August 14, 2021

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**

Sub.: Q1FY22- Earnings Call Transcript.

Dear Sir/ Madam,

With reference to the captioned subject, please find enclosed herewith the Earnings Call Transcript of the Company's Q1FY22 Earnings Conference Call held on August 9, 2021.

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 RAJESH KANANI Digitally signed by UNNATI RAJESH KANANI Date: 2021.08.14 21:45:52 +05'30'

Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131

Encl: As above

Neogen Chemicals Limited
Q1 FY22 Earnings Conference Call
August 9, 2021
Edited Transcript

Moderator: Ladies and gentlemen, good day, and welcome to the Q1 FY22 Earnings Conference Call of Neogen Chemicals Limited. As a reminder, all participants' lines will be in the listening 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 touch tone 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, Sir.

Nishid Solanki: Thank you. Good evening everyone, and welcome to Neogen Chemicals' Q1 FY22 Earnings Conference Call for Analysts and Investors.

Joining us on the call today are senior members of the Management Team - Dr. Harin Kanani, Managing Director, Mr. Anurag Surana, Director and Mr. Ketan Vyas, Chief Financial Officer.

We will commence the call with opening thoughts from the Management Team post which we will open the forum for Q&A session, where the Management will be glad to respond to any queries that you may have.

At this point, I would like to add that some of the statements made or discussed on the conference call today may be forward-looking in nature. The actual results may vary from these forward-looking statements. A disclaimer to this effect is available in the Neogen Chemicals' Q1 FY22 Earnings Presentation which has been shared earlier.

I would now like to invite Dr. Harin Kanani to commence by sharing his thoughts on the performance and strategic progress made by the Company. Thank you and over to you Sir.

Dr. Harin Kanani: Thank you, Nishid. Good evening and a warm welcome to everyone on Neogen Chemicals' Q1 FY22 Earnings Conference Call. We have shared our result documents earlier. I hope you got a chance to glance through them. I will briefly share my views on the performance of the Company and the trajectory going forward.

In the first quarter of fiscal year 2021, as the country was getting back to normalcy post the first wave of COVID-19 pandemic, the intense second wave hit us in April and May. And, as you know this time, the surge was greater with significant rise in caseloads in a short span of time. Moreover, we witnessed challenges around higher logistic cost as well as some disruption in supply chain.

In this backdrop, I believe our teams displayed tremendous agility to deliver a resilient performance during the first quarter of FY2021 as we boldly navigated through these emerging threats.

We reported 11% growth in revenues with 20% improvement in profit after tax. To further breakdown our revenues – growth in our organic chemicals was at 3% to Rs. 68 crore in Q1 FY22, while revenue from inorganic chemicals came in at Rs. 17 crore, higher by 52% Year-on-Year.

Let me reiterate that the demand trends continue to be favorable across key end-user industries and we are using this lever to further strengthen our position in the market. Utilization levels across at our Mahape and Karakhadi (Vadodara) plants remain at elevated levels, and we are making all efforts to enhance our contribution from the value-added product portfolio. This positive momentum is further supported by healthy recovery in economic activity across the country as well as steep decline in COVID caseloads.

I will now share some updates on the Organic Chemicals facility at Dahej SEZ:

Despite significant challenges and setbacks on the ground during Q1 FY22, the trial commercial production has commenced and continued. We have now received approval from several international customers including two CSM customers, who have approved Dahej SEZ organic MPP for deliveries starting Q2 and more customer approvals are expected over the year, once we complete the trial production of some of the Pharma products and submit the data for their approval during the course of the year. Further, we expect 75% of our Phase-2 reactors to come online sooner than planned - by the end of Q2/early Q3 - and will further contribute to revenue partly in Q3 and more significantly in Q4.

Lithium prices worldwide have also normalized as compared to historically low levels in the second half of last financial year. Based on this development, the revenue guidance of Rs. 450 crore for FY22 remains unchanged.

Once all reactors and support systems are fully commissioned in this year, this world-class, state-of-the-art organic chemicals facility at Dahej SEZ will propel our performance as we will undertake assignments of complex, multi-stage chemistries at this site.

To conclude:

Let me share that the outlook is looking exciting for us. Our customers understand and appreciate the Company's execution prowess and focused product capabilities resulting in Neogen growing its market share and expanding its presence in both established as well as value-added product lines. We will continue to demonstrate profitable performance in the long term through relentless focus on leveraging our knowledge in complex chemistries. Subsequent expansions will be modular, thereby limiting impact on our cash flows and we will keep exploring novel opportunities to steer our momentum and maintain our leadership position in select chemistries.

Now, I would request our CFO – Mr. Ketan Vyas to share his perspectives on the financial performance for Q1 FY22. Ketan, over to you.

Ketan Vyas: Thank you Dr. Harin. Good evening, everyone and welcome on the call.

I will briefly touch upon the key financial highlights of the Company for the first quarter of fiscal year 2021. All comparisons are on a year-on-year basis and standalone in nature.

In Q1 FY22, our revenues increased by 11% to Rs. 84.6 crore which came in despite several challenges on ground as explained by Dr. Harin, with respect to second wave of COVID-19 pandemic and other disruptions related to logistics and supply chain. Scaling up of the new Dahej inorganic facility that was commenced in Q4 of FY20 helped support the revenue momentum.

EBITDA improved by 15% to Rs. 15.6 crore translating to EBITDA margin of 18.5%, an expansion of 80 basis points. High utilization levels at our plants helped maintain overall costs and drive operating leverage. Margins expanded also due to favorable product-mix during the quarter.

Profit after tax stood at Rs. 7.4 crore higher by 20% which was supported by overall stable performance across business verticals.

In Q1 FY22, our domestic and export-mix stood at 54% and 46%, respectively.

That concludes my opening remarks, and I would now request the moderator to open the forum for questions from participants.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manish Jain from Moneylife Advisory Services.

Manish Jain: My first question is what is the number of customers we are working with under Contract Manufacturing presently?

Dr. Harin Kanani: Customers with whom we have already worked so far where we have supplied them or supplying them products, that's closer to 10 odd customers and then there are additional, I would say, 8-10 customers with whom we are discussing several projects.

Manish Jain: Second question is what is your share of advance intermediates with respect to the overall revenue in this quarter and looking forward, how we are going to improve our share?

Dr. Harin Kanani: I think as we have shared earlier, the advance intermediates usually contribute roughly in the range of 25% - 30%. And going forward by FY24, when we will have full utilization of Phase-1 and Phase-2 capacity, we expect this percentage to increase to 40%. So, that's the target we have set ourselves.

Moderator: The next question is from the line of Swarnabh Mukherjee from Edelweiss PCG.

Swarnabh Mukherjee: Few questions from my side. First of all, if we speak in terms of volumes that you have done for this quarter, how is it looking vis-à-vis last quarter and also against Q1 FY21?

Dr. Harin Kanani: When we compare with regard to Q1 FY21, basically Q1 FY21 was the quarter in which we had lockdown. At the same time, we also had an overhang of Q4 FY20. So, somehow the sales which we couldn't complete of Q4 FY20 had spilled over to Q1 FY21. So, we had more or less covered that gap and if you remember Q1 FY21 was already better as compared to Q1 FY20 in spite of the lockdown situation. The segment which was significantly affected in that was basically the inorganic segment, the lithium segment which was going to engineering industry. In this quarter we did not have the same challenges. Even though there was COVID situation, but it was not as strict a lockdown as we had in Q1 FY21. So, therefore you can see that the lithium demand this year was slightly higher and that's why you see a big jump mainly because of the lower base in the last Q1 FY21 when there was a strong COVID impact. So, basically that strong COVID impact was not there in the lithium segment in the current quarter. And when it comes to pharma and agro, that was more or less in line with our previous quarters, either Q4 or Q1. A slight differential here was that especially as compared to Q1 FY21, exports were slightly higher, which was basically contributed by the two long-term contracts that we have already signed, so that is the additional revenue which we had opposed to our regular traditional customers and because of that the export revenue also was slightly higher.

Swarnabh Mukherjee: The reason why I asked this question was I think in your presentation you have also mentioned that the product mix has undergone a change and the share of value-added products is going up. Now, in the organic front generally it has been flattish over the last 4-5 quarters barring Q4. So, now if we look at it from the frame of reference of Q4 FY21, the slight dip that has happened has that been due to any kind of fall in volumes because of the COVID circumstances this quarter or any realizations had gone down and how do we look at it from the perspective of also the mix of value-added products? Because if I understand it correctly then a higher value-added product would have a high realization. So, if you could throw some light on that.

Dr. Harin Kanani: I think if you are comparing between last Q4 and this Q1, I think the only differential was basically the impact which we had on our production capacities in April and May. So there was a disruption. I mean not as strong as last time but there were some disruptions and that led to a slight reduction in what we could produce. Also overall, in general we have always seen that in Q3 and Q4 our European demand for the pharma segment is always higher because in July and August they have the summer breaks in Europe. So they always want to build up inventory and therefore our exports to Europe in pharma in Q3 and Q4 are usually higher. And we see that demand also from our API customers who are basically serving Europe. So therefore, these are just traditional factors where we always say that our Q1 is slightly weaker as compared to Q4. But nothing very strong directionally which will change or alter anything.

Swarnabh Mukherjee: Also, in terms of your inventory, particularly finished goods side was there anything that has been held up because of the shipping crisis that is going on, that has not been solved and probably it will shift to the next quarter, I mean to Q2?

Dr. Harin Kanani: I think there was some impact in that but the major contributor in terms of inventory what you are seeing is Dahej now starting to build up inventory to support sales. So, as we have mentioned, in Dahej we have already commenced commercial production, trials, so we make some quantity and send it to customers for approvals, so all those activities have already started. So, the major contributor for the change in the inventory is the Dahej production initiation that we have done.

Swarnabh Mukherjee: Now, in terms of your geographical mix with Dahej coming in, I guess we should be seeing the export share basically going up going forward. So, right now we are like 54% of domestic, 46% export, this kind of range over the last few quarters. So, do we see now exports going up significantly over the next few quarters as Dahej ramps up?

Dr. Harin Kanani: Over few years yes. Some of the business which will immediately be filled in Dahej would be, some of the new contracts that will contribute and some also will be molecules which historically we were making, may be in Mahape or Karakhadi (Vadodara), so those customers once they approve Dahej site and then from Dahej site we are supplying some of these products. But yes, over the next 2-3 years, we expect the export contribution to increase as more and more new customers get added at Dahej site.

Swarnabh Mukherjee: Any color on what that mix change would eventually affect your tax rate?

Ketan Vyas: Yes. I think the effective tax rate for this year could come down by 2% or 3% overall, may be closer to around 25%.

Dr. Harin Kanani: And I think previous simulation, we have seen that it can go down up to 20%.

Ketan Vyas: Yes, 20% we had seen that simulation, but that we can take for FY23 or FY24.

Swarnabh Mukherjee: So just to clarify, if we take FY22 as a whole, then we will see for the whole year 2% to 3% reduction compared to FY21, is that correct?

Dr. Harin Kanani: Yes.

Swarnabh Mukherjee: How are we positioned in terms of debt at the end of this quarter?

Ketan Vyas: Debt is in line with what we have formulated. Long-term debt is about Rs. 130 crore and that's what we are looking at currently.

Swarnabh Mukherjee: In terms of customer approvals, one question that I had was, you mentioned two CSM customers have approved. Are those among the long-term contracts and whether we should then from Q2 onwards see revenue for those long-term contracts trickling in?

Dr. Harin Kanani: The two long-term contracts we have is, one is a CSM, and another is non-CSM. So long-term CSM customer yes. He has already approved this site and it was actually right from the beginning once that contract was confirmed, Dahej site was designed specifically, I mean one part of Dahej was specifically designed for that. So yes, the revenue from that will start coming in from Q2. And another is our historical customer with whom we have relatively decent volumes, so they have also agreed to buy the products from Dahej. So we are expecting in Q2, initial trial production from Dahej which they will accept and then may be in Q3 or Q4 there will be more volumes from these customers. And then some of our own bromine derivative molecule customers also have already accepted supplies from Dahej and some of them have also placed POs. These also will contribute in Q2. And we are also working, so some of the customers require us to prepare the final product, submit them the data on equivalency and once they see this data, then in future they will give orders, but they have conditionally agreed to buy from Dahej but once we give them the satisfactory data, then some more customers will shift to Dahej.

Swarnabh Mukherjee: One last question if I may squeeze in. This is a little bit big picture kind of thing that I wanted to take your view on. We have seen that several companies, particularly ones that are operating in the manufacturing of Agro Pharma Intermediate space or specialty-chemical intermediate space. There everybody is building up competencies in multiple chemistries and that includes halogenation as well as other ones like say nitration, hydrogenation, ammonolysis. So, I think going forward in 3 to 4 years' time we will see several of the major players having capabilities in all these chemistries or multiple of these chemistries, may be some of them might also have their capabilities in bromination. You will also have capabilities in other halogens or other chemistries. So, how do you see this competitive scenario change over a point of time, where right now each of you are basically having one pivot chemistry and then incrementally customers are looking for additional reactions based on the base product and giving the final product or one or two upstream from the final product you are sending to the customers? How is this going to evolve may be five years down the line with everybody having a large overlap in the chemistry competencies?

Dr. Harin Kanani: I agree, and we have also shared this in previous call that one of the expectations of majority of the customers are that they want to basically try to do as much tests in one single place so that they don't have to keep moving materials from state, like you know, have 10 vendors for that, especially when we are doing CSM. So even the existing molecule where we have a long-term contract, that is a six to seven stage reaction where we are doing multiple chemistries. So, over a period of time, yes, we all will have to do certain chemistries. I think five years down the line it will be depending on number one, who can do a particular chemistry well, will still be the criteria where lesser you want to do a molecule which has a very challenging bromination or very challenging fluorination, or nitration is the most key step. So, which is the key step, and who has the expertise or a bigger expertise in that. So that is one criteria. And the second thing will be, who will execute the projects well. So, it will be, okay if no key chemistry is required and chemistry is being equal and equal capabilities of multiple players, the customer is going to make a choice based on who is delivering to them on time, who is delivering or who is able to innovate further, the experience that the customer will have after working with you historically. So, those are the things which I guess would differentiate. Mr. Surana, would you like to add to this?

Anurag Surana: Yes, what I would like to say, I always maintain that there is nothing like a pivot chemistry and other chemistries cannot be done. So, if you see already many companies like Neogen, they also do bromination. Where Neogen differentiates itself is that Neogen does a very large variety of bromination. Neogen has a very big strength in sourcing of bromine, in entering into long-term contracts of bromine, in bromine recovery and recycling of bromine and stuff like that. Similarly, companies like SRF and Navin, they have strengths in fluorine chemistry. Now in school or college or IIT, nobody teaches you bromination or fluorination or chlorination separately. You are taught synthetic organic chemistry. So, any chemist which Neogen or for that matter any of the companies when they employ a R&D Chemist or R&D Manager or a Vice President of R&D, he knows all the chemistries. So, all these companies are already doing it, it's not that they will do in the future all chemistries or multiple chemistries, they are already doing all chemistries. But in one or two chemistries if they have some additional strong points, they like to showcase that as a matter of strategy, which also Neogen does.

Moderator: The next question is from the line of Saurabh Kapadia from Asian Market Securities.

Saurabh Kapadia: First on the employee cost. There has been a sharp increase in the cost, so is there any one-off component or we should expect this rate going ahead?

Dr. Harin Kanani: Thank you for the question. Especially when you compare with Q1, the increase is sharper and mostly because over last year we have added a lot of team members for better management, so this is a reflection of that. As a percentage, we hope that once Dahej starts contributing, as a percentage to revenue it will improve slightly. But, there will be more employees at Dahej which will also get added. So yes, there is no specific one-off which has increased this. This is more a trend, but yes, as a percentage it should improve, but it will be higher as compared to last year.

Saurabh Kapadia: In exports, are there any orders in hand which was not delivered in Q1, and they will be deferred to Q2 because of logistics issue or something?

Dr. Harin Kanani: Yes, there were a couple of orders but not very large.

Saurabh Kapadia: Because of this logistics and supply chain issue, are you witnessing better demand on the domestic side and better realizations that you are fetching on domestic side?

Dr. Harin Kanani: We have not yet seen that because in general we feel these pharma companies have good inventories. Our domestic major customers are pharma and the second is engineering. So, when it comes to pharma, we have not seen better realization because of the challenges in logistical constraints for them. So, there are no sudden orders that we want this at any cost kind of a situation because of the inventories which pharma companies are carrying.

Saurabh Kapadia: If you can provide the utilization levels for the organic and inorganic segments for this quarter?

Dr. Harin Kanani: Organic products continue to run at about more than 80% in Mahape and Karakhadi (Vadodara) units. And Dahej, we have not yet started calculating percentage because the plant is stabilizing and currently all the trial commercial productions are ongoing. When it comes to inorganic chemicals, we have a capacity of around Rs. 25 crore per quarter. So, we are at Rs. 17 crore currently, so let's say at around 60%-65% kind of utilization levels in inorganic chemicals.

Saurabh Kapadia: How should we look at the Dahej plant ramp up? You will start in Q2, so whether revenues will come in the last month of this quarter and how the ramp up will happen over this full year?

Dr. Harin Kanani: As I mentioned in my opening remarks, we are expecting in this quarter we should have the Phase 1 capacity more or less working. And then by end of Q2 or early Q3, at least 75% of Phase 2 reactors also are likely to come online. So, I would say that between Q2, Q3 and Q4, you will progressively see additional revenues coming in. So, Q4 should be the best quarter from capacity point of view. Of course, this still being a new site, my Mahape and Karakhadi (Vadodara), even though normal standard capacity utilization levels are 80%, it goes as high as sometimes 85% or 90% also. Whereas Dahej will take some time. So next year and the year after, let's say we will be kind of hitting those numbers. So overall, when we have targeted Rs. 450 odd crore, our bare minimum expectation is to at least cross Rs. 100 crore in Q2 and then further ramp up in Q3 and Q4 beyond that.

Saurabh Kapadia: My last question on the gross margin and EBITDA margin. So, from last two quarters we have seen a gross margin improvement while EBITDA margin has improved marginally compared to what we have seen in gross margin because of the value-added products addition in last quarter. So, how should we look at in terms of gross margin going ahead. Is this 45% kind of gross margin sustainable going ahead?

Dr. Harin Kanani: So, once our product mix stabilizes, we will have a better answer. But the way it looks at least in this year, we are expecting in the range of 42% - 45%. I mean, we used to be between 38% - 42% historically, but with this new products with longer processing times, and those changes in the product mix, we currently instead of 38% - 42% gross margins, expect 42% plus/minus 2%. Before it was 40% plus/minus 2%; now it is more like 42% plus/minus 2%. But again, the processing costs are also higher. So, we'll see. Let us stabilize a bit because we are making a very dramatic change in this year, then I'll be able to give you a better clarity going forward.

Saurabh Kapadia: And, one bit on the working capital. So, is there any material change compared to the last quarter?

Dr. Harin Kanani: Yes, similar except as I explained earlier, the inventories are a bit higher because we are now preparing for Dahej site. So, like some of the raw materials also, some of whatever is in process is all out there.

Moderator: Thank you. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: You always guided us that you are targeting top line of about Rs. 650 to 675 crore by FY24. And out of that you are expecting that 20% business should come from Custom Synthesis. That's your target,that means about Rs. 120 crore of topline will be coming from the Custom Synthesis, correct?

Dr. Harin Kanani: Yes.

Nilesh Ghuge: Just to clarify, so, that means when you say Custom Synthesis, does that mean that the business generated on the technology and process developed by Neogen Chemicals. Is my understanding correct?

Dr. Harin Kanani: No, when we say CSM business, we basically mean, at least we classify as a CSM business where we have a one-on-one exclusive relationship for a product for that customer, specifically for a geography. So, that is what we mean as a Custom Synthesis business.

Now, in this, there are various cases. There are many cases where the customer gives me just the name, he has a name and he says, this is what I want you to make, but it's a patented molecule, so you make it only for me. So, it can be just that. Then sometimes they have made a few grams or few kgs in lab, and say this is what I have done. Use this as a starting point and make the final molecule. I mean, the scale of the molecule. Develop the technology at the commercial scale, and then you supply to me over a few years. And we also have some customers who say I have been making this for last 10 years, 15 years but I want to free up my capacity, so I even have a plant level data. Can you make this exclusively for me? So, we can get technology anywhere from just the name to actual plant manufacturing technology. So, the level of technology that we get and the level that we need to develop can change from 10% to 90%. But yes, when we are doing it specifically for one customer, we call it a CSM business.

Nilesh Ghuge: The two long-term contracts I am talking about. You already started dispatching products also. So, does this long-term contract revenue will come under this CSM business?

Dr. Harin Kanani: One of them is part of the CSM business and another is our own product business.

Nilesh Ghuge: So, in that case, then you said that each contract will give you revenue of about Rs. 30 crore to Rs. 50 crore on a lower side, conservative business side. So, still you are going with this kind of a 20% or Rs.120 crore contribution from CSM business? Don't you think it is conservative guidance that you are giving, particularly for the Custom Synthesis business because already you have one contract in pocket with a Rs. 50 crore of new contribution on lower side, that may go up to Rs. 80 crore per annum?

Dr. Harin Kanani: I will be very happy if I'm proven conservative on this. But basically, a lot of this also depends on Dahej site which is happening. And again, if you remember from the time we gave that guidance, you had COVID phase-I, COVID phase-II, and no international travel. We have gone through all of that. Even before we signed this contract, we already had a CSM business of about 10% of Rs. 300 crore, about Rs. 20-30 crore. Then we are saying Rs. 30-50 crore, and we are somewhere between Rs. 60-80 crore already. Now, depending on what new business one gets, I am quite confident to reach at least Rs. 120 crore over next two years, especially once the

	Dahej site starts, we can arrange more customer visits or show to the customer over video and get those approvals and then we can see exactly whether it remains 20% or it becomes higher.
Nilesh Ghuge:	So, molecules, which you are selling through contract manufacturing, are these N minus 2 kind of molecules or they are just N minus 6, N minus 7 kind of molecules?
Dr. Harin Kanani:	They range from N minus 4, N minus 5 to N minus 2.
Moderator:	The next question is from the line of Parth Adhiya from B&K Securities. Please go ahead.
Parth Adhiya:	Firstly, on the gross margin side. You have delivered one of the best margins in past couple of quarters. So, basically, we have seen that lithium prices have been rising very sharply. So, any benefit of the inventory gain that we had from the past, low-cost lithium on these gross margins?
Dr. Harin Kanani:	Yes, so that's one of the contributors specifically in this quarter, but as a trend it is more because of the change in product mix.
Parth Adhiya:	Can you quantify the benefit from lithium inventory gain in this particular quarter?
Dr. Harin Kanani:	Not very significant, but yes, there was some benefit which we had.
Parth Adhiya:	Secondly, once the new capacity that has come up, gets stabilized, want to understand the way forward. You start either new customer acquisition, new business areas that you intend to tap or something which you have not been able to do or not have done before, so wanted to understand what areas would you like to tap or how would you go ahead with the customer acquisition specifically with regard to the new capacities.
Dr. Harin Kanani:	So, I think, in some of our calls historically what we have said that so far, we have worked with few innovator customers. We feel we were waiting for this plant which we have developed right from scratch and we had no constraint. So, we could implement all the changes that we wanted to. We feel once this is done, we can more aggressively and more confidently go to a wider range of innovator customers. One, we can show the capacity; second if they want environmental clearance - at least for next five years, we have another two-and-a-half to three MPPs which we can add in Dahej, for which we already have environmental clearance ready. The site is now developed. So we have infrastructure ready and in fact, some of the utilities or some of the waste treatment facilities can even support one more MPP relatively easily. So, I think with all that, we can give more confidence to customers because if you look at last one and a half years, like almost two years after we did the acquisition in Vadodara, we were already working at full utilization levels. So, if I had to go to some customers and they say, okay, do this project, but then where's the capacity or when is the capacity coming? So, now that we have a unit, I think we can approach a wider range of customers, innovator customers, and over the next one or two years, let's get them to the site, get the site approved, and then start a new project. So, that will basically build the pipeline beyond FY23 - FY24 for our growth with the new projects which we get from them.
Moderator:	The next question is from the line of Manish Gupta from Solidarity Advisors. Please go ahead.
Manish Gupta:	Dr. Harin, would it be possible for the Company to share the gross margin for the organic and the lithium business separately if it is not confidential?
Dr. Harin Kanani:	At present we have not done it and again in lithium, we have very few customers. So, that's why if we start breaking them down, sometime we can have challenges. We will discuss this internally and we will take your suggestion. But at present our policy is not to disclose that but let me discuss internally and see if we would like to do that going forward.
Manish Gupta:	My next question was that you mentioned that by FY24, you expect your advanced intermediate business to be 25% to 40% and also the earlier participant alluded to

your earlier guidance of Custom Synthesis being about 20% of the business on a base of about Rs. 650 crore by FY24. So, the gross margin band which was essentially about 38% to 42%, say two or three years down the line, what would that gross margin band be if your broad guidance is achieved?

Dr. Harin Kanani: I think here one of the questions which I'm still answering because when I look at the pipeline, let's say advanced intermediates as well as the CSM molecules, we are not seeing one particular trend. So, there are some where there is one of the raw materials which is very high valued, especially if we are going to N minus 2, where I'm building the molecule from up and when I'm looking at N minus 3 or N minus 4, I am combining it with another higher value RM. So, that's the reason why I'm hesitating to give this. As we know more clearly which molecules and which projects will be, I'll be having a better idea of that. So, that's why I am not hazarding giving a number. As a rule, yes, processing cost is going to be higher, and raw material cost will be lower. So, it should improve. To what level? Will depend. From project to project it keeps varying. That's why I am requesting a little bit more time to give a more long-term answer. But what we see today for this year is, as I mentioned, we expect it to be in the range of 42% plus/minus 2%, as opposed to 40% plus/minus 2% odd, we used to be before.

Manish Gupta: Third question is that we are on the cusp of a fairly high growth trajectory right now. I would imagine there would be a little bit of talent issue also right now in specialty chemicals. So, my question was that if, for example, by FY24, we are looking at Rs. 650 to Rs. 675 crore revenue, have we hired all the talent we need to get to that or that will be a continuous process?

Dr. Harin Kanani: Have we had all the talent that we would require? So, I think the answer would be at least, we are fairly happy with the team which we have assembled in last one and a half years to two years. Most of the functional heads have already joined and are with us between let's say six months to one and a half years, and I'm fairly confident that we already have that team. And yes, below the functional head, we will keep needing more people as you know volumes increase to kind of support volumes. But I think from a management point of view, we have the team ready, we will have more operational people join over a period of time. And I think they should see us for at least up to FY24. Of course, it will be a continuous process and we will constantly be looking for new talent, because by the time we are at FY24, we will be looking at FY25 and FY26 and getting ready for that.

Moderator: The next question is from the line of Dhavan Shah from ICICI Securities. Please go ahead.

Dhavan Shah: I have a question on the Custom Synthesis business only. So, you mentioned that we are already supplying molecules to around 10-odd customers presently. And if I look at the Custom Synthesis revenue right now, which is roughly Rs. 30 or 40-odd crore on annual basis. So per molecule size comes very low, and I understand that you already mentioned that we are working on N minus 3, N minus 4 molecules, that size is smaller. But I would like to understand based on the end user industry demand on the product side, how's the product size there? And how is that product growing? If you can share thoughts on that.

Dr. Harin Kanani: Thank you. We have to understand that the CSM business as a whole started about three, three and a half years ago, where you can see even in our DRHP, there was a very small contribution of about Rs. 30 lakh in the first year in which we kind of started this. So, there are some molecules when we started, we were very small. And these were mostly my existing bromine derivative customers asking me to do something more than what we were doing and they said, "Can you do this for us?" And we also wanted to build confidence. So, some of these molecules, yes, I agree are lower value and sometimes they don't repeat every year also. At the same time, that basically gave other customers confidence who gave us more challenging molecules. So, we continue to do that, whether you call it CSM or whether you call it advanced intermediates. It is basically the same thing, only with the restriction that we can't sell that particular molecule to anybody else.

As we say, as an example, the long-term agreement which we have signed, the revenue remains between Rs. 30- Rs. 50 crore per annum on the lower side and can be higher in given years. So, I think our hope is that once Dahej site is set up, and once we are able to work more with our customers and show our capabilities in Dahej, in next two to three years we will have more customers who will have contribution ranging from let's say, Rs. 15 crore or Rs. 20 crore per molecule going up to let's say, Rs. 50 crore or target would be to even do higher. So, again our normal standard preference is, if I were to say 10% to 15% as highest kind of revenue contribution from a single molecule, what Neogen thumb rule is, at Rs. 650 crore, that range comes to Rs. 60 crore - Rs.100 crore. So, that's the way we would like to be. And again, when you do contract and that too if there is a multi-year contract, we can even derive some comfort and take a higher risk or dependency on single molecule. So, let's see. That's the target but again we'll take some time for Dahej site to stabilize, get the customers to see and then get into contracts like this.

Dhavan Shah: I would like to understand the customer profile in Custom Synthesis, the end user industries are more into the Agro-chem and Pharma or is there any other industry also right now? And apart from that, do you foresee any molecule which can become sizable in the next three to five years from the original business line?

Dr. Harin Kanani: Yes, I mean, it's agro, it is Pharma and it's also non-Agro, non-Pharma customer. So, all three segments are part of the CSM customer pool. Yes, there are a few customers which have a good revenue potential which can become I would say at least Rs. 25 crore plus kind of molecules and some which are in that Rs. 60- Rs.100 crore kind of range, but we have to wait our time. Also, the challenge with the CSM businesses is, because some of these molecules are very new, and also the customer decision and approval take time, we have to be patient on that.

Dhavan Shah: You also mentioned that we are negotiating with 10 new customers for the custom synthesis. So, here also the product basket remains the same or this would be newer molecules for new customers?

Dr. Harin Kanani: When I mentioned molecules Rs. 25 crore plus and between Rs. 60 to 100 crore, they also include these new customers. I was just talking as a whole. Some of the existing ones as well as some of the new customers with whom we are working, just to clarify. When we say negotiating, we are not negotiating; this is a process where you demonstrate something at one stage. As I mentioned earlier, sometimes we've got only a process of 50 grams, then we do a kg level, then we do a 100 kg level, then we do few metric tons level and at each stage we have to show it to customer. Then customer checks at his end, makes a decision, then it goes further. Some of them may drop at that intermediate stage. I mean, it does happen. It's not uncommon. So, it's not a negotiation, but these are the customers with whom we are working through that process.

Dhavan Shah: My last question is on the revenue part. You earlier mentioned that these two new contracts can contribute roughly Rs. 60 – Rs. 80 crore for the initial first year and based on our quarterly run rate and spill over sales impact also, plus your phase-2 will also come earlier than the expected. So, our Rs.450 crore guidance; do you foresee that to be very conservative for the current year and we can overachieve this Rs.450 crore guidance?

Dr. Harin Kanani: I will be happy if I can. If I were to look at the Rs. 85 crore kind of run rate that we have been doing - more or less if you look at my three to four quarters it's been Rs. 85 crore. So, we are at Rs. 340-350 crore per annum. So, we are already expecting a 33% jump on that. I think again in Q2 not all reactors are coming online, there are customer approvals involved, specially on the pharma side. So, I think Rs. 450 crore is a decent target. If we are able to overachieve, I think the team will do a really good job. Also, there are still restrictions related to COVID even though operations are streamlined, but there are many things which are still not happening. We are hoping in November, December - we've heard some of the international exhibitions are going to start, so we can have closer interaction with our customers and the visa restrictions and things like that. So, I think Rs. 450 crore still to my mind, is quite a decent, good target. Let's stay with it for a while and then we may see what happens further.

Moderator: The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: I just wanted to know what is the concentration of sales to the first five big customers?

Dr. Harin Kanani: I have a top 10 number readily available. Generally, the top 10 customers as a whole contribute to about 40% to 55% range and I think in this quarter also it was more or less on the same lines.

Shanti Patel: Will you be able to name a few of them?

Dr. Harin Kanani: I'm sorry Sir. In our DRHP and post that in our investor presentation also some of the customers who had given us permission, their logos are mentioned, but because of confidentiality of business as well as some customer confidentiality, we are not able to name them. But yes, if you look at our historical DRHP disclosures as well as some names, which we have given in our earnings presentation that should give you an idea. Broadly speaking, almost all the pharma companies in India are our customers. So, we work with almost all bigger pharma companies in India as well as generic producers in Europe and Japan, both in pharma space, and also in agro space.

Shanti Patel: Including multinationals, right?

Dr. Harin Kanani: Yes. Like in India, engineering names are also there, like Thermax, Voltas, Kirloskar, these are the main customers I have. And a Japanese Company, which is in the same line of business, which we shared earlier, is the customer on the engineering space.

Moderator: Next question is from the line of Kartik Bhatt, an individual investor. Please go ahead.

Kartik Bhatt: Most of my questions have been answered. Only thing I wanted to ask is on this client concentration, so while you mentioned top 10 would be 40% to 55%, do you see this figure changing over the next one or two years given the CSM business how it is panning out?

Dr. Harin Kanani: Our focus usually has been on top customers. But let me see. If we, for example, get two or three customers, again even existing CSM is quite spread out as I answered earlier, it may increase slightly, but when it comes to CSM business, if we have a multi-year contract with them and some kind of comfort that in case they were to not have demand, we have some comfort. So, I think there if it increases slightly, I would be okay principally speaking. Because the overall top line is also growing. So, I think we will still be in that 45% to 55% range for the top 10 customers.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Dr. Harin Kanani for closing comments.

Dr. Harin Kanani: Thank you so much all the participants for joining the call. I hope we have been able to satisfactorily respond to all your questions. It is always a pleasure to interact with you and get your queries addressed. If you have any more questions, please feel free to contact our Investor Relations team, CDR India, and we will address them. Thank you once again and we look forward to connecting with all of you in the next quarter. We hope you and your family and your team members and colleagues remain safe in this challenging period. Thank you.
