advanced enzymes
Where ENZYME is Life

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May 21, 2024

To

BSE Limited
Department of Corporate Affairs
P. J. Towers, Dalal Street,
Mumbai- 400 001
Scrip ID-540025

National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai- 400 051
Scrip Code-ADVENZYMES

Dear Sir/Madam,

Sub: Transcript of Conference call held on May 15, 2024 for the audited Financial Results for the quarter and year ended March 31, 2024

In furtherance to our intimation letter dated May 07, 2024, please find enclosed the Transcript of the Conference call held on Wednesday, May 15, 2024 with Analysts and Investors for the audited Financial Results of the Company for the quarter and year ended March 31, 2024.

The aforesaid information is also being uploaded on the website of the Company.

Kindly take same on your records.

Thanking you,
Yours Faithfully,

For Advanced Enzyme Technologies Limited

SANJAY PRAKASH BASANTANI
Digitally signed by SANJAY PRAKASH BASANTANI
Date: 2024.05.21 16:42:49 +05'30'

Sanjay Basantani
Company Secretary and Head - Legal

Encl.: As above

"Advanced Enzyme Technologies Limited Q4 FY24 & FY'24 Earnings Conference Call"

May 15, 2024

MANAGEMENT: **MR. MUKUND KABRA – WHOLE-TIME DIRECTOR, ADVANCED ENZYME TECHNOLOGIES LIMITED**
MR. BENI PRASAD RAUKA – GROUP CHIEF FINANCIAL OFFICER, ADVANCED ENZYME TECHNOLOGIES LIMITED
MR. PARAG KATARIYA – GENERAL MANAGER, ACCOUNTS, ADVANCED ENZYME TECHNOLOGIES LIMITED
MR. RONAK SARAF – MANAGER, INVESTOR RELATIONS, ADVANCED ENZYME TECHNOLOGIES LIMITED

Moderator: Ladies and Gentlemen, Good Day and Welcome to Q4 FY24 & FY'24 Earnings Conference Call of Advanced Enzyme Technologies Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ronak Saraf – Investor Relations Manager. Thank you and over to you.

Ronak Saraf: Good evening, everyone. Welcome to the Advanced Enzyme Technologies Q4 FY24 & FY'24 Earnings Conference Call. We hope you all have received our "Financials," "Press Release" and the "Presentation" which has been posted in the Investor Relations section of our website.

We have with us Mr. Mukund Kabra – Whole-time Director and Mr. Beni Prasad Rauka – Group CFO.

Today, the Management will Discuss the Performance and Business Highlights, Update on Strategies and Respond to any Questions that you may have.

As is usual, for ease of discussion, we will look at the consolidated financials.

Before we proceed, I would like to draw your attention to the forward-looking statement contained in the Presentation. During our call, we may make forward-looking statements regarding our expectation or prediction about the future. Because these statements are based on our current assumptions and factors that may involve risk and uncertainty, our actual performance and results may differ materially from our forward-looking statements.

So, without any further ado, we shall commence this call. Over to you, sir.

Mukund Kabra: Thank you, Ronak. Good evening, everyone. I really appreciate you all for taking out your valuable time and I extend the heartiest welcome to everyone joining us today on this Conference Call for the Quarter and Year-Ended 31st March 2024.

Our business demonstrated resilient performance in Financial Year '24, backed by our robust R&D pipeline and efficacious competitive product mix. The business development activities remain healthy during the year across all our divisions and geographies.

During the year, we have posted our highest ever consolidated revenue. We have recorded a top line growth of 15% and bottom line growth of 32%. The margin has also improved. EBITDA margin improved by 400 basis points while PAT margins by 300 basis points.

During Q4, there is one-time impact of ₹151 million on profitability due to adverse judgment of the court in lawsuit in one of our US subsidiary, AST Enzymes.

Now, I will take you through the "Quarterly Performance." We have achieved top line of ₹1,578 million, growth of 14% on a year-on-year basis and 2% decline on sequential basis in Q4. Our EBITDA stood at ₹554 million, grew by 26% on a year-on-year basis and 3% on sequential basis. We have seen a decline of 7% in the bottom line on year-on-year basis and 30% on sequential basis. There is further improvement witnessed in EBITDA margin at 35% as compared to 29% for Q4 of last year, while PAT margins declined to 19% during the Q4 as compared to 23% for Q4 of last year.

Double-digit growth in the bottom line is because of our improved top line, change in product mix and higher other income. The overall trend across our business has remained upbeat.

Now, I will take you through the "Segment Wise Performance." The Human Nutrition segment as usual driven the highest contributor in the revenue at 65% in Q4. It grew by 17% on year-on-year basis, while it declined by 7% on sequential basis. During Financial Year '24, we have witnessed a growth of 18% on year-on-year basis.

Contribution of domestic and international markets remain equal. API and Probiotic mainly supported the growth in human nutrition business.

Our animal nutrition business contributed 12% to the revenue in Q4. This segment degrew by 10% on year-on-year basis, while grew 14% on sequential basis. This business declined by 5% during Financial Year '24.

During the quarter, Bioprocessing segment contributed 16% to the revenue. It grew by 35% on year-on-year basis and 9% on sequential basis. For full year, this segment grew by 21%. Food business grew by 30% and non-food business degrew by 6% respectively on year-on-year basis. The specialized manufacturing segment contributed 7% in Q4 and degrew by 2% on year-on-year basis and grew 7% on sequential basis in Q4. During Financial Year '24, this business reported a year-on-year growth of 19%.

A brief on "Key Developments" during this year. We have received approval of two food enzyme dossiers from EFSA. Over and above, we also received no-question letter for our two GRAS filings with USFDA. All of these enzymes will be used as a food processing aid for different food products. During the year, we have also acquired an additional stake of 5.89% in JC Biotech for the total cash consideration of ₹56.07 million. Now, the shareholding of Advanced Enzymes, in JCB has increased to 95.72%.

We have initiated small step towards clean energy as our one of the ESG initiatives. We have installed and made operational 160 kW solar power plant in Financial Year '24, another 350 kW solar plant installation is under progress and will be operational by November 2024.

As we entered the new financial year with strong foundation, our focus will continue to remain on improving margins, prioritizing customer retention, strengthen R&D, foraying business opportunities in new geography, expand solutions and product offering, register more products across global regulatory bodies and to look for strategic inorganic opportunities. We will bring more resilience in our business to enhance customer value proposition and deliver long-term sustainable growth going ahead.

With this, I conclude my remarks and now hand over this call to Mr. Rauka. He will take you through the financials and key subsidiary numbers.

Beni P Rauka: Thank you very much, Mukund. Good evening, everyone. I hope you all are in good health.

Let me brief you about the Financials of the Company during the Q4 and Fiscal Year 2024:

On year-on-year basis, the revenue grew by about 191 million, 14% growth from ₹1,387 million to ₹1,578 million. EBITDA has increased by ₹113 million from ₹441 million to ₹554 million. Profit before tax but after exceptional items, as mentioned by Mukund, we had an exceptional item of about ₹151 million due to the adverse impact of the claim. So, our profit before taxes decreased by ₹24 million from ₹421 million to ₹397 million. Profit after tax decreased by ₹22 million from ₹321 million to ₹299 million.

On sequential basis, the revenue decreased by ₹31 million from ₹1,609 million to ₹1,578 million. EBITDA has increased by ₹15 million from ₹538 million to ₹554 million. Profit before tax and after exceptional item decreased by ₹192 million from ₹589 million to ₹397 million. If I remove the impact of exceptional item, the profit before tax stood at ₹547 million as compared to ₹462 million. Profit after tax decreased by ₹126 million from ₹425 million to ₹299 million. Again, here the impact of this exceptional item.

On year-on-year basis, our revenue grew by 15% from ₹5,406 million to ₹6,239 million. EBITDA increased by ₹481 million from ₹1,564 million to ₹2,045 million. Now EBITDA for FY'24 stood at 33% as compared to 29% in FY'23. Profit before tax but after exceptional item increased by ₹475 million from ₹1,404 million to ₹1,879 million. Profit after tax increased by ₹331 million from ₹1,039 million to ₹1,370 million. The PAT is 22% of our revenue as compared to 19% in FY'23.

I would like to give some of the numbers of our subsidiary companies:

J C Biotech sales in Q4 stood at ₹143 million with EBITDA of ₹18 million and PAT of ₹3 million as compared to Q4 of last year, ₹107 million of sale negative EBITDA of ₹3 million and a loss of ₹10 million.

J C Biotech during FY'24 revenue is ₹626 million as compared to ₹502 million, top line growth of 25%, EBITDA ₹77 million as compared to ₹14 million in FY'23 and PAT at ₹18 million as compared to negative ₹18 million in FY'23.

evoxx revenue stood at ₹64 million with EBITDA of ₹4 million and profit of ₹5 million in Q4 as compared to ₹58 million, ₹20 million and ₹11 million respectively during Q4 of FY'23. So evoxx during fiscal year '24, the top line is ₹230 million and FY'23 was ₹241 million, Negative EBITDA of ₹8 million during FY'24 as compared to ₹59 million positive in FY'23 and PAT is negative, loss of about ₹21 million as compared to profit of ₹21 million in FY'23.

SciTech sales stood at ₹114 million during Q4 of FY'24 with ₹20 million of EBITDA and PAT of ₹25 million as compared to ₹117 million of sales and ₹24 million of EBITDA and ₹12 million of PAT during Q4 of FY'23.

On fiscal year basis, SciTech top line stood at ₹418 million as compared to ₹353 million, 18% of growth in top line, EBITDA at ₹58 million as compared to ₹6 million negative and PAT of ₹37 million as compared to ₹62 million of loss during FY'23.

The sale of the largest product during the quarter stood at ₹279 million and for the year, it is about ₹1,310 million as compared to ₹1,290 million in FY'23.

Top 10 customers sale is about 26% as compared to 24% in FY'23. B2C segment contributed about $1 million as compared to $1.21 million in FY'23.

Our R&D expenditure during the year is about ₹274 million as compared to ₹290 million in FY'23. Percentage of R&D expenditure on consolidated basis, we spend about 4.58% as compared to 5.06%. This is without eliminating the intercompany transactions and during the year there was some lower CAPEX. On consolidated basis, R&D spend is about 3.2% as compared to 4.22%, it is after elimination.

That is all from my side. We shall open the floor for question-answer.

Moderator: We will now begin the question-and-answer session. We'll take our first question from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Sir, my first question is on the growth that you have registered in the human nutrition business of 14% in FY'24. Is it possible to give some broad sense as to how this growth is split between volume, pricing and new products?

Mukund Kabra: Good afternoon, Nikhil. But it's difficult to give the breakup because we don't track with volume and this, it's a mix of products, it's a new product as well as our existing product. But I can't give you the bifurcation in terms of volume and other things we don't track.

Nikhil Mathur: Qualitatively, what has been the pricing behavior in your products in FY'24? Has it still been deflationary, or have you been able to pass on some bit of high input costs that we have seen in the last couple of years, so any broad sense on that?

Mukund Kabra: It is more stationary, Nikhil.

Nikhil Mathur: So, from FY'2024, not much changes happen on the pricing front?

Mukund Kabra: Yes.

Nikhil Mathur: And how is the input cost behaving now for you as a company, I mean do you see any positive or negative surprises on the input cost run or it is quite stable and also the outlook for the coming year in terms of input cost, how do you see that?

Mukund Kabra: Input cost more or less is stable in terms of raw material prices and other prices, and we expect the same to continue.

Nikhil Mathur: Next is on the mix in the coming 2-3 years. Human nutrition pre-COVID was at 85% total business mix, it is now at around 78%. Where do you see the human nutrition contribution in the coming 2-3 years and why I ask this is because I believe this is the most highest gross margin business across all the businesses. So, I think this mix has a broad implication of how gross margin will progress in the coming 2-3 years. So, any sense on where the human nutrition business contribution will stay in, let's say in '25, '26, '27.

Mukund Kabra: So, we expect it to grow, but in terms of percentage probably it will be between 65% to 70% because there are some other businesses as well. It should be between the same range what we are continuing.

Nikhil Mathur: So does that mean that the gross margins which you have currently at the consol level, that kind of remain stable in the coming years, there's a limitedly available for that to improve?

Mukund Kabra: It will always improve as we grow. This should improve and we expect it to improve further because we expect like somewhat growth has to come back even from the US now and that will really improve.

Nikhil Mathur: This question has been asked previously, but I'll just attempt it again in a different way. So your gross margins today are roughly 3 to 4 percentage points lower than what it used to be on pre-COVID levels, but your EBITDA margin today is around 11%, 12% lower than what it was pre-COVID. So that means there are significant OPEX buildups that has happened in the P&L, which is obviously not getting properly absorbed. Can you talk about what exactly has happened on the OPEX front in the last four, five years due to which you are at a margin profile, which is much lower than what you should be at, and how this will change in the coming years?

Beni P. Rauka: So, Nikhil, I think the EBITDA margin has gone down basically because of a couple of things. One is the sale mix has changed. And another is my revenue from the US. So, the impact of both that creates that kind of gap in the EBITDA margin. But of course, if you see last year if we compare the EBITDA 29% to 33% this year, so there is of course some improvement, but yes, one particular impact which is like as in the first question, whether the increase in the sale prices has happened. So that cost, whatever input cost has already elevated, that elevated cost it is very difficult to pass on to the customers. So because of that overall there is a pressure on the margins, and in addition to that, if you have observed the power and fuel cost because of the overall pricing has gone up. So, because of that, what has happened, the EBITDA margin is under pressure in that sense. But yes, it has stabilized as we mentioned that input cost now appears to be at a stationary level. We are not seeing any substantial increase and significant increase in that. So OPEX overall I think still is under control to the extent, and yes, the impact because you are not able to pass on the higher cost to the customer and then of course there is a change in the product mix, so that has created this issue. And in addition to that, the US business, it has to grow. So, because you have a better margin over there.

Nikhil Mathur: So, any visibility emerging around the US business, is it on the cusp of a turnaround or there can be some time before you start seeing the order book building on the US front?

Beni P. Rauka: It has improved this year if you have seen, US business has improved this year and we see that kind of continued growth now.

Nikhil Mathur: Again, sticking on the OPEX front, I think FY'24 has been a year of optimization on the cost front as well because the SG&A is up only 6% YoY and your employee cost is up 12% YoY, whereas revenues of 15%. So, does that mean that there's a need to invest into manpower and admin and overheads in FY'25? And unless the growth is, let's say in mid-teens, high-teens wouldn't it be difficult to grow margins from where your current situation is?

Mukund Kabra: We expect the margins to grow. We expect growth should be somewhere around in double digits as you mentioned, but that should not be a problem because the coming year we expect a little more growth from the US side as well.

Nikhil Mathur: Any guidance on the EBITDA margin, what should we expect in '25-26?

Mukund Kabra: I can't talk on the EBITDA margin at this point of time, but the top line as you said, between 13% to 16% somewhere around there.

Moderator: We'll take our next question from the line of Nitish from Chrys Capital. Please go ahead.

Nitish: Just a bookkeeping question. You mentioned 13% to 16% top line growth outlook for FY'25?

Mukund Kabra: Yes, that's right.

Nitish: So, one more question specifically on the USA side. So USA has grown 32% year-on-year in fourth quarter and 9% in FY'24. So, what is your outlook for the USA business in FY'25 and what will be our drivers for growth in this business?

Mukund Kabra: So, we mentioned like last time also like we introduced a couple of segments like on the weight management and other areas and the sugar management and those are the products which are going to drive the growth for this year as well.

Nitish: EU also performed well in FY'24. So what would be our growth outlook in EU? You mentioned that there are some enzymes we've got regulatory approval in your opening comments. So, what kind of revenue potential do those enzymes have?

Mukund Kabra: So, it's not exactly like converging. I can't give you the revenue potential in terms of approvals, but those approvals were like pending from last 2013, 2014 and still EU has not completed the list. During that time like we applied about somewhere around '13-14 and we are still waiting for the approval but as of now it is not stopped unless and until they come out with the positive list. So I cannot just say that there will be a substantial growth right now, but that will allow us to continue our sales after also the guidelines will come up. So that's how it is, but it's really difficult to convert into the revenue or sales. In terms of EU and other business, particularly on the food area that is growing and we expect next year to have a decent growth in those areas as well.

Nitish: Our EBITDA margin has increased to 35% in Q4. Is this sustainable and what would be the steady state margin going into FY'25?

Beni P. Rauka: What we have mentioned is if you really look at a quarter, it's difficult to comment on that. But yes, if you look at on annual numbers from 29% to 33%, this is what we can expect.

Nitish: And my final question is on capital allocation. So, we have around ₹500 crores of cash on the balance sheet, and we generate around ₹100 crores of cash every year. So, any thoughts on the capital allocation strategy?

Beni P. Rauka: I think as far as the allocation is concerned, if you have observed that, last year we have declared interim dividend, this year we are continuing with the interim dividend, and apart from that, we are keeping the cash with us to make sure that whenever we have some opportunity, we use that money and to expand our business, and apart from that the normal capital expenditures and -

Mukund Kabra: Even like our R&D setup which we are building up. We are continuingly investing also in that.

Nitish: You mentioned EBITDA margin would be in the 33% range, right, annual level going ahead also?

Beni P. Rauka: So right now, that's what we are saying, because this is what it is as of now. But of course, going forward, we see improvement. If you might have observed from our financial numbers, so if our top line grow by say 1% point, then EBITDA margin is increasing by 2%. So that will give you some indication as you progress.

Moderator: We'll take our next question from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: One question is on this human nutrition. I think you used to give this breakup between India and international and between the subsegments of pharma, probiotic and biocatalyst. It would be great if you can provide that for this quarter also?

Beni P. Rauka: I can say human nutrition business during Q4 is about ₹513 million in India and the international sales is about ₹511 million, so total is about ₹1,024 million. Do you want more granular numbers or -?

Gaurav Nigam: Within India, the pharma business, the probiotics and the biocatalysis.

Beni P. Rauka: Pharma is ₹402 million, probiotics about ₹63 million and biocatalysis about ₹48 million within India.

Gaurav Nigam: And for the international market, sir?

Beni P. Rauka: Mainly it comes from the human nutrition. So about ₹488 million has come from the human nutrition and probiotics is roughly about 18 million, balance biocatalysis is about ₹5 million.

Gaurav Nigam: In the US market, I think in the last con call, you had indicated that there was a sequential improvement in demand last quarter. Just wanted to understand the thing from the market on the overall demand scenario in the US?

Beni P. Rauka: The overall demand situation is as such I think Q4 there was some pressure on that. But apart from that, the visibility is better.

Gaurav Nigam: One more thing on this Serratio, our largest product side, there has been two quarters of continuous decline. Is there something to read into that, what is happening there and what are the reasons for that?

Beni P. Rauka: Are you talking about the numbers, the revenue from the particular product?

Gaurav Nigam: Yes, I was talking about the Serratio revenue, which has declined 16% this quarter and 8% last quarter.

Beni P. Rauka: This depends on the stock position of our customers, and we do have some distributors. So, it varies from quarter-to-quarter, but overall basis, if you look at the annual number, you see some kind of a growth, which is of course 2% only. But yes, there is a growth in that.

Gaurav Nigam: There is nothing like we are not losing market share on this particular product, right, sir, to confirm?

Mukund Kabra: Not really, but there is always a competition which always will be there, and we are talking about the competition from last 2-3 years and it will always be there in this segment.

Gaurav Nigam: On the rest of the world, which is that geography that we declare every quarter, there has been sequential like two quarters of decline there as well. What is the business we are doing there and is there something that you can highlight on what is the reason for the decline?

Beni P. Rauka: Are you talking about human nutrition?

Gaurav Nigam: No, rest of the world segment which you declare within the geos, India, America, Europe, Asia, and rest of the world, right that you declare. So in that the rest of the world there has been a continuous two quarters of decline almost 40% and 30%. So, wanted to understand what is happening there if you can help understand?

Beni P. Rauka: I think if we really look at on fiscal year basis, maybe of about 3% from ₹106 million to ₹189 million which is about 78%. So generally always I mentioned that it is very difficult on when you compare the quarterly performance of our company.

Gaurav Nigam: Better to look at from annual basis.

Moderator: We'll take a next question from the line of Harini Dedhia from Tamohara Investment Managers. Please go ahead.

Harini Dedhia: My question was on the product that you mentioned regarding sugar and weight management. One, is this going to be a America geography only product or is this something that's going to be across the board like across all geographies?

Mukund Kabra: At this point of time, we are focusing on American geography and with the few clients.

Harini Dedhia: So, we'll be manufacturing for other brands, right, and this would be an OTC product?

Mukund Kabra: Yes, it will be OTC. We will not be manufacturing for others, but we will be supplying what we can call it as a raw material supplier, not the capsule suppliers.

Harini Dedhia: What would sort of be the opportunity size of this versus the prescription medicine form of GLP one that we've seen which has obviously blown up, but what would be the size of such an opportunity?

Mukund Kabra: Difficult to comment, but at this point of time we see a good traction. We are like very careful at this point of time. I can't comment too much on these products, but we see a decent growth as we move on into these areas.

Harini Dedhia: What is the nature of our customers for these products? Would they be large nutraceutical companies in the US or who would the buyers be?

Mukund Kabra: The nutraceutical companies and mainly like MLM kind of market at this point of time.

Moderator: We'll take our next question from the line of Sajal Kapoor, an individual investor. Please go ahead.

Sajal Kapoor: I have three questions. And with your permission, I would like to ask them one-by-one please. And on industrial bioprocessing and only last 5-6 years, this area has outpaced both our human and animal nutrition. And given the global sustainability trend, do you believe that 20% growth rate of this segment is likely to sustain?

Mukund Kabra: I can't comment on that, but if you remember like last 3-4 years like we were always saying that this is one of our focus areas, we are really focusing on it, lot of like research is also going into these areas, and we are coming up with the new, new product pipeline. So, there will be some risks and there will be some bumps going ahead, but yes, more or less we see like because our base is also not very big, we should have a decent growth into this area.

Sajal Kapoor: Second is on the B2B probiotics and biocatalysis area. So both these sort of sub-segments have a large untapped potential today but the product approval process perhaps is taking longer than what you might have anticipated. Is that a fair assumption, because I understand that it's a sticky business and difficult to get a product approval on the customer end, but is it taking longer than what you might have expected originally?

Mukund Kabra: Yes, there are a few more reasons. One is it, it is sticky little longer as well. There are a lot of like price variation and fluctuation also happens internationally and globally and that affects. At the same time, it's like all the research-driven. Lot of products are under the research, but you cannot be like sure what will be the timeline when they will come out. You see a lot of positivity, but it took little longer, and in the last time also I said like it took a little longer than what we expected, and I still feel it should have a good potential to go ahead.

Sajal Kapoor: And then the third question is on evoxx. So, this business has reported losses this fiscal both at the EBITDA and the net level. So, can you shed some light on the underlying reasons and more importantly the longer-term prospects here and how do you see the contract research and development opportunity in evoxx?

Mukund Kabra: evoxx is always our R&D arm. Lot of biocatalyst development is also happening at evoxx. We were doing like some contract business as well at evoxx contract research kind of things and we did had a contract but somehow they didn't materialize last year and we don't expect too much of a growth on the evoxx on a revenue front, but we expect generally like it should be revenue-neutral. Last year, we couldn't do that because of like our contract research was little on a lower side, some of the contracts didn't materialize and that is where like we have taken an impairment as well this year into our balance sheets, impairment of about 18, 19 crores on the Advanced Enzymes balance sheet, if you look at it, we have taken impairment loss as well. Going forward, we see that it should be revenue-neutral. I won't see like too much of revenue expansion on that front, but it is a good R&D arm for us.

Sajal Kapoor: Like so see evoxx more as a captive in-house R&D rather than extending the capabilities out for other customers on a B2B model?

Mukund Kabra: Generally, the half of the revenue comes from the inside and half of that comes from the outside and the outside revenues were a little bit on a lower side last year.

Moderator: We'll take our next question from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Since there is so much untapped opportunity in probiotics, are we planning to acquire any company so that we can gain customers?

Mukund Kabra: Well, we are always in search, but if you come across any good company, please let us know.

Jainam Ghelani: Usually, what is our contract length and is it possible to give us any form of order book?

Mukund Kabra: So, in our business, there is no contract as such or the order book kind of things, generally order-to-order which you know the customers and you know the pains and that is where it's always difficult to predict exact numbers of revenue what it will be and exactly how it will be and quarter-and-quarter how they will move.

Moderator: Our next question is from the line of Lakshminarayanan K G from Tunga Investments. Please go ahead.

Lakshminarayanan K G: A couple of questions. Last year, you have grown US close to 9%, 10%. So what kind of growth you expect for the next couple of years?

Mukund Kabra: We should at least maintain a 10%.

Lakshminarayanan K G: And on the Europe food business, just want to understand how the growth has come in the last one year. If I just break Europe into Europe food and non-food, what has been the growth in the food business of Europe and non-food business?

Mukund Kabra: So, food is mostly like we are focusing on the baking side, and we are like focusing more in the India as well like on these areas particularly baking and other businesses as well. So, I don't have the exact number to break it up how much is the food and how much is the other in terms of particular Europe or other areas.

Lakshminarayanan K G: The reason I'm asking this is, I think maybe two years back or so, we were getting some dossiers confirmed and which helped us to make inroads into the Europe food industry and we were seeing a lot of potential. I just want to understand how that is panning out?

Mukund Kabra: The potential is still there, like it's always in Europe difficult to crack since you are like Indian companies, which you get some success and it's continued. I won't say that we got the success to I mean the way we expected, but still, it is going very well.

Lakshminarayanan K G: If you look at maybe the next year, the next couple of years, which are the levers that actually will pull the company in terms of revenue growth, for example, within India whether it will be the animal food or the SciTech or Probiotics, bow are you thinking, US, you mentioned, Europe also you clarified, so from the India which segments will actually pull the growth for the company?

Mukund Kabra: It will be food; it will be biocatalyst and it should come up somewhat even through the animal feed areas.

Lakshminarayanan K G: SciTech, what kind of growth you expect?

Mukund Kabra: We are like launching a different new products. We just got one of our like product, we got just first one like effervescent pharma approval. We see a good growth this year going forward next year as well. I can't talk about 2-3 years down the line as of now, because the business mix always changes, but we see a decent growth going forward at least for the next two years I can say that.

Lakshminarayanan K G: My last question is related to raw material as well as logistics cost and difficulty in logistics. A year back we were having issues on both the fronts. So, have things normalized both in terms of the raw material as well as logistics or how are you thinking, what do you see on the ground?

Mukund Kabra: Some areas, the logistic cost is still on a higher side because of all this red sea conflict, which is going on, but still it is okay, manageable, it's not really impacting to a very great level the way it used to be during the COVID time and other time.

Moderator: We have our next question from the line of Afzal Shaikh from MS Investment. Please go ahead.

Afzal Shaikh: What is the percentage of revenue from top-one customer?

Beni P. Rauka: It's about 4% to 5%.

Afzal Shaikh: What is our percentage of market share and in India as well?

Beni P. Rauka: As a percentage of market share, we operate in different verticals. So, I mean getting that kind of information is very difficult. It's not readily available in the market.

Afzal Shaikh: Do we have any pricing pressure from our main products?

Mukund Kabra: Little bit is always there on this side. When there is a competition, pricing pressures are always there. Some areas you enjoy monopoly, some areas where it's going to be the pricing pressure and you need to evolve with the new ideas and new thoughts and with the R&D you need to improve your productivity. So these are the only solutions, right.

Moderator: We have our next question from the line of Shrinjana Mittal from Ratnatraya Capital. Please go ahead.

Shrinjana Mittal: I have three questions. First question is on the other expenses side. So, in this quarter, your other expenses have come down. So, if you can give some color on which major expense head has facilitated this moderation and has your power and fuel cost started coming down or is it still on a higher side?

Beni P. Rauka: You are talking about other expenses. The increase is because of the stores and spares

Shrinjana Mittal: No, sir. Actually, my question was like this quarter on a run rate basis, it has come down, right. So which expense heads has helped in this reduction of your other expenses?

Parag Katariya: On a quarter-on-quarter basis, there is some reduction in the total other expenses mainly because of low legal and professional expenses and some sales and other administration expenses, which is basically we had attended some conferences and exhibitions during the last quarter. So that is where basically there was a higher expenditure than last quarter, which is not there in the current quarter. This is led to some lower expense in the current quarter.

Shrinjana Mittal: And on the power and fuel cost side, like has it started tapering off or is it still on the higher side?

Mukund Kabra: Like more or less new normal now, it's stable.

Shrinjana Mittal: My second question is that you mentioned that on a longer term basis if we see one reason why the EBITDA margins have come down is also because of the US business. So, can you give some directional sense of what would be broadly your delta between your EBITDA margins in the US and the non-US business?

Beni P. Rauka: So, we have EBITDA margin of 37% in USA and in India it is about 29%.

Shrinjana Mittal: Can you just throw some light on the process of a new molecule development? So, does it happen on a pre-order basis, or do we develop it and then we have a sales team who then find a relevant customer for it, how does that happen, if you can help me understand that?

Mukund Kabra: So new product development is always a longer process. It takes more than a year, in some cases, two years. So, you design a product, you design the thought process, and you design the molecules, sometimes you need to do the application trials, then you have to go back to the proteining side, you need to modify the protein and that is how it takes very long time and then it has to have a productivity which should match the industrial scale and all of that. And because of all of these cycles, you choose the molecule very carefully depending on the market size, depending on the demand and sometimes, with the future expectations somewhat, how it will come up. But as far as the new product development is concerned, it takes longer time and that is where we always work with the multiple products at a given time.

Shrinjana Mittal: It is not like a co-development with a customer based on their requirement, it is -

Mukund Kabra: We do have that model as well, we do work in the evoxx, as I mentioned like contractual research. That means like they develop the product for the other customers and doing all the protein engineering in the other areas as well. But that is a very small portion of our business.

Shrinjana Mittal: When you mentioned the focus segments in India, you highlighted animal feed area if I am not wrong food and biocatalyst. So in in the human nutrition side, pharma and probiotics don't we see that those segments to be growing from here?

Mukund Kabra: They will be growing, but they will be growing normal like as what the pharma industry grows. But these are the areas we should give us the additional growth.

Moderator: We'll take our next question from the line of Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: I have a couple of questions. First one being, are we looking at setting up some R&D facilities? If yes, then how many of these over the next three years?

Mukund Kabra: As we like discussed last time also, we have already taken a 15-acre land during the COVID time in Nasik, in Pathardi areas, we are coming up with a new R&D center, right now we are building up about 120,000 square feet building. I think it should be around three times of our current R&Ds what we are doing. So yes, in the next two years, we will be spending a chunk of money, maybe about somewhere around ₹30-40 crores developing this R&D centers.

Rohit Ohri: So, ₹30-40 crores per year or just for the two years?

Mukund Kabra: Next two years.

Rohit Ohri: Next question is related to the market share. I was trying to understand the reason as to why there's a slight bit of decline in the animal nutrition business. Is it because we are losing market share or is it because the competitors are doing well or is it that there is something entirely different that is happening in the industry, and everybody is losing market share?

Mukund Kabra: This is a challenging industry. There are a lot of competitors are always there, there are always the small players, big players. At the same time, there are like some diseases which sometimes pop up and sometimes you lose some of the expected revenues or sales what you expect, for example, last year. I think there was a mad cow or some kind of a disease in Malaysia region and we lost like some of the like expected business because of that. There was no farming, and these things continues into these areas. But, at the same time, we are coming out with the new products and new areas, and we expect it to grow.

Rohit Ohri: And sir, on the US side, is it possible to give the market share as per your estimates that what you think is your market share in the US?

Mukund Kabra: It's difficult, but I guess somewhere around 15% when we talk about nutraceutical areas, and the other areas, it may be very, very small.

Rohit Ohri: Of these subsidiaries and thee set-down subsidiaries, do you think that there are certain more non-performing assets which can either be merged or which can be dissolved because we saw two of such cases, one in Malaysia and one in the US, so do you think that these kind of events or NPS can help reduce the admin cost or admin time also?

Mukund Kabra: I think Malaysia was pending from last many years, we're trying to merge it, we finally closed it. And also in US, we did a lot of restructuring as well, right.

Rohit Ohri: Any more such events in future if we can expect or something like that?

Mukund Kabra: As of now, I don't see anything which is pending, or which is on our radar.

Rohit Ohri: Anything on the one-off or the contingency that we see in the consolidated numbers, do you think there are any more such cases which can put a dent in the consol profits?

Mukund Kabra: Business is always full of risk. I can't comment on that, but as of now, like I don't see any other thing which is there in like but it's always a risk and what will pop up tomorrow, you never know, right.

Rohit Ohri: But any such cases that we're already fighting with or something that can pop up?

Mukund Kabra: No, we are not fighting anymore in any other cases like.

Rohit Ohri: Do you think that you'll be a ₹1,000 crores top line company by '28-29 with approximately gross margins of some 77%, 78% kind of a range?

Beni P. Rauka: Are you talking about gross contribution?

Rohit Ohri: The range is also fine over the next five years or so. Is it that you'll have scribbled some ambitious target of reaching ₹1,000 crores top line?

Mukund Kabra: Here that target is always there. We need to grow about 14% to 16% to reach to that target. We are like trying our own. That's our math. Let's see how the thing progresses.

Moderator: We'll take our next question from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir, I know this was already asked earlier, but the growth in the human nutrition that we've seen, I agree is on a low base. But can we understand is this a particular geography that has probably come back for us or is this just new products, but the lead time of which is probably now at the end of the runway?

Mukund Kabra: Human nutrition is not on a lower base. I was talking about on the food business during that time. But here, human nutrition we're talking some growth has to come up from the US going forward and some has to come up from the biocatalyst area in the coming few years.

Alisha Mahawla: No, I'm saying for the existing year, we grew at 18%. Just trying to understand is this because growth has come back in the US market?

Beni P. Rauka: US is about 9% and balance it is from the domestic market.

Alisha Mahawla: And going forward, like you were mentioning that US will come back and probably some new products also. This should aid in margin improvement, right, because earlier in the call we did mention that we're expecting margins to stay at the existing levels, but there can be increase in margins going forward because contribution from US increases and some of the supply chain issues we're facing because of that red sea also cool off probably in the next year, so can we work with a similar kind of margin expansion in '25 as we witnessed in '24?

Mukund Kabra: Well, we always expect like a margin expansion as we move on. At the same time, how much percentage, it is very difficult to say. On an average when we talk about we should grow, sometimes some other businesses will grow, and some businesses will take a back seat like the way like this year it was animal feed. But that is how it will always happen and it's very difficult to say and that is where we have a range of the products and range of the focus areas as well.

Moderator: We'll take the next question from the line of Ruzmik Oza from 9Rays Equiresearch. Please go ahead.

Rusmik Oza: So, my question was on probiotics only. Referring to the slide 25 in the presentation, the market size is around $48 billion as per the presentation and our revenue is around ₹30 crores, which is 5% of the revenue. What kind of opportunity getting in terms of revenue we are targeting for probiotics business in the next three to five years? And is the probiotics business margins at par with the level of 33% or are there any difference in that?

Mukund Kabra: So, we don't see the probiotics business very separately. It's very difficult for us to track because most of our formulation in US is a mix of enzymes and probiotics and that is where we don't separate it out and probiotics what we report is just a pure probiotics sales. So, it's always difficult, but this area, which is growing, it helps us to grow into many of our solutions as well.

Rusmik Oza: What could be your current capacity utilization to achieve this 15% CAGR kind of a target that we are looking for? What kind of capital expenditure we'll have to do to maintain with this run rate of 14%, 15% growth?

Mukund Kabra: The capacity should be about 65% utilization, difficult to say because it's always a cat and mouse game, at the same time when there will be the 80% utilization, probably we will go for it for the expansion, we will build up slowly, slowly small areas so that we can build it up with very fast. So, it's a continuous process and we will work on that. The moment we reach to 80%, we will place the orders.

Rusmik Oza: So, is it fair to say maybe that this utilization would peak out in FY'26 or something?

Mukund Kabra: Depends on the product mix. So, it's very difficult for me to predict as of now like how the capacity utilizations will happen.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Ronak Saraf for closing comments. Over to you.

Ronak Saraf: Thank you, everyone for taking your valuable time for attending our earnings conference call. We will keep you posted for any further updates. I request you all to kindly send in your questions that may remain unanswered today. An audio recording and the transcript of this call will be uploaded on our website in due course. Looking forward to host you in the next quarter. Till then, stay healthy, stay safe.

Moderator: On behalf of Advanced Enzyme Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
