also put us in a sweet spot to capture substantially higher demand for electrolyte arising over the next few years.

Post commissioning, both our Phase I and II greenfield expansion at Dahej SEZ are rapidly ramping up. The intention is to focus on niche and value-added products that require expertise in complex chemistry with multi-stage processes, and we are moving well in this direction. Having said that, we are also running our Mahape and Vadodara plants at high utilisation levels. We believe all these initiatives will allow us to maintain our business momentum over the next few years. We will remain confident of surpassing our guidance of Rs. 450 crore in revenues this year, while the aggregate revenue potential currently stands at Rs. 700 crore to Rs. 725 crore, including the expansion and initiatives around lithium-ion batteries, which we continue to target to deliver by FY24.

Overall, I am excited with the growth opportunities available in chemical as well as lithium-ion battery material space. We will make the right moves at the right time to ensure that we capitalise on these high potential opportunities to deliver sustainable and profitable growth for all our stakeholders.



That concludes my initial thoughts. I would now request our CFO, Mr. Ketan Vyas to share the financial highlights for Q3 FY22. Over to you, Ketan.

Ketan Vyas:

Thank you, Dr. Harin. Good afternoon, everyone and welcome to Neogen's Q3 FY22 earnings call. I am here to share the financial performance for third quarter ended 31st December, 2021. All comparisons are on year-on-year basis and refer to standalone financial performance.

In Q3 FY22, our revenues stood at Rs. 133 crore, representing a strong growth of 56% driven by higher contribution from recently commissioned Phase I and II expansion at Dahej SEZ. This was complemented by 41% growth in EBITDA to Rs. 24 crore. EBITDA performance includes an element of transient cost impact related to recently commissioned Phase I and II expansion. Once we run our new plants at optimal utilisation levels, this is expected to neutralise. EBITDA also includes some impact of elevated utility costs and other operating expenses linked to COVID-19 related safety protocols.

Our profit after tax stood at Rs. 10.5 crore, higher by 23%. PAT growth appears moderated due to higher finance costs and depreciation, which is in line with new capacities added during the year. Again, this will improve once the new plants operate at optimal utilisation levels.

In Q3 FY22, our domestic and export mix stood at 55% and 45%, respectively.

That ends my opening commentary. I will now request the moderator to open the forum for questions from participants.

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 Dhaval Shah from ICICI Direct. Please go ahead.

Dhavan Shah:

Yes, thanks for the opportunity, sir. I have a question on Dahej Phase I and Phase II plants. You already mentioned that we have seen some ramp up in both of these capacities. Can you please share the utilisation? I think it may not be meaningful at this moment, but if you can share thoughts on that? And what would be your actual timeline, by when we can see the peak utilisation from both of these capacities? If you can share thoughts on this.

Dr. Harin Kanani :

Hi, thanks for your questions, Dhavan. I think Phase I part is now used more than Phase 2 which came afterwards in which we are also doing some pharma molecules. This also requires some trial production, customer approval, etc. So, it is ramping up a little bit slow. Going forward, I would like to start thinking that though the CAPEX was planned in a phase wise manner, it is going to be in the same manufacturing block and going forward in our communication also, I want to just think of Dahej SEZ capacity as a whole between Phase I and Phase II. But, yes, right now, Phase I in which we started making the molecule for Agro innovator, already is at 50% - 60% kind of utilisation levels. And Phase II in which we did some bromine derivatives and pharma intermediates is still overall ramping up. My guess is with all the approvals, and we had to do some customer audits etc., for them to happen,



by let us say September next year max to max, we should be in a position where we are at full utilisation levels. So, we will start hitting peak revenues.

If you recall, without the new CAPEX, we were at around Rs. 650 crore – Rs. 675 crore kind of revenue estimate which we had originally given before our last CAPEX related to Karakhadi. We are going to reach Rs. 650 crore – Rs. 675 crore based on the Dahej SEZ Phase I and Phase II, which make roughly around Rs. 160 crore - Rs. 170 crore peak revenue. So, I think we should reach those numbers by at least Q2 of the next financial year.

Dhavan Shah:

Okay. In your opening remarks, I think you mentioned that by FY24 our revenue guidance would be Rs. 700 crore to Rs. 725 odd crore, including this electrolyte. But if we are going to reach this in FY23 itself. Then I think FY24 guidance we have to revise upwards. And may be, because, I think we also did QIP (fund raise by issue of Equity Shares on preferential basis) of Rs. 225 odd crore, are we going to see CAPEX announcement within some time? Because I think based on our order inquiries, if we utilise optimum by the next year, then I think we should come up with another CAPEX also in Dahej if I am not wrong. If you can share thoughts on that also?

Dr. Harin Kanani:

Sure. I think there are two CAPEX or I would say three CAPEX which we can potentially consider. One is going to be the larger CAPEX for the electrolyte that we are considering; then second is, some CAPEX related to the lithium electrolyte salt requirement in the international market - if you look at our presentation, there is an opportunity to sell electrolytes in India and electrolyte salts in the international market - So, that is the second potential CAPEX which will be in Dahej SEZ. Electrolyte ideally should be in Karakhadi, because it is suited for the domestic industry. And the third will be an increase in the organic capacity. These are the three CAPEX which are under active consideration. And as we keep getting customer clarity and confirmations, like where we can get certainty of the business, then, we will start considering them.

You might have seen the news that, the final PLI scheme, applications were all submitted, I think by 15th of January 2022 - the extended deadline - and there are 10 applicants in the PLI scheme. The outcome of this is expected somewhere between March and June 2022, by which time we are also expecting a smaller capacity of electrolyte to start, like a kilo lab kind of a facility. We will also have the approval. So, I am expecting somewhere between June to September, once there is clarity on PLI, some approvals from customer, we will have clarity on the electrolyte investment in India. So, this is my expected current timeline based on today's situation.

I personally would feel that first we would like to hit the full utilisation level and then we should be able to see good order visibility of that. So, somewhere in the second half, between September to March, which we will be looking at the decision on organic CAPEX. That will be more towards the end of FY23. So, either third or fourth quarter of FY23 we will take a decision on that.

And the international lithium salt. Again, may be a little bit before June or slightly afterwards, we will take a decision on (whether) to meet the international demand of lithium salt. These are the three CAPEX's which we



are currently considering. And I expect that the timing will be based on what I just informed you.

Dhavan Shah: Okay. And sir, will this cover the entire Rs. 225 odd crore with three CAPEX or it will be just part of that?

Dr. Harin Kanani: The reason why we are not doing it is because we don't know the exact size, we don't have the customer commitment. So, whether it will in phases or how much, depending on the responses that we get, we will decide. So, the CAPEX decision is going to be based on the market; like what is the market, where we see good visibility, because we have a very dynamic market. There are many moving parts. So, it will be based upon that, and that will take a decision of how much CAPEX we are doing now.

Normal case, each of these CAPEX's like if an MPP investment that we are making is about Rs. 100 crore, right? So, my expectation is, this would be in the range of Rs. 50 crore to Rs. 100 crore individually, in the first phase. Based on that, we will also plan that we are not going to do everything from the equity that we have raised. I mean, this is just adding to our equity. And considering the future potential, there will always be some debt component and some equity component.

So, while immediately we are using this to reduce the debt and bring our debt equity ratios down, we are still going to keep some money aside, which will go towards margins of this project. So we will be carrying cash for a while. And then we will take the optimum decision between using equity and debt over next 2 to 3 years, depending on the best financial combination, which we can come up with and finance it.

So, I am not saying all three may happen. Out of three, one may happen, two may happen, depends on how market develops.

You also mentioned about FY24 guidance. I think, again, our policy has been that the CAPEX that I have, or what I have committed today, is equal to Rs. 700 crore – Rs. 725 crore. So, unless I have done additional CAPEX, and taken a decision on that, I cannot say that I will do a CAPEX and then from that additional revenue can come. Therefore, the guidance of FY24 remains on that side.

And when it comes to FY23, since we are not hitting the peak utilisation till at least the second quarter in the best-case scenario; also, the electrolyte investment gets fully utilised in the next year, so, it will not be full for FY23. So, we will have a better idea on this somewhere in our May 2022 call when we have the final year's view, and once we have better clarity on some of the customer approvals on the pharma, advanced intermediate sides. We will give a guidance on FY23 there. But FY24 that Rs. 700 crore – Rs. 725 crore looks doable.

This year, based on the run rate we are doing, crossing Rs. 450 crore seems easily doable. We expect somewhere around Rs. 475 crore. So, in that range is what we are expecting. But FY23, it should be somewhere closer to Rs. 600 crore, but on which side of the Rs. 600 crore, I will be able to tell you by let us say May 2022 call.



Dhavan Shah: Right. And sir, this three CAPEX you highlighted so, how long will it take to commission? Will it be around 12 months something or it will be lower than that?

Dr. Harin Kanani: I think the lithium salt if we are enhancing it will be in Dahej SEZ facility where we already have a dedicated inorganic block. So, that should be one year or slightly less than one year. The Organic MPP - generally organic plants are more complex - so, I would give like 12 to 15 months. Like good case scenario will be let us say 9 months, but I think bare minimum we should take 12 months plus or minus 3 months.

And electrolyte, because we are doing it for the first time, my guess would be like 15 to 18 months at least. That is why we are targeting somewhere around September, so that we are at least ready by December 2023 or early 2024, when India demand for battery is likely to come based on the PLI scheme initiatives.

Dhavan Shah: Right, right. And sir, another question is on these two contracts, which you got last year. You are envisaging roughly Rs. 60 crore to Rs. 80 crore kind of revenue this fiscal. Can you please share how much of that is recognised till 9 months and particularly for the third quarter?

Dr. Harin Kanani: Because there are two, I can't say that but it becomes too specific. But yes, whatever range we had given that together they are contributing in this year Rs. 60 crore to Rs. 80 crore, that guidance what we had given continues.

Dhavan Shah: Okay, sir. And my last question, if I may, is on the lithium carbonate prices. We have seen increase in the lithium carbonate prices. Have you seen any challenges in the Inorganic chemical segment, may be for passing on the input price inflation, or may be the demand headwinds on this particular segment? If you can share your thoughts on that.

Dr. Harin Kanani: I think the real answer of that we will get in the next financial year. Because, as you know, last year, we had given that the prices were historically low. Now, they have just crossed, or just crossing in Q4, what has been a historical high. So, historically, these prices have gone up to at least for us, they have gone up to \$18 – \$20 per kg. Up to Q3, it was within that, and we were able to pass that on. Of course, today, it is too much in shortage, and just because of our relationship, we are getting full quantities or sufficient quantities to meet all our customer requirements. So, that itself is a plus.

We will be able to pass on, but sometimes, it may create a bottleneck at our customer end. And for them, for example, this vapour absorption chillers, they compete against a compressor-based machine. So, now a compressor-based machine does not have a price increase because of lithium. And if the vapour absorption machine has a price, because of lithium, what will be the overall impact. So, that's something which we are not able to say as yet.

I think, we will have to see whether the overall volume goes down a bit, at least in some segments because of such a price increase. But the answer of that will be in Q4, and it is going to be even worse for the next two, three quarters, because the lithium prices are likely to further increase at least till

end of this year, after which they are likely to taper off and improve. So, the entire calendar year of 2023 is going to be a test of that.

Dhavan Shah: Sure, sir. Thank you so much, sir, for answering all the questions.

Dr. Harin Kanani: Thank you.

Moderator: Thank you. The next question is from the line of Anshul Verdia from Edelweiss Wealth Research. Please go ahead.

Anshul Verdia: Thank you, sir, for this opportunity. I have couple of questions. First, on the gross margin. In this quarter, we saw gross margin expansion. So, could you throw some light? Is it driven by the lower material cost or there is a shift in our product mix?

Dr. Harin Kanani: No, Anshul, I think mostly, it has been the product mix. And you have been seeing last two, three quarters that our gross margins have improved. So, historically, the gross margins - when I am talking historically, I am looking at a 10-year, 12-year kind of perspective - Neogen used to be between 38% to 42%. Now, with this advanced intermediates and some of these CSM molecules that we are doing - we are doing seven stage, eight stage kind of chemistry - because of that, the raw material contribution is a bit less, and the processing cost is a bit higher. So, the gross margins that you are seeing are some reflection of that. So, at least based on whatever I have seen so far, the historical range of 38% to 42% seems to be now more like 40% to 44% from quarter to quarter depending on the product mix, price of lithium, this kind of range is what we are seeing.

So, I am seeing at least a 2% increase, on an average, improvement over what has been historical. Now I expect 42% - plus minus 2% - as our gross margin. But consequently, we have also seen that manufacturing costs as a percentage will increase because we are taking more of manufacturing resources for achieving the same revenues. Therefore, the manufacturing costs and depreciation as a percentage will increase to some extent.

Anshul Verdia: Thank you, that is really helpful. One on the EV. We spoke about the PLI scheme, the advanced chemistry cells which will be helpful for companies like Neogen in providing electrolyte as one of the leading domestic manufacturer in the coming years. What was your initial interaction with the customers, the potential customers? What is your sense on the electrolyte market as such? Because from time to time we have seen a shift in the technologies. Now people have started talking about the sodium-ion battery. Is this something like a risky territory we are pouring into or what are your views from the initial interaction you have had with the customers? Because even the people who applied for the plants for ACC and the PLI, they are not sure of which technology would they be using. Any initial thought? That would be really appreciated. Thank you, sir.

Dr. Harin Kanani : Again, currently at least based on our views and I think what we discussed a little bit also in the last call that for EV application, there are two major applications of these storage batteries. Two large applications. One is, EV and the second is, storage for renewables or intermediate storage for let us say hydrogen production. When you are talking of intermediate storage for

hydrogen production, or let us say storage for renewables, that is where sodium-ion battery can have an advantage if it becomes efficient, because these are static systems. And the charging of these batteries happens over a period of time. So, it is not a very fast charge, fast discharge and the performance and the weight of the battery is not critical.

To the best of my understanding, for EV, lithium-ion battery is going to stay. Now, within lithium-ion battery, there are different cathode chemistries, and depending on different cathode chemistries, there would be slight variation in each customer's electrolyte composition. So, the salt which they choose or the additives that they choose or the stabiliser that they choose, will be customised for each customer. But the basic requirements remains the same, for the electrolyte as long as we are talking of lithium-ion batteries application.

I think at least in my understanding, the kind of electrolyte we are making is going to be required, irrespective of the lithium chemistry which they may choose. Again, ACC also has some battery performances that you have to have some cells kilowatt hour per kg and some performance parameters are there. So, I think, based on my understanding, most of these are going to be lithium-ion batteries. Of course, sodium-ion will be there, but lithium-ion continues to be one of the key technologies, and the demand for electrolyte is still going to be significant.

The reason why we have not yet done the final investment is because we are also waiting for clarity. And at some point of time, like I said, by June or maximum September, our customers will be making this decision. And as our customers make decisions and we get comfort from them, and they get comfort on the development that we do, we will go ahead with that. So that's something we will keep watching.

Anshul Verdia: Thank you, sir. That was really helpful. Just last couple of ones on the modelling slide. We saw other expenses increasing, almost doubling this quarter, and also they increased on quarter on quarter by 30%. So, in your initial opening remarks, you said it consists some of the COVID related protocols, some transient costs. Can you quantify COVID related protocol? And is there any component of QIP (fund raised by issue of Equity Shares on preferential basis) raising cost which is not a one off for the next quarter?

Dr. Harin Kanani: No. There is no QIP (fund raise by issue of Equity Shares on preferential basis) raising costs. But more or less, let us say the capacity that we have today is good enough to do Rs. 165 crore, Rs. 175 crore worth of revenue. So, it is a kind of almost double as compared to what we were doing earlier. So that is one of the criteria that most of the capacity has come in place, while we have not yet reached full utilisation level. But people and some of the maintenance systems, QC, R&D systems, all of those have already come in at the full level. So, as the utilisation improves, as a percentage it will drop.

And the second reason for increase is what I have shared with you earlier that our product mix is such that let us say by 1% or 2%, our gross margin has improved. At the same time, the manufacturing cost has gone higher.

- Anshul Verdia:** Got it, sir. And lastly on this interest costs, this will continue with the run rate going forward? This quarter we had a little higher interest cost.
- Dr. Harin Kanani:** The interest costs, again, should improve because of the fund raise that we did. But I would ask Ketan to, may be, and give a better idea on that.
- Ketan Vyas:** Yes. As we did our fund raise and the funds have come in, we will try to deploy the funds to optimise the finance costs. While we are looking at best rates, we negotiate with the banks to optimise our interest cost and use the funds that we have to lower down the working capital costs that we have. And pass off some of the funds to gain some interest while the CAPEX plans get finalised in coming quarters. So, we do expect that we should have lower interest cost in Q4.
- Anshul Verdia:** Thank you, sir. That is all from my side. Thanks very much.
- Moderator:** The next question is from the line of Manish Jain from Moneylife Advisors. Please go ahead.
- Manish Jain:** Yes. Thank you for the opportunity. So, my first question is, what is the traction you are witnessing on the Custom Manufacturing business? Have you added any new projects or customers under this segment?
- Dr. Harin Kanani:** We have added new projects, but those are early-stage projects. We have not added other than what we had commercialised. We have not yet signed a multi-year agreement, if that is the question being asked.
- Manish Jain:** Okay. Any new inquiries from the customers?
- Dr. Harin Kanani:** We keep getting new inquiries from customers all the time. Also, as we had informed earlier, once our Dahej site is fully commissioned, and we are also in the process of getting quality certifications completed by this quarter. Once these are completed, we have in parallel, also started approaching some key large customers who we were holding back, because we did not have the Dahej SEZ site fully ready at that time. And also, the availability was a question. So, now with Dahej SEZ ramped up, having some extra capacity, we have started approaching these clients, but again, these will take one or two years to develop.
- I think between now and as I mentioned next year, Q3/Q4, we will have a clear idea of what the pipeline looks like beyond FY24, and what happens in this one year is going to determine. How many of the existing molecules are ramping up and the new customers with whom we are discussing, what is the potential volumes of this, is what is going to allow us to take the decision on the next CAPEX in the MPP in Dahej SEZ.
- Manish Jain:** Okay. Secondly, can you provide some insights on how you are planning to utilise Rs. 225 crore raised through the preferential issue of equity shares?
- Dr. Harin Kanani:** I think initially we will be paying off our rupee debt because, we also get export funding, which is at low interest cost - lower than what we can even get normally. And some of the term loans we will pay off, which anyway have a maturity in the next one or two years, those will be paid off, and then remaining additional money will be kept as cash in the form of an investment, till our further CAPEX plans get firmed up.

- Manish Jain:** Okay. Thank you, and all the best.
- Dr. Harin Kanani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Saurabh Kapadia from Asian Market Securities. Please go ahead.
- Saurabh Kapadia:** Yes. Thank you for the opportunity. Sir, just wanted to understand more on electrolyte. Based on your comments, is it right to understand that you will be working on three or four types of salts with different customers?
- Dr. Harin Kanani:** Different customers may have different salt or they may have the same salt, but generally salt solvent. There are three major parts. Salt, solvents and additives. The combination of these - how much of salt, how much of solvent, which solvent, which additive. That remains different for different customers.
- Saurabh Kapadia:** Okay. And what about the additives? Are we looking at making that as well?
- Dr. Harin Kanani:** Yes. If the additive is a lithium-based additive, then yes, we are looking at making that in-house. Some are non-lithium additives, where, we will take a call. Whether it makes sense (to make them) or whether it makes sense to just buy them.
- Saurabh Kapadia:** Okay. And sir, in your last call, you mentioned you are also working with an international customer. Is there any further progress in terms of export opportunity for electrolyte?
- Dr. Harin Kanani:** Yes. I mean, we are evaluating that. But as I mentioned, we want that small facility to start with, which we can start working with the customer. So, the customer does remain interested, and we are exploring. Although, I have to say, for the international customer, the main interest is that he will also eventually tie up with somebody in India. So, once we have done the evaluation, whoever he ties up in India, has an already approved source. Again, how much he will purchase internationally or more, he is interested or whatever they are planning to do in India, is something which time will tell.
- But electrolyte, inherently have some challenges in shipping. Like some disadvantages, if you are shipping it very long. Because the tanks which are required or the containers required are very specialised, and you need to bring them back and forth. So, then the cost of doing internationally sometimes can be higher. Again, if they do not have a domestic source with enough quantities, they may still do it, as an option. But my personal feeling is, that majority of the electrolyte business will be domestic.
- Saurabh Kapadia:** Okay. And just may be broad comment on next three to five years' timeframe in terms of investment. Are we looking at higher CAPEX outlay on the Electrolyte or EV part of the business and probably organic CAPEX will be, may be 20%, 30% of overall CAPEX?
- Dr. Harin Kanani:** I wish I can answer that. But I think, when it comes to CAPEX, it just makes sense to take one decision at a time in our view. And it is too early to predict. We have opportunities in both the segments. So, each opportunity we will take, what are the risks associated with that? What are the opportunities ahead? And that will be the main driver for CAPEX. I think it is too early to predict how much will be lithium and how much will be organic. But one

thing I am certain. That there will be investment in both. Percentage-wise it seems difficult to predict now.

Saurabh Kapadia: Okay. And all the CAPEX may be over next one year, one and a half year. Is it fair to assume that the earliest this CAPEX can contribute is in the second half of FY24?

Dr. Harin Kanani: No. I mentioned that the CAPEX decision is going to be taken, let us say earliest. Out of three CAPEX which I mentioned, the earliest can be June, for example, and the maximum would be, let us say by Q4 FY23. That is when we will take the decision. And majority of this will come online, let's say in FY24. So, FY25 is when they will contribute. Depending on timing, some of them may contribute in FY24 also. So, if this CAPEX is, for example, if it happens, let us say by June, we can get it to contribute in FY24. That will be great if the visibility and the clarity are there. But most likely significant contribution will be in FY25 onwards.

Saurabh Kapadia: Okay. And sir, just last one on the other expense. You mentioned now, may be as percentage of revenue will come down. Sir, can you give, may be what is the breakup of variable and fixed cost of the other expenses?

Dr. Harin Kanani: That is a bit difficult to do. But as I mentioned that on a steady state basis, once we have full utilisation, I am currently expecting, for example, 2% improvement in our gross margins. So, at 42% (gross margins) and 2% increase in other expenses, over what was a steady situation, remaining more or less EBITDA neutral. Of course, if we are able to do better than that, then that is where the EBITDA margins will improve. And as I have said earlier, one of the major driver of that is going to be the innovation factor that we do or the some higher efficiency which we achieve, as compared to what others have done. So, I think, once we start doing this, this stabilises, innovation kicks in, improvement kicks in, that is when we can basically see further improvement on that.

The only variable here I would like to say is, the lithium prices, because the way lithium prices are going up, there might be some impact on margin levels. Depends on how high they go. And like I said, sometimes we will also have to support our customers in this very demanding three or four quarters which is going to be there. So, depending on that. But otherwise, my expectation is, a 2% improvement in gross margin, 2% increase in other expense on a steady state basis, and then any innovation will help us go beyond that 18%-19% EBITDA which we usually consider.

Saurabh Kapadia: Okay. Sir, any price hike taken in the Organic chemicals business?

Dr. Harin Kanani: Yes. Prices of some of the raw materials have been increasing and we also have been passing those on to our customers. Like solvent prices have increased, bromine prices although have increased but, so far, because of our long-term contracts, we are on an average, the impact has been very limited, which we were able to cover. The greater impact of the bromine price hike will come in the next financial year, when our contracts will reset and we will also have to reset with our customers.

Saurabh Kapadia: Okay. Thank you for your time.



- Dr. Harin Kanani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.
- Manish Gupta:** Dr. Harin, India has such aggressive plans for lithium-ion. But from a supply side perspective, I mean, has India tied up the amount of lithium we will need to import?
- Dr. Harin Kanani:** India as a country has not tied up. Individual players like Neogen, or whatever Neogen is planning to do in lithium, we have talked to the major lithium guys and we are quite confident at least for the electrolyte, or the lithium salts that we are considering for international market, we should be able to get. Although, the big demand of lithium is going to be on the cathode side. Cathode requires much larger quantities of lithium as compared to the lithium which is present in the electrolyte. So, some of the companies in cathode and Neogen is also exploring some cathode chemistries. That is where we will be more worried about, will we get enough lithium?
- Now, the good news is that India is starting in 2024 and the major demand when we become a significant player, where we have to worry about - we become a bottleneck or decision making for the world lithium - is not going to be by FY26, FY27, or may be FY28. Because the world lithium capacity is increasing so much that we should be able to get some share of it. How competitively we will get, time will tell. And I think Government of India also has set up a particular company, and they have taken some initiatives as a sovereign nation to secure lithium for India. So that companies like Neogen can then tie up with other company. It is a concept similar to ONGC Videsh, to give you the easiest example.
- I think there is some action on that front by the government. I know they are also working very hard, and I think by the time it becomes critical, if everything goes well, as a sovereign nation, we would have done something to secure lithium. Otherwise, we will have to step up and each individual company will have to go and secure its lithium from internationally what is happening.
- Manish Gupta:** But say for Neogen right now, if you are putting up capacity, you would have tied up back-to-back long-term arrangements for supply.
- Dr. Harin Kanani:** Yes. When we will set up a capacity for X or whatever capacity X that we are planning, the lithium which will be required for that. So, we have talked to the existing lithium suppliers, and they are confident that they can give us that material. So, lithium will not become a constraint for us, for the plans that we have so far.
- Manish Gupta:** Okay. And this first phase that we are doing, 250 metric tons, at steady state, what is the revenue potential of this?
- Dr. Harin Kanani:** This 250 metric ton is going to be really trial volumes, because we are doing a smaller quantity, the lithium prices will be different. So, I would not want to put a number on that at this moment. As we said, the Rs. 35 crore CAPEX was both, for this, as well as for the pilot facility where we can make the initial

requirements of international customers in the CSM business. And together, they will contribute Rs. 45 crore or Rs. 50 crore. So that is something which we think we can achieve. And let us say even if some of the revenue does not come from here or it is a bit lower, that is something which can be absorbed very easily with incremental CAPEX in our existing facility, or just better utilisation of our facilities and stuff like that. So, I would not like to put a number on the 250 metric ton. It is more essential to get approval, demonstrate and gain knowledge, so we can design our larger capacity, which will be at least couple of 1,000 tons, more efficiently.

Manish Gupta: Okay. So, let me rephrase my question, Dr. Harin. In Slide 18 of your presentation, you have a chart, which says that the electrolyte demand for India will be 70,000 metric tons as per the estimates given, right?

Dr. Harin Kanani: Yes.

Manish Gupta: So, let us say that the electrolyte demand of India is 70,000 metric tons. Let us for a minute assume that Neogen is only supplying 10% of that, right?

Dr. Harin Kanani: Okay.

Manish Gupta: So, if we say, for a 7000 metric ton capacity, what is the revenue of that?

Dr. Harin Kanani: Manish ji, for various reasons, I do not want to name the value of that. If I wanted to, in the same slide, I could have put a comma and added the number. So, it becomes easier. But one is, because lithium prices are moving so much, still not very clear about what is going to be the composition of these 70,000 metric tons. Although I have the number with me, very clearly, of the range, but currently, I would not like to share that, if it is okay.

Manish Gupta: No, absolutely. The intent is not to put you in a spot.

Dr. Harin Kanani: But yes, I can suggest you one thing. If you just Google 'electrolyte prices worldwide', there are some research reports, which give you that. Again, some of them are on the lower side. That is what we believe. And that is why we do not want to put a number till we understand. Also, the price of these electrolytes in China is very different. In Japan, it is very different, in Europe it is very different. So, what is going to be the India one? And that range is also quite a bit. So that is why I do not want to put a number on it as yet.

Manish Gupta: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukherji from Centrum PMS. Please go ahead.

Sabyasachi Mukherji: Thanks for the opportunity. Congratulations on a good set of numbers. My first question is on the electrolyte CAPEX. You mentioned that it is around Rs. 50 crore to Rs. 100 crore probably in phase one. What would be the likely asset turns out of this CAPEX?

Dr. Harin Kanani: Again, sorry. I do not have an accurate number for you as yet. As I answered to the earlier participant also, that the exact composition which our customers are going through, what is going to be the price of those compositions? Still these numbers are varying quite a bit even if I have an approximate number in mind. Also exactly, what would be the capacity which we are going to put

up? So, we can put up let us say, considering a 10% market share, 20% market share, 30% market share, or we can put a capacity for three years versus five years. Lot of these questions still need to get answered. So unfortunately, I am not able to answer at this moment. My guess is, generally inorganic CAPEX is having better asset turns than organic. So, if in the organic we are able to achieve like two, two and a half, my guess is, it has to be better than that. But how much better, whether it will be same or better, that is something I need to be more sure of, some of the details. Only after that, I can share.

Sabyasachi Mukherji: Sure. Only other thing, a follow up to that is, if you can probably indicate what would be the CAPEX for, let us say 1,000 metric ton or I do not know, I mean, what figure you are looking at. But if you can give us a ballpark figure, that what will be the CAPEX for 1000 metric ton capacity? That would help us.

Dr. Harin Kanani: Because the existing one itself will be 250 metric ton, the capacity that we will set up will be at least a couple of 1,000 metric tons. It will be more than that. Again, unfortunately, I do not have a number on that yet. Please allow me. I hope by May, I can give you. In the next call, I can give you better clarity on this. Worst case scenario, definitely the call after that. So, July, I think we should have a much clearer answer on that.

Sabyasachi Mukherji: Thank you. Next question is on the CAPEX side. You mentioned three areas of CAPEX that currently you are thinking of. One is electrolytes, the other is salts for international customers and third is, organic. That is where actually my question is coming from. Probably our organic chemical CAPEX would be fully utilised by FY24. So, what is the plan over there and what is the, again, present quantum of CAPEX you are looking at?

Dr. Harin Kanani: Sure. As I mentioned earlier in one of the answers, as you very rightly said, in FY24, we expect to be in fully utilised condition. Somewhere in the second half of FY23, we should be making a decision. Most likely, I would say in Q4, taking a decision on the organic CAPEX, if the demand remains very strong, we have good business visibility, etc. So that if we take the decision by let us say, even if we take the decision by end of FY23, so by the end of FY24, we have a new capacity which comes online, which can help us continue our growth in FY25.

And generally, my expectation is, it will be somewhere around Rs. 100 odd crores of CAPEX, with again, two, two and a half asset turns, which we should be doing. Usually, it is an incremental CAPEX. So, I think we should be able to do that in Dahej SEZ. But again, more precise numbers we can give you at that time, but this is my general expectation.

Sabyasachi Mukherji: Understood. Last bit on the other expenses side. Is any element of elevated freight cost and the high utility energy costs also impacting the margins?

Dr. Harin Kanani: Yes, to some extent. But of course, I would say the bigger driver is just the utilisation. As we improve the utilisation levels, again, it is still within the range, which I always mention, right? 18% plus minus 1%. So, it is still there. May be not on a higher side of it, but I think, yes, freight has been higher. But again, I think most of that we have passed on. Fuel prices have increased. It

will take some time for us, because that is not something which we anticipated, and it will take some time, but the contribution of that is there. But in my mind, it is more, our Dahej SEZ plant getting fully utilised and utilised in efficient manner. The efficiency and the increased utilisation levels is what is critical for us to improve. And some of that, as you have seen, may be the comparison may directly look double. So, it becomes more stark, but if you look as a percentage, it has been increasing because of the product mix, as I mentioned earlier.

Sabyasachi Mukherji: Understood. Thank you. Thanks a lot. That is all from my side.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Mihir Damania from Ambit Investment Advisors. Please go ahead.

Mihir Damania: Yes. So, are we looking at any inorganic acquisition? That is my first question.

Dr. Harin Kanani: No. I mean, historically, what we have stated, the same holds good. That normally our growth strategy is not through inorganic. Inorganic, if at all an opportunity comes to us, where we think it can add a lot of value, we are always open to considering that. But usually Neogen's plans are more organic growth, and the fact, that we have land available both in Dahej SEZ and Karakhadi, we also have approvals. Unless there was a specific reason, we would not think of an inorganic growth - acquisition or something like that.

Mihir Damania: Fair enough. So, how will the electrolyte opportunity play out on the margin front. I am not looking for guidance or something like that. But I just want to understand how it stacks up, compared to what our other segments are? So, will it be more of CSM margins or will it be advanced intermediates organic chemistry or maybe even better or worse off than other key segments? What is your initial assessment on that?

Dr. Harin Kanani: As I mentioned, because the exact mix complexity, and even the plant investment is still not yet clarified. There is no current answer to give you, exactly how the margins are going to change for electrolytes. However, the expectation is that the margins could be lower as compared to organic. But expectation is that the asset turns will be better. And let us say on ROE, or ROC basis, they will be equal to what we would see incremental CAPEX in organic.

This is just what I would wish for, or if I were to put my model, that is how I would put it in my model. But again, it' is too early to give you more clarity on that.

Mihir Damania: Got it. Thanks. That answers my question. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments.

Dr. Harin Kanani: Thank you, all the participants for joining the call. I hope we were able to respond to all your questions. If you have any further questions, please feel free to contact our Investor Relations Team - CDR India and we will address them. Thank you once again. Stay safe, and we look forward to connecting with you in the next quarter.



Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of Neogen Chemicals, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

The transcript has been edited for clarity. Although an effort has been made to ensure high level of accuracy, the Company takes no responsibility for transcription errors, if any.