



NEOGEN
CHEMICALS LTD.

May 21, 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.: Q4FY22 - 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 Q4FY22 Earnings Conference Call held on Monday, May 16, 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
Q4 & FY22 Earnings Conference Call
Monday, May 16, 2022 at 4:00 PM IST

Moderator: Ladies and gentlemen, good day, and welcome to the Neogen Chemicals Limited's Q4 & FY22 Earnings Conference Call. As a reminder, all participant lines will be in 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 to 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, sir.

Nishid Solanki: Thank you. Good afternoon everyone and welcome to Neogen Chemicals' Q4 & 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, 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 shall open the forum for Q&A, where the management will address queries of the participants.

Let me leave you with our standard disclaimer here:

Certain 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. Detailed disclaimer in this regard is available in Neogen Chemicals' Q4 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 everyone and welcome to our Q4 & FY22 Earnings Conference Call. We have shared our results documents and I hope you have had an opportunity to glance through them.



I will begin by sharing the performance highlights, key developments and strategy. Soon after, our CFO – Mr. Ketan Vyas, will cover the financial highlights for the period under review.

We demonstrated solid financial performance during the fourth quarter and the full year ended March 31, 2022, steered by capacity expansion initiatives undertaken in the past. Financial year 2022 has been the best year in the history of Neogen Chemicals, with the highest-ever growth in revenues at 69% in Q4 FY22 and 45% in FY22. We delivered annual sales of Rs. 487 crore, which was better than the expected growth trajectory. This came in spite of unprecedented challenges posed by inflation in raw material prices, utility costs and supply chain disruptions.

I would like to thank the entire Neogen family for showing resilience and staying nimble during this remarkable growth journey. I believe, we have built a high-quality business with robust execution skills, and this will help us scale newer heights year-after-year.

Our operational performance mirrored the trend in revenues where EBITDA grew by 44%, translating to margin of 17% while profit after tax increased by 68% during the quarter under review. In Q4 FY22, our Organic Chemicals division reported a gain of 38% Y-o-Y, while growth in Inorganic Chemicals stood at 176%.

Here, I would like to explain to everyone that we faced significant volatility in the prices of raw materials linked to lithium in this quarter. As a process, this cost pressures are passed on to the customer with some time lag. While the objective is to increase the absolute earnings, there could be some margin pressure due to this time lag. You all are advised to appropriately account for this.

Now, let me turn your attention to a key development. The Board has approved an estimated CAPEX of up to Rs.150 crore for FY23 at Dahej SEZ. This CAPEX will be funded by a mix of equity raised through preferential issue and additional debt, and deployed towards brownfield expansion across both Organic and Inorganic Chemicals at Dahej SEZ.

Let me list down the key areas where this will be utilised:

- First, increasing the manufacturing capacity of Specialty Organic Chemicals by 60,000 litres. This will support new molecules which have been developed in-house and to enhance the ability to do multiple chemistry.
- Secondly, expanding the manufacturing capacity of Inorganic salts from 1,200 metric tonnes (MT) to 2,400 MT in the existing Inorganic Multi-Product Plant (MPP). This is to satisfy the demand coming from new approvals received from international customers for regular lithium-based molecules and expected growth in demand in the domestic market.



- Thirdly, setting up new capacity in existing Inorganic MPP for 400 metric tonne per annum (MTPA) for manufacturing Specialty Lithium Salts and Additives for Electrolyte used in Lithium-ion batteries, advanced chemistry cells. This is targeted for trial approvals in international markets and captive consumption for electrolyte manufacturing.
- Lastly, development of the site at Dahej SEZ like adding admin blocks, some expenditure towards common infrastructure, warehouse expansion, etc.

These brownfield expansions are expected to be completed by June 2023 and will result into incremental revenue potential of Rs. 250-300 crore per annum post commissioning. We expect to reach full utilisation levels by FY25 or FY26.

It is important to note that out of this incremental potential revenues from Inorganic Chemicals are estimated based on stable lithium prices. Once these projects are fully on-stream, I believe it will significantly strengthen Neogen Chemical's business proposition across a range of products within chosen chemistries and elevate its performance momentum in the years to come.

I will now share some updates on our newly commissioned organic MPP plants - Phase I & Phase II. Both these are stabilising as expected with continuous improvement in utilisation levels. Based on these, we are confident of achieving the targetted revenue of Rs. 725-750 crore in FY24. As envisaged, we are executing high-value orders here that are more customised in nature and goes through multiple stage processes with complex chemistries involved. So, this is moving in the right direction.

Separately, we are also progressing well with our pilot plant initiative of electrolyte manufacturing for lithium-ion batteries and expect this to be operational this year. Meanwhile, we are closely studying the overall market for battery materials and evaluating promising opportunities in this sector.

Overall, I am excited with our growth projections and believe that we have the right drivers in place to achieve them. We will remain agile and will demonstrate our execution capabilities while capturing incremental market demand. Our aim is to profitably maintain the growth trajectory while enhancing value for all stakeholders.

With that, I would now request our CFO, Mr. Ketan Vyas to share the financial highlights for Q4 & FY22.

Ketan Vyas:

Thank you, Dr. Harin. Good afternoon and warm welcome to everyone. Today, I will cover the financial performance of the Company for Q4 and Financial Year 2022. Please note that all comparisons are on a year-on-year basis and refer to standalone financial performance.



In Q4 FY22, our revenue stood at Rs.156.8 crore, representing a solid growth of 69%, driven by capacity expansion initiatives as well as realisation gains for select products.

EBITDA came in at Rs. 26.6 crore translating to EBITDA margin of 17%. EBITDA performance was supported by higher utilisation levels at newly commissioned facilities as well as better product mix. The margin performance has to be seen in the light of significant increase in raw material prices linked to lithium in addition to higher utility costs and other logistical disruptions.

Profit after tax stood at Rs.15.7 crore which is higher by 68% in Q4 FY22. PAT was in line with operational performance of the Company, further bolstered by lower effective tax rate due to higher contribution from SEZ facility. Depreciation increased during the quarter commensurate to newer capacities needed.

Now, moving on to annual performance trends. In FY22, revenue stood at Rs. 487.3 crore, representing a growth of 45% with an EBITDA growth of 35% at Rs. 86.6 crore. Profit after tax improved by 42% to Rs. 44.7 crore.

In Q4 FY22, our domestic and export mix stood at 64% and 36%, respectively.

Our Net Debt (after including current maturities of long-term debt) stood at Rs. 99 crore in FY22 as against Rs. 215 crore in the previous year.

Premised on healthy performance reported during the year, the Board of Directors has approved a final dividend of Rs. 2.75 per equity share for FY22. This has increased over the previous year in spite of external headwinds linked to higher raw material prices and utility costs.

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

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Anshul Verdia from Edelweiss Wealth Research. Please go ahead.

Anshul Verdia: First on the organic chemicals' revenue – we have seen a slight moderation of Rs. 6 crore Q-o-Q in terms of topline. Despite this, we are talking about the capacity expansion at Dahej. Could you please help us understand as to what led to this moderation -- is it volume driven or was it the price correction in the organic chemicals?

Dr. Harin Kanani: The slight Q-o-Q moderation was basically driven by product mix, mainly because we were trying to develop some new molecules, which were being done in Neogen for the first time. So, in Q3, majority of the molecules that we were making in Dahej, were molecules which were already made in other sites and were basically transferred to Dahej; whereas in Q4, we were trying to make some new molecules



and there were some operational challenges related to that, due to which, the revenue was slightly lower as compared to earlier. But it is just related to the product mix. However, if we look at the overall utilisation of the plant, that has improved in Q4 as compared to in Q3.

Anshul Verdia: Wanted clarity on slide no. 18. You have said that the electrolyte volumes required would be 150k MT by FY30. If I revisit your Q3 presentation, there, we are saying 70k MT. What led to this tremendous increase in the electrolyte requirement, although the capacity in terms of giga watt hour (GWh) has remained largely constant at 160 GWh?

Dr. Harin Kanani: In the last quarter, we had several interactions with our customers. Many of our customers are now also progressing – referring to the customers who are planning on cell manufacturing. Our customers are now progressing in their plans for making the cell manufacturing and their understanding of the technology. Based on these understandings that we received from them, we have got a better sense that different chemistries require different volume of electrolytes. Thus, the volume of electrolyte which we had originally estimated was based on some public information. Now, we have more specific information from our customers. Also, different chemistries of cathode require different quantities of electrolyte. So, this information also became clear with a better understanding of what is going to be the composition between cathode chemistries. Hence, it is what we have currently shown based on our best understanding that - for the given giga watt hour, based on the cathode chemistries which are likely to be deployed, the volume of electrolyte which will be needed. I think it is just our understanding that – for a given giga watt hour, what is the electrolyte needed – has now become better as compared to the information which we had from the public domain around three months ago.

Anshul Verdia: Would you like to assign some number in terms of opportunity size for this electrolyte?

Dr. Harin Kanani: That is something which has been asked last time also. I would like to mention that the rates of electrolytes are varying quite a bit; the Lithium prices are also varying quite a bit and what we have seen that electrolyte prices between regions also change quite a bit. Since this is a very early stage, we would not like to put a number in terms of revenue of the opportunity at present.

Moderator: The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: On the MPP utilisation – If I recollect it right, Phase-II was largely used for the pharma molecule while Phase-I was for more on the agro innovator side. What has been the exact run rate there in terms of utilisation?



Dr. Harin Kanani: As I mentioned, our utilisations are getting better between the two. We have of course not yet reached full utilisation level. On the agro side, that was getting fully utilised. On the pharma side, is where we were trying to make some new molecules for approvals of the customer. Some of these were being made for the first time and we are also planning more such molecules in Q1 and Q2 of the current financial year, where we are trying to get some of these molecules made and then send them for initial customer approvals so that over a period of time, we can get approvals on them and then let us say by at least FY24, we can fully utilise these molecules for our customers. Utilisation levels are improving overall. Some of it was still sitting in the inventory, because of the trial production which was still ongoing. Over a period of time, as these get approved, then the utilisation level in the phases will also improve. Also, now because both of these are in the same plant. We have kind of stopped thinking of it as Phase-I and Phase-II. Now almost all the reactors are installed and we are basically just looking at them as a single entity. In most of our discussions also in future, you may just basically consider this as a single MPP for the Organic Chemicals.

Ankur Periwal: On the electrolytes part, you did mention that since the customers are probably progressing on their plans and we have more clarity in terms of which electrolyte and how. Any clarity or let us say would there be a variation of electrolyte variety as well that we will be making maybe a higher-end or lower-end and from a capability point of view, where do we stand?

Dr. Harin Kanani: Each customer has their own unique electrolyte formulation and the way we are seeing that some of the customers will also have multiple cathode chemistry and multiple electrolyte requirements. There is no higher end or lower end as such. What it basically means is just that there are different kinds of formulations. The capability to formulate will remain the same. What goes in the formulation will be decided by the customer depending on the chemistries that they are doing. What has changed is only our understanding that how much electrolyte is needed. So, the quantity of the electrolyte needed changes between chemistries and is much higher compared to what we had originally estimated based on publicly available information. Considering this information, we have now revised our estimate.

Ankur Periwal: On the raw material side – you did mention that the focus of the Company remains on profitability. How should one look at the margins here -- will it be an absolute pass-through of RM inflation and hence, the percentage margin may look slightly under pressure? Your thoughts there?

Dr. Harin Kanani: You will see one phrase which I used in the opening remarks as well as in the presentation. It is 'considering a stable lithium price'. Historically also, when we have informed about our lithium capacities, our lithium revenues, this was basically keeping in mind the lithium prices which were prevailing, let us say, in the period



of 2017, 2018 and 2019. Now, what has happened is, as we also stated in FY21, that the prices were much much lower as compared to the 'stable lithium prices', and now, these prices are going higher. I think this is something which is going to happen. By the end of Q4, we would say that these prices have now moved beyond what is the 'stable lithium prices'. This is again talking about India. Generally, there is a one quarter lag between the world prices and India prices, because it takes two months for the shipments to come from Chile and Argentina. Anyway, so this is one challenge, which we have seen. If we look at current market prices, they are 2.5-3 times of what was the world's highest price in the last - historic peak. These are going to be really, really high lithium prices. Many of our traditional users, at best will be able to absorb the cost. But for them to do business where our margins are also maintained at absolute level, will be a challenge.

We are thinking of anything above the 'stable lithium price' will be like additional revenue. Our absolute number will keep increasing, but when you look at percentage margin, it could show some decrease because of this lithium price. That is something which we will have to basically keep in mind especially this year. We are hoping that by 2024, the situation in lithium should become better and in the calendar year 2023, which is FY24, the prices should start moderating and let us say by 2024, we are hoping that they are closer to the 'stable lithium prices' which have been there. But in the next one or two years, the lithium prices could remain much higher as compared to the 'stable lithium price' and therefore they may have some impact on our margins as a percentage. The absolute EBITDA numbers or absolute PAT numbers will continue to grow, but sometimes, these percentages can skew a little bit.

Moderator: The next question is from the line of Rohit Nagraj from Emkay Global. Please go ahead.

Rohit Nagraj: You just mentioned about lithium – just wanted to get a perspective that whether there has been any resistance from the customers given that the pricing is substantially higher? Probably the next quarter, as you said that there is a lag of a quarter to pass on the price increase there, will there be a challenge to completely pass on these prices and maybe increase will be partially absorbed by the customer and we will have to take some hit in terms of per kg margin? Any expectation that the demand probably will have a challenge with such high lithium prices?

Dr. Harin Kanani: So far we have been able to ensure that most of the price increase has been passed on to our customer. What is really helping us also, is the fact that the prices are high, because lithium is not available. At least, Neogen's customers are very happy that Neogen has lithium and their production has not stopped because Neogen is not able to supply lithium. What has also worked in this is that many other people who are buying from other companies or let us say from China, are currently



suffering because their suppliers are not in as good a position in securing lithium as Neogen has been. As you will also see in our presentation, that we are increasing our normal lithium production capacities, because two factors have really helped us in the last quarter. There are many companies which could not secure lithium and Neogen was able to secure it. Just in the last three to four months, we have added 20 new customers who have shown interest and out of that, 5-6 new customers have also approved Neogen products and they have started buying products from Neogen in the international market. Now, these customers are in the US, Europe, China, Japan and Korea. As you may recall, Neogen's Dahej lithium site started in February 2020 and COVID restrictions started in March 2020. We had very few customers who could come and visit. Now with the travel restrictions going away and customers feeling more comfortable to travel, we had several of these lithium customers who came to our site, approved and now have started procuring lithium molecules from us. Yes, there might be some customers who will not be able to absorb the new prices of lithium. We are also trying to work with them to find some recycling solutions from them, where we can meet their requirements. But most of the customers are right now appreciating that Neogen can supply lithium. We have added new customers who are appreciative of the fact that we were able to give them lithium in such a tough environment. When they looked at the site also, they were very happy with the systems and plant which we have built for lithium. These approvals are coming in and overall we are expecting the volumes to continue to increase, which is why we are currently planning for expansion in the lithium salts business as well.

Our absolute margins, we are quite confident that we will be able to give, but when the prices are so high, would we be able to maintain the percentage margins in lithium, that is the only question which we are seeing. Hence, the absolute growth which you would expect from the lithium business will continue. It is just that the margin sometimes may look a bit skewed.

Rohit Nagraj:

We had earlier indicated that in FY24, we expect about 20% revenues from the CSM segment. Where are we placed on that and on the CSM, how are we placed on the pharma piece particularly?

Dr. Harin Kanani:

I think in CSM, our revenue growth or as a percentage growth in CSM continues to increase. It used to be around 10%, now it is more than 10%. I am still hopeful that by FY24, our advanced intermediates will contribute 40% and the CSM will contribute up to 20% revenue of that. We continue to progress on the CSM side. I think this year we will be doing it for several customers once Dahej site stabilises with regular production. In the first half, we were planning several trial productions for these new molecules, both CSM and our own advanced intermediates and this will basically form the basis. So, let us say by Q3, we will have a better idea on what



is going to be next year CSM revenue contribution and advanced intermediates revenue contribution.

Moderator: Next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: On the CAPEX plans that we have for the electrolyte, salts and additive businesses, 250 MT and 400 MT CAPEX, respectively. What is the CAPEX amount that is being spent for this and what would the sales potential be?

Dr. Harin Kanani: Because of several reasons, I will not be able to share the exact revenue and investment breakup for that as I do not want to mislead. This will basically be done in the existing CAPEX, in the existing plant, where we already have the lithium plant ready. So, in the existing block, we are just adding a few more reactors. Relatively, the cost will be a bit lower. However, on the revenue side, both the electrolyte as well as the 400 MTPA lithium battery materials, should together allow us to give about Rs. 150 crore of revenue on a 'stable lithium price' on full utilisation. Our existing revenue guidance was around Rs. 725-750 crore and the new CAPEX that we have announced is adding Rs. 250-300 crore. Roughly, let us say around Rs. 1,000-1,050 crore will be the installed capacity once we have completed this CAPEX. Once that is over, we are expecting it to be about Rs. 700-750 crore would be coming in from organic products, the traditional lithium, which has currently installed capacity of around Rs. 100 crore will increase to about Rs. 150 crore and the battery materials, which is electrolyte and lithium salt, that should contribute around Rs. 150 crore on full utilisation, say by FY25 and FY26.

Anirudh Shetty: You mentioned that now we have the capabilities to do more high-value complex products. At that level of Rs. 1,000 crore, what will be a fair EBITDA margin assumption to work with?

Dr. Harin Kanani: Again, I would like to stick to my slightly boring line that you can improve EBITDA when you do innovation. And a lot of these things we are doing new, like the advanced complex chemistries as well as the lithium derivatives. Also, in the lithium derivatives, especially on electrolyte and lithium salts, this is a very, very new business for us. There is a lot of non-homogeneity across markets. Even in India, this market is very different. Again, I would like to say that our effort will be to continue to maintain 18.5%, +/-1%. That is something which we would like to steadily do. Of course, in this, whatever is the additional cost of lithium, which we passed on, we have to basically correct for that, but otherwise, we will try to maintain 18.5%, +/-1%. Only after FY24, when some of these businesses are stabilised, we will try to look if we can further improve our margins. Again, the first level would be to try and see if we can cross 20%, but, as of now, I would still like to maintain my previous guidance in this matter.



- Anirudh Shetty:** I understand the gross profit margin really depends on how the product mix and how the new product margin stabilises. If we just look at the costs below GP margin, break it up into employee costs and other overheads, should not we see operating leverage on this cost as we go from Rs. 490 crore to Rs. 1,000 crore?
- Dr. Harin Kanani:** To some extent, yes. However, a lot of operating costs were also capitalised during last year. I am not expecting a very significant change in that, especially when you are talking of employee costs and other manufacturing costs. In fact, the way things are happening, the fuel costs are increasing significantly and the transportation costs are also increasing significantly. What is broadly happening is, yes, because of these advanced intermediates, our gross margins are improving and the manufacturing and other costs are increasing. Overall, at the EBITDA level, we remain more or less similar. It is because we are now planning to also start building the lithium business, so, there are going to be some non-fully utilised or not most efficiently utilised lithium businesses as well. At least for now, I want to maintain similar margin guidance as earlier.
- Anirudh Shetty:** As we look to do more sales from Dahej, what does the blended tax rate look like at Rs. 1,000 crore scale?
- Ketan Vyas:** We are at early phase of Dahej. Dahej being a tax-free zone and we have this tax depreciation also, at a higher rate. What we anticipate is that, the blended tax rate going forward should be from 19-22% as the depreciation plays a role where you do not get the benefit of it.
- Dr. Harin Kanani:** Just to add, when we had done this exercise earlier, we were expecting blended rate to be closer to around 25%-odd. This time, we also had the additional benefit of additional depreciation. Going forward my guess is the blended tax rate, as he mentioned, would be somewhere between 22-25% on a broader range.
- Moderator:** The next question is from the line of Saurabh Kapadia from AMSEC. Please go ahead.
- Saurabh Kapadia:** Looking at the past CAPEX and the asset turnover, should it be similar for both, organic and inorganic, to last what we did in Dahej?
- Dr. Harin Kanani:** We have already defined about Rs. 150 crore CAPEX and Rs. 250-300 crore. If we look at that, relatively asset turn of around 2x, just slightly lower as compared to others. Some of it is due to the Dahej facility that we are building - an admin block, warehouse expansion and so on. Some of that is contributing to that; there is a higher contribution of that. Also, some of the CAPEX that we are doing would be to make the plants a little bit more efficient in their operation. So we will not be directly adding to the revenue. That is the reason why it is a bit lower as compared to our usual asset turn. And the third part is that we are right now, also doing some of this very specialised equipments that we are getting relating to electrolyte and

lithium salts. They are on the slightly higher side. These are 2-3 factors as compared to our normal asset turns of 2-2.5x, we are expecting slightly closer to lower, which is like closer to around 2x asset turn for this particular CAPEX.

Saurabh Kapadia: Just to further understand the new CAPEX. Should we assume that the electrolyte business will have a lower asset turnover and margin profile similar to the existing business or it should be lower given the high volume what can be done over the years?

Dr. Harin Kanani: Again, we are trying to understand this, but generally whenever we think of inorganic chemistry, our expectation is that the asset turns are usually better and the margins are usually slightly lower. This is a normal perception of inorganic chemistry versus organic chemistry. When it comes to electrolytes, the current investments are just basically trial investments. Some of the equipment, we are purchasing them for the first time and are still standardising some of the procedures and systems. This would not really be representative of what a large investment would look like. That is something I would request you to be a little bit more patient with us. As we get more clarity, we will be very happy to share, especially when we do a few 1,000 MT kind of production capacity, that is where we will have idea.

In this case also, it will depend upon how much work we are doing. So, for example, if we just make only electrolyte, using everything from outside, the asset turns are very high. But what we are proposing is that we are starting from lithium carbonate and we will then make the intermediate, then the complex salt and then the electrolyte. So, it also depends on how much work you are doing at your end versus how much you are going to outsource. That is also going to determine the CAPEX. Again on the margin side, for now, as I said, we can basically guide that the margins will remain more or less similar, we are not saying there is any negative or a positive impact as yet, but give us up to FY24 to see how these margins can further improve or if there is any change. But specifically for electrolyte and lithium battery materials business, whenever we basically plan a more commercial scale CAPEX, that is when we will be able to give you more sense on margins and ROI in this business.

Saurabh Kapadia: On the electrolyte business – once we scale up to the commercial level, maybe 2,000-3,000 tonnes of electrolyte capacity, so similarly, we will add capacity to this MPP plant as well. Are you doing the basket of both the CAPEX in inorganic lithium salts as well as electrolyte?

Dr. Harin Kanani: I think our intention is to start from scratch. Lithium carbonate comes out of the mine, then from this carbonate all the way up to electrolyte is what we want to do in-house. Currently, the investment which we have made...so the electrolyte capacity is only 250 MT and this will not require more than 60-70 MT of the lithium



salts. But the higher capacity that we have, will help us in serving international customers and test international customers' requirement and maybe also take care of the initial larger plant capacity. In the future, wherever we will go for electrolytes, we will also have to go with lithium salts production required for that for captive consumption. Depending on the success that we have in the international market, we can also build on capacity, because electrolytes are very difficult to sell internationally, but the salts can be sold internationally. So, we will also keep exploring that and put capacities for that. Generally, the way I see going forward – we will have X capacity for electrolytes and the salts capacity will be for meeting the electrolyte demand as well as the pure salts demand in the international market. So, we will keep at a slightly higher level.

Saurabh Kapadia: Would you be doing this entirely on your own or are you looking for any technological partner or working with some international partners for developing the technology?

Dr. Harin Kanani: We have currently developed most of the technologies in-house, but at the same time, we as a country are catching up. We do keep looking at the international aspect like – professors, universities or even some companies, which are doing this commercially - to have a tie up with them to basically gain knowledge and increase the trust in the technology that we are developing and look for any scope of improvement, because there are people out there who have done this for a longer period of time or if our understanding is better in the international market. This is something which we are doing on a regular basis. The biggest challenge, however, is that the international business is also growing so fast. Getting attention, time and interest of these people for India is the challenge. While we keep trying to work with them, we do get some help from them and these efforts continue but we basically have to be ready to do this on our own.

The work will be to try to do this on our own and as and when we can do any tie-up or get some advice or consultancy from the international market, use that to increase the knowledge that we have for Neogen and for India. Just as a sample, when India is supposed to require around 150-to-160-giga watt hour of cell manufacturing by 2030, the world demand that time is going to be 3,500 giga watt hours or something like that. India, even after 7-8 years will only have 5% of cell manufacturing capacity based on the projection which is there. So, there is a huge transformation which is also happening internationally and everybody in this area is very, very busy just doing that also in the international or domestic market.

Moderator: The next question is from the line of Aashish Urganlawar from InvesQ Investment Advisors. Please go ahead.

Aashish Urganlawar: It has been wonderful 3-4 years that we have invested since the IPO. The performance on the P&L front has been great. However, the concern then and



today also remains on the cash flow generation for the Company because of the inventory and basically the working capital, that remains a challenge and that is why we have to go for debt and equity rounds simultaneously, many times actually. Since you are building another business on the lithium electrolyte side, would that be your endeavour to ensure that the cash flow generation is much better versus the current business. Any understanding you can give us on that aspect will be good. How do you think that overall, Neogen as a company would stand once this business also becomes a big part of your P&L?

Dr. Harin Kanani:

That is a fair point, that while we have delivered on revenues and more or less on the margin levels that you predicted, there needs to be an improvement on our working capital management, which allows us to basically deploy more capital towards growth. Just in my defence what I would like to say is that the growth has been very high. For example, at the time of the IPO in 2019, we had mentioned that in FY24, we would be Rs. 500 crore capacity, of which we will do about Rs. 450 crore. Today, the installed capacity, parallelly we have also increased to almost Rs. 750 crore and we are adding more. I think there is more deployment which is happening there. If this was peak utilisation of Rs. 450 crore, this is fine. But if you look at it from a run rate point of view that okay, in the last two quarters, on an average we did around Rs. 140 crore of revenue and for the next year, the guidance that we have provided earlier also is somewhere around Rs. 575-600 crore. If you were to just look on a quarterly basis, we have done some improvement on the working capital cycle as well. Also, if you look historically at the year in which the growth was minimal, we have delivered cash-accrual significantly. So far, we have not been able to deliver both very high growth as well as cash. So we will keep improving on that. There is some improvement which we have done on our debtors and our creditors. On the inventories, as I had guided earlier, that one of the key factors for us is that I can have more and more molecules that are dedicated.

I think this is the key challenge, that when we have a dedicated set of molecules, which we are making, then there is no changeover, there is no penalty where we have to make inventory and keep, so that is something which is still happening. As I said, by FY24, when we reach full utilisation of Dahej, we hope we will achieve this, where more percentage of the revenue will come from dedicated molecules. So, even last year, there was a lot of turmoil in our product mix. Some of the very traditionally very strong molecules in our pharma segment, for example, our top molecule in pharma segment in advanced intermediates, there was very low demand, because during COVID, there was a lot of inventory built up and then last year, the pharma requirement of that was very low. But we were able to grow in spite of that and we are always able to make it up with other molecules. That has just been something which we work with. Hopefully, by FY24 and beyond, once these molecules stabilise and we have more molecules coming from dedicated



reactors, then the inventory can be rationalised. When it comes to electrolytes and lithium, yes, these usually have a lower processing time. They do not require many multiple-step chemistry and things like that. I think that is something which will help us. At least from our side, we will try to make sure that the way we set the contract, that this is not very working capital-intensive, because the numbers there will increase very large. As we go into this electrolyte and lithium, effort will be to basically set it in a way where our inventories or our working capital requirements are minimised.

Aashish Uppanlawar: Maybe over the next 7-8 years, as this part of the business grows, operating cash flow generation will be much better.

Dr. Harin Kanani: Yes.

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

Dhavan Shah: You mentioned that there were some teething issues in terms of the new molecule development last quarter and that is why we have seen some lower growth Q-o-Q for organic chemicals. How are we placed for those molecules and are they into the final stages or have we started some trial production on that? Also, earlier, we had gone through the two contracts and those contracts were contributing roughly about Rs. 60-80 crore last year. Have you achieved that guidance last year?

Dr. Harin Kanani: On the second part, yes. The two contracts contributed between Rs.60-80 crore, what guidance we had given, they contributed revenues to that level in the last financial year. On whether this molecule has stabilised – yes, it has stabilised and we have started shipments. If that would have ideally happened in March, we would have maybe crossed Rs. 500 crore as well. But these shipments have started in the month of April and May. Again, there will be some trial production, then customer approvals and more will come in the second half. As you know, historically in Q1 and Q2, there is less demand. We are using this period and using this extra capacity that we have to try to make these new molecules which we had planned for Dahej. Because when Dahej started, just the existing customers and regular product demand was so much that we were not able to do this. So, now with those molecules stabilising, we are using some of the capacity for these new molecule launches for trials in Q1 and Q2. Hopefully by Q3, Q4 and for sure by next year, we will have a full utilisation level in Dahej.

Dhavan Shah: You mentioned that we are working on pharma molecules. Could you help us understand the industry side of those molecules? Is there any possibility that for a few of these molecules we can get some CSM opportunity from the dedicated facility going forward?



Dr. Harin Kanani: Last year, we made almost 18-20 molecules, which we readied for commercialisation, where we completed the pilot work and completed R&D. Some of these can be made in our existing facility. Some of these we have already started trying and some require specific reactors, which is what is going to be contributed by the additional 60,000 litre reactors that we are trying to put, because some of these chemistries which we are doing, will require that. Yes, in these 20 molecules, several of these are CSM molecules, both for agro as well as pharma, and one is even in the engineering segment and one in food and flavour segment. So, there are multiple segments which the CSM molecules are catering to as well as our own molecules are also catering to, although our own molecules are more driven by pharma because most of the agro opportunities are under the CSM model.

Dhavan Shah: CSM business revenue contribution that you have mentioned is roughly 10-15%. Given that these molecules are in the pipeline, is this not a very low estimate in terms of the overall contribution on the CSM side? Can we see higher revenues over a period of time based on the current pipeline?

Dr. Harin Kanani: Currently, we have given revenue guidance only till FY24. Till FY24, we are just saying 20% and again, the revenue is also going to increase 50%. The guidance is Rs. 725-750 crore - that is almost 50% higher than Rs. 486 crore, which we have already done. Again, that guidance is on a 'stable lithium price'. If the lithium prices remain higher, it will again increase beyond the Rs. 725-750 crore. We still feel 20% is a good reasonable number. As and when we sign more contracts, we can be more confident, but otherwise for non-contracted CSM business which is not very large, but does contribute to CSM revenues - that 20% of Rs. 750 crore - is still a very good target to have.

Dhavan Shah: What is the 'stable lithium price' that you will consider while doing the calculation of the incremental revenues from the upcoming capacity? What are the current prices prevailing, if you can help on this?

Dr. Harin Kanani: When I say 'stable lithium prices', I basically mean, the lithium prices in the calendar year 2017, 2018 and 2019. Before COVID, there were some movements because of the Chinese but it was reasonably stable considering, let us say, Tesla and Chinese initiatives in the EV. Now, if we look at calendar year 2020 and up to early 2021, this was a time where these prices were actually going lower. If you see historically, in the last year also, we have said that almost Rs.19 crore revenue was lost because lithium prices were lower. In the last year, we kept saying that the prices are now improving. In 2021, the prices started increasing, they first came to what I call 'stable lithium price' and we can see, like in Q4, they were a bit higher as compared to that and they reached close to historical high in Q4. This is again from Neogen's perspective. Neogen is basically lagging one quarter behind from the world due to the shipments and things like that. The world contract prices are one quarter



behind. The prices today, based on that in the next two quarters, they maybe 2x or 3x the peak demand or maybe 3-5x 'stable lithium prices'.

This is uncharted territory. Lithium prices have never gone so high, not by a close margin. It is going to be interesting for us to see. What is good is that there are many critical operations of lithium, where lithium cannot easily be substituted. There are many customers who do not have a choice. Fortunately, in many cases, lithium is a very small component of the overall molecule. That is where customers are able to still manage in pharma and with some new customers which we added. Yes, with some of the traditional customers, this impact will be very, very difficult to manage. So, I do not know. Maybe they will also adapt and figure out a way to pass this on to their customers. If not, some customer demand may decrease, but with new customers that are coming in, we feel our revenue should not decrease. Eventually, this will help us grow our customer base, product base and application base and hence our traditional lithium business.

Dhavan Shah: You already mentioned the lithium salts requirement, which is not more than 60-70 MT. Against this we are putting up 250 MT of electrolyte capacity. What would be the conversion ratio of lithium electrolyte to lithium cells? You have used money of roughly Rs. 140 crore out of the Rs. 225 crore preferential allotment. If you could share the breakup of these proceeds?

Dr. Harin Kanani: On the first part - how much lithium salts get used in electrolyte, depends on each customer's configuration. It changes, but roughly has been between 15-25%. Again, it depends on which lithium salts, which additive, etc. The actual lithium contribution also can change based on that, but that is roughly the percentage of lithium salts in electrolyte.

To answer your second question - at present, most of it has been deployed to reduce our loans. We have repaid some working capital loan, repaid some parts of the term loan and some part of it is used for CAPEX that we have already started doing in our existing product and our margin towards the CAPEX, which we are doing as earlier announced and are basically planning to do now.

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

Sabyasachi Mukerji: A clarification on the CAPEX. When we interacted in Q3 call in February 2022 somewhere, you mentioned that there will be CAPEX for lithium salts as well as CAPEX for electrolytes. What we see in the announcement is I think CAPEX for lithium salts is there apart from CAPEX for organic and inorganic, but electrolyte CAPEX is not there. Will you be announcing the electrolyte CAPEX in next 1-2 quarters?



Dr. Harin Kanani: You are right. In our last call, we had said three - one is lithium salts for the international market, then electrolyte related CAPEX for India and the third is additional requirements of pharma and agro customers. With this 60,000 litres additional reactors coming in, unless we get a very large project, which is very time-bound, this will take care of the immediate requirements on the organic side. So, that is taken care of.

The second, lithium salts were more of a surprise because in the last quarter we got a lot of interest. Thus, we had to do some incremental CAPEX to increase our existing lithium capacity due to the interest that we got from customers. As we had planned, we did the CAPEX for lithium salts for electrolytes. The electrolyte lithium salts for the international market was driven by the quantity that I can fit in my existing MPP, because we want to get it done in the shortest period of time. Taking that as a guidance, we have gone ahead and completed the CAPEX.

What we have not yet done is on the electrolyte requirement for India and the salts capacity for that. That is something which is still being determined. As our customers give us clarity as we are getting into contractual or soft commitment, where we are more certain on the volume demand; so this is what we are still working on. Hopefully, our estimate is also that this should be done between June to September. In the next two quarters, we should get clarity and then plan the electrolyte investment, unless we feel that our customers are still not ready and that their timelines for the cell manufacturing are getting delayed, then it will be delayed. However, if our customers are ready, then Neogen should also make a decision in next two quarters.

Sabyasachi Mukerji: What would be the quantum of CAPEX in the electrolyte and expected revenue out of that?

Dr. Harin Kanani: Because these numbers keep changing, it is better that we wait till we have clarity on that. It will be in thousands of metric tonnes basically for it to make economic sense. How many thousands is something which I am not yet sure. Please give me some time to get clarity and commitment from customers and then we can plan it.

Sabyasachi Mukerji: On the Rs. 150 crore CAPEX that you have announced, this is divided into three - will there be any stagewise commissioning of these three or are you prioritising any out of these? What is the CAPEX split among these?

Dr. Harin Kanani: There is also a fourth, which is the general overall site development in Dahej. We will not be sharing the CAPEX breakup for now as we would like to maintain some confidentiality and also avoid confusion as these is brownfield CAPEX. In case of organic - it will happen over a period of time, because some products may come in even in the first half. Some where we have to build a separate building and may come towards the end of the year or by next June. Again, it is relatively small. It is



15% of our existing capacity. Of that a little bit may come this year or little bit may come the year after. We will keep updating every quarter, but it is not something very significant. We expect everything to get done by June 2023. The lithium salts modification may happen slightly early. However, the lithium battery materials should be more towards the end because it requires some specialised equipment which will take longer lead time and also the final and detailed designing of that will take a longer time.

Moderator: The next question is from the line of Gaurav Chopra from Union Asset Management. Please go ahead.

Gaurav Chopra: Since you are investing additional money in the battery-related chemicals, do you foresee any threats from the sodium-ion battery technology which many players have started talking about? If that were to pick up, does that put your growth plans on hold?

Dr. Harin Kanani: So far, in all our interactions, what we have seen is that sodium-ion is mostly considered only for energy storage applications, while the major driver for the lithium cell production has mostly been driven by the EV application. Therefore yes, our volume of electrolytes may have some impact of that. But to the best of my knowledge and so far most of the EV vehicle manufacturers or the batteries which are to be used in EV will be lithium-based. That is the current driver. I do not think sodium will have too much impact on that. There are also some synergies. Once we make the battery materials, both – salts and electrolytes - they also potentially could be used for sodium-ion because the systems, molecules and the way of formulating are also very similar. Even if the situation with sodium-ion happens, it will not have tremendous impact on the plans that we have.

Gaurav Chopra: Can you share the capacity utilisations for both organic and inorganic as of FY22 and FY21, if possible?

Dr. Harin Kanani: Our lithium plants are almost fully utilised now. There is still some room but I think Mahape and Karakhadi are almost fully utilised and Dahej is at about 45-50% utilisation levels at present.

Gaurav Chopra: If I were to get volume details from the expanded capacities, then what would be the blended utilisation levels in that context?

Dr. Harin Kanani: We have not shared these numbers site-wise, specifically, category-wise with absolute percentage. Let me discuss this internally. On a very broad level, in FY21 also, lithium as we had mentioned was not fully utilised and Mahape and Karakhadi organic plants were fully utilised and there was no Dahej. Dahej is now slowly building up and we are at about 45-50% utilisation levels there.



Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference over to the management for the closing remarks. Thank you. And over to you.

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. Ladies and gentlemen, on behalf of Neogen Chemicals Limited that concludes today's call. Thank you all for joining us and you may now disconnect your lines.

The transcript has been edited for clarity. It may, however, contain transcription errors. Although an effort has been made to ensure high level of accuracy, the Company takes no responsibility of such errors.

