



**NEOGEN**  
CHEMICALS LTD.

**June 4, 2021**

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 <b>Scrip Code No: 542665</b>	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 <b>Company Symbol: NEOGEN</b>
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**Sub.: Q4 FY21- Earnings Call Transcript.**

Dear Sir/ Madam,

With reference to the captioned subject, please find enclosed herewith the Earnings Call Transcript of the Company's Q4 FY21 Earnings Conference Call held on Monday, May 31, 2021.

The Transcript is also being uploaded on the Company's website at [www.neogenchem.com](http://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 & FY21 Earnings Conference Call: May 31, 2021**  
**Earnings Call Transcript**

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- Moderator:** Ladies and gentlemen, good day and welcome to Neogen Chemicals' Q4 & FY21 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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:** Good evening everyone and welcome to Neogen Chemicals' earnings conference call for analysts and investors. The call has been hosted to discuss the fourth quarter and full year financial performance and share operating highlights of the Company.
- 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 question-and-answer session where the management will be glad to respond to any queries that you may have.
- At this point, I would like to add that some statements made or discussed on the conference call today may be forward-looking statements. The actual results may vary from these forward-looking statements and a detailed disclaimer in this regard is available in Neogen Chemicals' Q4 & FY21 earnings presentation which has been shared earlier.
- I would now like to invite Dr. Harin Kanani to commence by sharing his thoughts on the strategic progress made by the Company. Thank you. And over to you, sir.
- Dr. Harin Kanani:** Thank you, Nishid. Good evening everyone and welcome to Neogen Chemicals' Q4 & FY21 earnings conference call. These are tough times for all of us and I hope you and your close ones are safe and in good health. Our earnings presentation has been shared earlier and I hope you have analyzed the key numbers. I will begin by sharing my perspective.
- We have displayed resilience and reported encouraging performance during the quarter and full year under review. The growth trajectory in FY21 was maintained, with 10% revenue growth achieved in spite of capacity constraints as well as other restrictions imposed due to COVID-19 pandemic during the year. Our margins expanded to 19.1% and profit increased by 9% in FY21. Positive demand across key end user industries ensured optimum utilization at all our plants with supply chain efficiencies.
- Revenue growth of 10% in FY21 was led by similar growth in organic chemicals and 11% growth in inorganic chemicals after we expanded the facility at Dahej SEZ last year. As you may be aware, lithium is a key raw material for the inorganic chemicals segment and we witnessed high volatility in the price of lithium in FY21 mainly on the downward side. So to that extent our inorganic chemicals revenues were lower. We have estimated this impact at around Rs. 19 crore during FY21; meaning our inorganic revenues during this period would have been higher at around Rs. 82 crore versus Rs. 63 crore segment revenue we have reported had lithium prices remained constant.
- Now, let me update you on our progress of organic chemicals at Dahej SEZ.

I am glad to state that the expansion plans have progressed well despite widespread disruptions related to COVID-19 pandemic. We have installed all equipment including reactors and have commenced manufacturing of initial commercial batches. Aspects like product quality assurance and customer validation procedures are in progress, after which commercial production will begin. This is a very proud moment for us because Neogen has for the first time built a plant from zero to final commissioning stage with most advanced safety measures and engineering standards. The state-of-the-art manufacturing infrastructure of international standard will be a point of inflection for Neogen as this plant has been built as per the standards expected by innovators and global MNCs and will enable us to deliver greater value addition through multi-stage processes and complex chemistry. I would like to express thanks to our team at Dahej for their dedication and focused contribution to the implementation of this project in the most difficult times. With the new facility now operationalized, let me reiterate that our FY22 revenue guidance of Rs. 450 crore remains unchanged, and it will be our endeavor to achieve it.

I will conclude by adding that Neogen remains well-poised to benefit from the structural shift in chemical supply chain. Our market leadership position, cost-efficient production capabilities and relentless focus on innovation will help us to capitalize on this opportunity. Our endeavor is to work diligently and drive long-term value for all stakeholders through focused execution on our planned initiatives.

With that, I conclude my opening comments and would request our CFO – Mr. Ketan Vyas to continue the discussion by sharing his views on our financial performance. Ketan, over to you.

**Ketan Vyas:**

Thank you, Dr. Harin and a very good evening to everyone present on this call. I will discuss the financial performance of the Company for the fourth quarter and full year ended 31st March, 2021.

In Q4 FY21, our revenues increased by 13% year-on-year to Rs.93 crore. EBITDA improved by 17% to Rs. 19 crore translating to EBITDA margins of 20%, an expansion of 80 basis points year-on-year. Profit after tax stood at Rs. 9 crore, higher by 27% year-on-year. In Q4 FY21, our domestic and exports mix stood at 53% and 47%, respectively.

For FY21, we witnessed 10% improvement in revenue to Rs. 336 crore, driven by robust demand for key products. This was achieved despite nationwide shutdown impact for first two months of the year and localized restrictions imposed due to second wave of COVID-19. EBITDA enhanced by 11% to Rs.64 crore, led by realization gains as well as higher operating leverage. Positive EBITDA performance was delivered even though additional costs was incurred this year on account of COVID-19-related safety protocols. PAT was higher by 9% to Rs. 31 crore as a result of better operating efficiency and higher revenue growth.

That concludes my opening remark and I would now request the moderator to open the session for questions from participants. Thank you.

**Moderator:**

Thank you. We will now begin the question-and-answer session. The first question is from the line of Kaushal Shah from Dhanki Securities.

**Kaushal Shah:**

My first question is on the additional CAPEX of around Rs. 55 crore that we had planned in Dahej. So if you can throw some more light on that and when that is likely to be commissioned? Second was if you can, may be share some more color on any new customer additions. If I recollect our earlier interaction on the calls, I think you had signed a few long-term customers. I think in Q2 and Q3. So may be some color on that. Have we started supplying to these new customers etc.

**Dr. Harin Kanani:**

Yes. So we have completed the initial Rs. 75 crore CAPEX as well as we have continued and we have started the second Rs. 55 crore also in parallel because it was more efficient for us to get some of the work done together. So, the investment continues on the Rs. 55 crore as well. And it will be done over the period of this year. So, the additional reactors which we are installing will keep coming gradually



between Q3 and Q4, basically in the second half of the year and we expect the complete investment by end of the current financial year.

In reference to the business with two multi-year contract customers, we have received relevant POs for the year and the business for both the customers have initiated and with other customers which we mentioned we were in discussion, the discussions are progressing stage-wise but so far there is nothing concrete from a long-term point of view for us to add.

**Moderator:** The next question is from the line of Rohit Nagraj from Sunidhi Securities.

**Rohit Nagraj:** The first question is in terms of availability of our raw materials and from exports perspective. So, we have seen that there were a lot of disruptions in logistics as well as supply chain. So, have we faced anything of this in the last couple of months from both the sides, sourcing as well as from exports?

**Dr. Harin Kanani:** Yes, logistics have been a bit of a challenge and I think over a period of time we have seen it slightly improved. So, what it was in March and April it is relatively slightly better now. But fortunately, we had planned sufficient raw material inventory because if you remember last year also, we said we had increased our raw materials especially imported raw materials supply, and when it comes to main key raw material- Bromine also, we had kept sufficient inventories. So, our operations were not impacted because of this. To some extent, yes, our exports were delayed in getting shipment or reaching to the customer or some material was also coming in a bit late. And to that extent your realization of funds, etc., may get delayed but nothing which impacted overall significantly in our revenue or P&L.

**Rohit Nagraj:** Second question is in terms of the CSM opportunity. So, how are we looking at it from a medium-term perspective? We currently have I think about 10% of our revenues coming in from CSM and that should grow in the next three to five years. So, over a three-to-five-year period of time, how this opportunity could be capitalized and how are we placed in terms of taking on that opportunity from the management bandwidth perspective, probably the expansion perspective, R&D, if you could just throw some light on this?

**Dr. Harin Kanani:** To first deal with the quantitative numbers part, so what we had said is that currently roughly around 30% of our business comes from advanced intermediates and CSM is a part of this 30%, about 10% is currently CSM business. And what we had mentioned is that as our revenue grows and as we have the full utilization of the total overall CAPEX we are doing in Dahej, which will give us a capability of around Rs. 650-670 crore. So, while targeting to reach this Rs. 650 - 670 crore, we are targeting to increase the share of advanced intermediates to about 40% and CSM being 20% of that. So, this is the initial target that we have set for ourselves.

Now, how are we going to achieve that? So, in our R&D as I have also shared earlier, almost 60% of the R&D capacity is being driven by CSM business. Also, over last three years while our revenues have increased, our R&D expense has increased even faster. So, the percentage of expense in R&D in the last three years has gone up from around 0.5% to close to around 0.9% this year, the year in which it got completed. And we are expecting to cross even 1%. So, our revenue spend in R&D is also increasing. We are also planning some more additional CAPEX to support the projects that we have. We already had one senior R&D person and we have added one more VP, R&D below whom we have a team of R&D scientists which we keep expanding. We have also added a VP, dedicated to business development for just CSM business. So, I think with this addition, with our focus and again with the interest that we have had from the customers, we are in a good shape to expand our R&D activity and get higher share in CSM. I think our Dahej site getting commissioned will also help us in this regard because as I mentioned in my opening remark this is the first time, we have been able to make a plant from scratch. So, we have got a lot of inputs from our senior management team, Mr. Surana and other team members who are now part of Neogen who have also worked in larger organizations of what standards are expected by global MNCs and we think we have

done a good job of meeting this. So, once Dahej starts, we should be able to even approach now more customers and having some capacity available, we should be able to approach more customers that "Look, we have capacity, it is as per your requirements, we also have a good R&D set up now." We are trying to achieve 20% of let us say Rs. 650 crore over next two to three years is what we are planning to do. And further down the line, now we have also environment clearance at Dahej, the site is active, so now it has a basic infrastructure, the building, etc. So, if we have to do CAPEX, every year we can keep evaluating what projects are coming, what is underlying business commitments and based on that if we want to do even future CAPEX, hopefully we should be able to turn it around also faster. So, I think this will allow us to capture the CSM opportunity in both agro as well as pharma space over next three to five years.

**Moderator:** The next question is from the line of Saurabh Kapadia from AMSEC (Asian Markets Securities).

**Saurabh Kapadia:** We have seen the improvement in working capital this year. So, wanted to get more color like is it at this level you can sustain and further improve with new capacity coming in?

**Dr. Harin Kanani:** Last year as we had mentioned it was a bit abnormal because of COVID-related last-minute situation. So, we have been able to improve our working capital cycle in the year which just got over. Yes, our target is especially beyond FY23 and FY24. So, in FY22, we would like to at least maintain at this level and improve it to some extent. In between the year, you might see some fluctuation because the Dahej plant is coming up, we are building up inventory. But at least by end of the year once operations are smoothened out, everything is normalized, we will be at the current level or there will be a slight improvement and then going in FY23-24, it should further improve as compared to current because you realize that when we want to grow very quickly this is one area where improvements will help us conserve our cash and also give better returns on equity and ROCE etc.,

**Saurabh Kapadia:** So, this improvement will largely come from inventory side or still there is scope on creditor side?

**Dr. Harin Kanani:** I would say inventory side and to some extent on debtor side. As our exports also increase, we will try to see where debtors can also be improved. I think for creditors we already had taken a view and we have talked to our major long-term suppliers. So, people who are supplying us bromine or some of them who are supplying lithium or some other raw materials of relatively higher value, these people are now happy with Neogen's profile that is improving, last year we also got upgraded by CRISIL. So, all these help them to get Neogen's bills discounted. Therefore, we could ask for longer credit terms with them because we recognised that this will help us and this is something which is needed whenever business is growing so far. So, that is what allowed us to improve the creditor days. And more or less, I think we are roughly at around 65-70-days or so and this will also keep improving. Everything that we do is also a part of the teams, as I mentioned earlier, as we have got a VP for R&D and Business Development, we also had a GM, Procurement who came to our team who has worked in a large company. So, we are now buying less from traders, we are buying more directly from consumers and we are also trying to negotiate better terms allowing them to get some discounting arrangement based on Neogen's credit rating. So, that has given the creditor improvement. Our future improvement should largely come from debtor side and inventory side. And if we get something on creditors' side, we will not complain; we would like to improve those to use our market presence in buying some of the molecules.

**Saurabh Kapadia:** Second question was on the new plant. So, by next quarter, it will be commercially operational?

**Dr. Harin Kanani:** Yes, we are already making products for which we have received POs from our customers and whatever we are currently producing will ultimately start going to customers. What happens is, when a new plant starts, many of them are transfer of



technology from my Mahape plant and my Karakhadi plant. So, we have to make sure that the technology got transferred which we have to demonstrate to our customers, that the testing results here and there are the same, the systems are the same, the quality is the same and you get some of their approvals on the line once production has commenced. So, that is the reason why it will start adding to the revenue from next quarter and by Q3 or Q4 we will be focusing on the efficiency part, the utilization levels and how efficient are the operations to stabilize a new site. So, as we go through the year, you will see more and more improvement in the revenue. So, as we go from Q2 to Q3 to Q4, which is contributed from the Dahej site.

**Saurabh Kapadia:** Are we seeing some kind of margin pressure in terms of higher raw materials prices in this quarter and the next? We are having a long-term contract. Maybe we are not able to pass it on immediately but with a lag.

**Dr. Harin Kanani:** Not specifically with regard to raw material. We are not expecting a margin pressure because of that.

**Saurabh Kapadia:** What was the utilization for the inorganic plant?

**Dr. Harin Kanani:** It was somewhere in the range of around 60-70%.

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

**S Mukherjee:** Two, three questions from my side. Wanted your thoughts on the gross margin development this quarter. Is it a factor of a better product mix because I think overall raw material prices have increased for your base raw materials as well, but you do have annual contract kind of a thing if my understanding is correct. So what led to this better margin profile if you could highlight on that?

**Dr. Harin Kanani:** It is two factors: One is a little bit on the product mix side where we were now doing in this quarter more of the long process value-added molecules. So, we had seen a little bit, raw material cost was lower and the manufacturing cost which is captured in other costs is slightly on a higher side. So, slightly lesser raw material margins and gross margins are improved but the manufacturing costs are a little bit higher.

And the second was Lithium prices. (They) had kind of reduced. Again, that trend throughout last year was there and it was most pronounced in Q4 because the raw materials that we received in Q4 of India was the calendar month Q4 of the world. But in 2021, again, now the lithium prices after hitting the bottom, have started increasing and increasing quite fast. So, last year we also suffered because of lower lithium prices our selling prices were also lower and almost we had a revenue differential of around Rs. 18 to Rs. 19 crore. So, this year again it has not yet gone to that level but again the trend has started reversing. So, I think this was just one quarter. If I look at overall for the year, we were more or less in line which is 58-62% RMC or 38-42% of gross margin level, more on a higher side of 42%. So, let us see how this year goes and how the product mix develops, and we will see if it is a constant trend or it is just maybe for a couple of quarters depending on product mix.

**S Mukherjee:** Would we be able to maintain a consistent EBITDA per ton kind of margin even at an absolute level?

**Dr. Harin Kanani:** This lithium price increase is a bit tricky. Generally what we have been trying to do is that whenever I am booking new lithium from my supplier, we are kind of ensuring that we don't have too much of uncommitted inventory - in the sense that you can't take a very large order for which you don't have a supply or you can't put a very large order of lithium when you don't have a customer commitment. So, we are basically controlling that. So, the bare minimum that we get is the absolute margins in lithium are always controlled. So, we never go down on that. Depending on the supply - demand situation, competitor situation, we can also get away with maintaining our EBITDA. Overall, lithium is also only 15% to 20% of our business. And that is where you are seeing this kind of a trend. So, overall, 0.5% to 1% range can vary overall because of the product mix and that is why I always give 18 plus/ minus 1% or take that 2% kind of a cushion partly because of the product mix changes or such kind of fluctuations.

**S Mukherjee:**

So, in terms of the new set of businesses being developed or seeded, so for example, if you could give either some quantitative or a qualitative commentary on how your new products set is shaping up; say for example, like new molecules that are going to be commercialized in FY22, how many you have commercialized in FY21 and what are you seeing from your customer side, any impact of the China Plus One thing if it is playing out because last call I think you mentioned on this, just wanted to understand anything additional that is coming up on this?

**Dr. Harin Kanani:**

Swarnabh, not much to add. The trend is still continuing. Customers are also watchful. They were concerned with the COVID situation especially the second wave and the negative publicity which it had all over the world. But at the same time, we were in constant touch with them, we have kept our operations on to the best of our abilities and our customers also have appreciated that. And I think the development work also is on track. So, there has been no negative impact because of COVID or any other reasons on the development plan that we had. Also, we keep getting more enquiries and more projects from customers. So, every quarter we are getting new customer enquiries, new projects and as I mentioned we have now a VP in business development, which has helped. We have also now formalized this entire process of how all new products, enquiries will be screened and how they will be monitored, and kind of procedures for that. So, those things are progressing quite well. So, our current target is to make sure that what we have committed to the existing installed capacity is Rs. 650-675 crore. So, we will ensure that in next two or three years we have enough customer approvals and projects to fill this capacity fully. And once we do that, then comes the next phase, that okay, what is it that we want to do that. So, currently, based on the project pipeline we remain confident that this goal that we had set for ourselves to try to utilize this capacity fully by FY24 remains on track. There is no negative impact. And we will keep monitoring every year what the demand looks like and whatever capacity looks like and keep making decisions based on that.

**S Mukherjee:**

So, given that the picture looks even more rosier than maybe a year back or a couple of years back when we had started interacting, this Rs. 450 crore guidance that you had given, is it looking something to be a little bit now more on the conservative side and should we expect that going ahead we may be able to exceed that?

**Dr. Harin Kanani:**

The plant is starting now, we have just started operations in the month of May and stabilizing. So, because it's the first year there are a lot of customers, approvals, etc., involved. So, that's the reason I would not like to comment that it can go beyond that and also, we don't know how this COVID plays out. Frankly speaking, if we were to look at last year, yes, in the first one, one and a half month, we had a very strong challenge, because the lockdown was very severe, there was a lot of confusion, so plants were either closed or partially closed, but we also had the benefit that we had overhang from the previous year. So, that kind of more or less made up for it. But if I have to look after that, we were kind of running very smoothly and beyond May or June there was not very significant impact of because of COVID.

But in the second wave, many more staff were kind of affected and more people were affected, more had to get hospitalized and even they took time to recover. Also, the bigger challenge for us which we keep facing is the engineering industry because as compared to chemicals, in engineering industry we see even more people working very closely and more manual operation. So, they get more affected. Especially when we are starting Dahej, these new equipment's, we have everything ready when we started, we want the team to be present to kind of guide us or for trouble shooting or things like that. But this time all my field engineers are affected, they can't come. So, those challenges are also still there. So, I think maintaining Rs. 450 crore in spite of whatever has happened, the challenge is also that we faced in April and May 2021, that itself is a target. So, I would not want to kind of enhance that for the current year. And yes, whatever we said, things which are improving, what we are seeing is bound to help us in the coming years and that also remains. We have completed the

CAPEX and have a capacity of around Rs. 650 to 675 crore. So, let us see FY23-24. How it plays out.

**S Mukherjee:** Two book-keeping questions. So, your payables have actually gone up a bit in the half year, now it has slightly come down, but it is still high compared to FY20. Is this outcome of better credit terms that you have gotten from your supplies? Are there any other plans to improve?

**Dr. Harin Kanani:** I answered that earlier. So, it's mostly because of better credit terms that we have got from our suppliers and with Neogen credit rating, etc., improving, my long-term creditors are able to discount Neogen bills because of better visibility on Neogen and things like that. So they can give us better credit terms over a period of time. And as I mentioned, we also have a new person in our procurement team who has handled purchase of Rs. 1,000 crore plus kind of a company. So, he also knows how to get better terms and manage cash flows and things like that.

**S Mukherjee:** Last question is on the debt side. Do you expect any further increase from FY21?

**Dr. Harin Kanani:** Yes. So there is still some CAPEX which is pending and also as our business will increase, so debt will increase. Ketan is a better person to answer this, but our expectation is in the range of around Rs. 250-275 crore should be the debt levels by the end of the year. We try to do better, it will depend on exact working capital level improvements, but this is what we are looking at the end of the current year.

**Moderator:** The next question is from the line of Bharat Shah from ASK Investment Managers.

**Bharat Shah:** Given the fact that we are in kind of niche branch of chemistry and a specialized one, and if we look at over three years, won't you say that our growth is somewhat below our strengths and ability to deliver? Even our margin don't fully reflect the kind of specialty work that we do because if we see much bigger chemistry firms are growing at a rate faster and their margins are also at a level which reflected far superior numbers.

**Dr. Harin Kanani:** Bharatbhai, thank you for the question. First of all, especially if we were to look at last three years, and I would request you to look one more year behind. So, when we bought Karakhadi unit in FY16, we were at almost close to the end of Q3 FY16. So, in FY17, we had only one quarter and we did around Rs. 110 crore. So, from Rs. 110 crore in FY17 till, let us say, FY20, we went from Rs. 110 crore to almost Rs. 300 odd crore. So, that was, in my opinion, at least relatively quite good growth rate compared to our scale and compared to the capacity which was available. Last year, yes, I mean to some extent, ideally if this capacity would have come earlier, we could have a better growth rate. And yes, I mean, there was COVID issue, there was some growth which we missed because of lithium prices also being lower. But overall, yes, the growth rate could have been better. So, I think, for me, last year was similar to FY17, where we increased only from Rs. 100 crore to Rs. 110 crore. But we acquired the Karakhadi site, we kind of created a framework which allowed us to grow well for next year. So, I feel last year was like that. And again, this sets the tone going forward for us to go from around Rs. 336 crore we have done to, let's say, Rs. 675 crore by FY24. So, this is what we are currently targeting. And again, during this year we have also said that we will carefully keep looking at the opportunities in front of us, choosing the right opportunities very carefully. And whenever we feel that there is a need, especially, I think FY22 and FY23 we have enough capacity, but for FY24 we can see whether Rs. 650 crore is still the number or, as you said, because of our niche chemistry and because of interest, we can do better than Rs. 650 crore. And then, if necessary, we can plan some CAPEX in the second half of FY23 to ensure we have some additional headroom to grow in FY24. This is one side.

The second thing about improving the margins. I mean, I take your point. What we have seen is that many of these companies also in the legacy business don't earn so much. And then when they go to more complex molecules with innovators, that is when slowly the margins improve. So, we have just started that journey. That CSM





business which we do more with innovators is still only 10% and still 50% comes from one stage bromine derivative or another 17% comes from inorganic chemistry. So, what we see is a combination of that. We would hope that as we go to Rs. 650 crore to Rs. 675 crore by FY24, and if we are able to convert this increase in the advanced intermediates and the CSM business with innovators, then our margin also should improve. But this is a target in front of us, I really need to first do it, and then I can claim I have achieved it. So, I hope, Bharatbhai, I answered your questions.

**Bharat Shah:**

Sure, I appreciate that. But let's say we do Rs. 650 crore in three years from now, from the Rs. 336 crore that we have done in FY21, that still essentially will mean about doubling, so about 24% odd, compounded growth. And if our margins are likely to get beyond say, into the bend of 2020 rather than 2018 or 2017 or 2019, that would still mean more or less similar kind of growth in profitability. And if you look at much larger firms in the chemistry side, they have been able to grow profits at a rate faster. Similar or let's say smaller size firms, not as small as yours, but many of them are growing at a rate much faster with far higher margins. So, the question is whether there is a limitation on the branch of chemistry and what we are doing? Or we need to be more aspirational?

**Dr. Harin Kanani:**

So, I think we need to be more aspirational, keeping in mind the risk and our ability to manage growth. So, as I mentioned, currently this is the number we have for FY24. And, as I said, at the end of every financial year, or between December to March, we will keep looking. And we can say, can we be more aspirational as opposed to taking undue risk. So, that will make a decision whether we can grow. I mean, this is the visibility that we have now. And every year, for example, if we take a decision to have more CAPEX in FY23, I mean, it will increase the ability for me to do higher revenue in FY24. This is what I can do now, which, from my point of view, is already quite ambitious. I mean, if we are growing at 24% - 25% year-on-year for the next three years, with a chance of increasing it if things turn out well, that's what we want to currently start with. And then we will see what more we can do every year if we have a clear business visibility. And again, on the margin side, I take your point, I mean, we need to do a better job, whether that is from better efficiency or through the scale of operation which will allow us to do that. In my opinion, mostly it is innovation. I mean, we have to work, especially in the line of products we are, that now we have started doing complex molecules. And now in complex molecules, when we do majority innovation, that's when we will be able to deliver better margins.

**Bharat Shah:**

Sure. One last thing. While compared to the past getting into Rs. 650-odd crore bracket certainly is a jump. But do you see any possibility that, this Rs. 650 crore itself with which we end up achieving, say, Rs. 575 crore or Rs. 600 crore, that still will mean materially kind of a reduced performance. So, do you see risk to that? Or do you think that reasonably should be aimed at and is possible to get?

**Dr. Harin Kanani:**

So, we are relatively quite confident that this is something which we can achieve. This was the basis of our investment because now some of the additional revenue that we are targeting, of around Rs. 650 crore, some of it has already come through this multi-year contract where we have visibility. And I personally feel, we always keep option B, option C, etc., to make sure that if this doesn't work out, then we have this customer or this product revenue. So, while margins may depend upon more profitable business or more contract works, achieving Rs. 650 crore to Rs. 675 crore in that range, by FY24, to me feels reasonably confident. But again, the only caveat here is, how bad COVID becomes, whether there is too much of a global protectionism or make at home kind of concept. So, those are things, I don't know, which may make it more difficult. So, that's why we have not kind of given a formal guidance for 2023 and 2024. But we say we have a capacity for doing this. And we feel that we should be able to achieve peak utilization by that time.

- Moderator:** The next question is from the line of Pritesh Chheda from Lucky Investment Managers.
- Pritesh Chheda:** Just one clarification from your commentary. What we are executing in terms of CAPEX is the Rs. 65 crore CAPEX at Dahej for putting up 125,000 kilolitre capacity, right? Or are we doing one more round of CAPEX of Rs. 55 crore for which the reactors will start coming from Q3 and Q4?
- Dr. Harin Kanani:** Yes. So, if you look at our second quarter earnings call, we had said that in addition to the Rs. 75 crore, we are planning an additional Rs. 55 crore, which will give us an overall capacity of, let's say, about Rs. 650 crore - Rs. 675 crore by FY24 as against the previous investment which was going to give us a visibility of around Rs. 500 crore. So, this additional reactor, as I mentioned, will also start coming partly in Q3 and Q4.
- Pritesh Chheda:** So when you mention Rs. 675 crore as peak revenue, you are considering both the recently announced Rs. 55 crore CAPEX which you said about in the quarter two, and Rs. 75 crore which you had announced earlier which included, let's say, Rs. 15 crore for inorganic and some Rs. 45 crore - Rs. 50 crore for organic, right?
- Dr. Harin Kanani:** No, it was Rs. 15 crore for inorganic, then Rs. 75 crore for organic, and then this Rs. 55 crore. So, I think, if you just note in Q2 conference call earning presentation that will give you the clarity.
- Pritesh Chheda:** Okay, so the Rs. 675 crore includes all, right?
- Dr. Harin Kanani:** Yes, all the CAPEX which has been announced together is good enough for us to reach around there.
- Pritesh Chheda:** So, when you achieve this revenue, what would be the change in your revenue mix from the current mix of bromine derivatives, advanced intermediates, and lithium derivatives, what would be the mix change?
- Dr. Harin Kanani:** What we have targeted is that we can achieve about 40% bromine derivatives as against around 50% - 55% now. Then we said that the advanced intermediates will expand again from 30% to 40%. And then the lithium will be roughly around 20%. So, instead of 50%, 30%, 20%, it will be 40%, 40%, 20%. And within that 30% currently, 20% is advanced intermediate and 10% is CSM. So, we said we are trying to do 20% advanced intermediate and 20% CSM as part of the 40%. So, that's something which we have discussed over the earlier call.
- Pritesh Chheda:** And what is the incremental gross margin in advanced intermediates?
- Dr. Harin Kanani:** Again, at EBITDA level they are similar. Now, within advanced intermediate, some of them use higher raw materials. So, again, the range is, as an average a bit lower, so I think I mentioned the gross margin range from 40% to 50% when it comes to advanced intermediates, as opposed to 30% to 45% in our normal bromine derivatives.
- Pritesh Chheda:** This is for raw material consumption?
- Dr. Harin Kanani:** Yes. So, it depends really from product to product. And again, what happens is when this goes down, your processing cost goes up. So, at present, basically we are saying, okay, at least for FY22 we want to see how the product mix is playing out, which molecules of the advanced intermediates are coming. So, let us stabilize this new kind of framework in FY22, and then we will give a better guidance on how the gross margin looks like, how EBITDA looks like for FY23, FY24. Because in the FY22, we are already trying to increase the business significantly. Let us say, from

Rs. 336 crore to Rs. 450 crore. We are also trying to stabilize this investment. So, there are a lot of variables in this first year. So, in first year, we are trying to keep the margin similar, so 18% plus or minus 1%, in that range. And going forward, as this stabilizes, once we have more idea on the new cost structure, we can have a better idea on what the margins look like.

**Pritesh Chheda:** But direction wise it should be up, right. Because the advanced intermediates are much higher pricing versus a bromine derivative, so directionally is it fair to assume that margins should inch higher?

**Dr. Harin Kanani:** It's fair to assume it will remain same and may get better. But basically what happens is, advanced intermediates have its own challenges. If I look at my margins, I have basically earned really well where I have done innovation. Now that innovation I could have done in lithium molecule also, in bromine derivative also and in advanced intermediate also. So, where I have done innovation I earn more margin. When there is not too much innovation, even advanced intermediates and bromine derivative margins can be similar. So, it will really depend upon final innovation and efficiencies. And we are new to this. I mean the significant increase which we are doing in advanced intermediates, multistage chemistries, etc. So, give us some time before I can give you a more confident answer that, yes, margins would improve and things like that.

**Pritesh Chheda:** And what is your current debt as of 31st March, 2021?

**Ketan Vyas:** The current debt levels are at Rs. 216 crore. This is both put together long-term and short-term.

**Pritesh Chheda:** And in that Rs. 55 crore of extra CAPEX, that CAPEX you spend this year, right?

**Ketan Vyas:** That has partly come.

**Pritesh Chheda:** But the Rs. 75 crore is incurred, right?

**Ketan Vyas:** Yes, Rs. 75 crore is incurred.

**Moderator:** The next question is from the line of Ashutosh Garud from Ocean Dial AMC.

**Ashutosh Garud:** I wanted to understand what would be the asset turnover over the new CAPEX which we are incurring?

**Dr. Harin Kanani:** Overall if you look at, around Rs. 130 crore to Rs. 140 crore which we are spending in Dahej, is giving us a visibility of around Rs. 250 odd crore. So, from Rs. 350 crore to around Rs. 650 crore, so around Rs. 300 odd crore. So, let's say, it's around 2.5 to 3, in that range.

**Ashutosh Garud:** Because since FY17 odd, our asset turnover has been around 3 times, and we have done CAPEX in the past. So, is there any possibility that the asset turnover would be exceeding 3 times given that we are getting into different kind of chemistry as compared to the bromine, which was the higher revenue share? So, don't you think it can give us a better asset turnover going ahead?

**Dr. Harin Kanani:** So, the new molecules require more processing time for a given revenue. Therefore, the asset turns would be either similar or slightly lower. So, that's why we are predicting, at least for the existing CAPEX when we did, our view was Rs. 650 crore to Rs. 675 crore. Again, it depends on the product mix, but Rs. 650 crore to Rs. 675 crore is a reasonable number. And if you are looking at Rs. 650 crore - Rs. 675 crore coming out of around Rs. 130 crore to Rs. 140 crore CAPEX, that is translating to

around 2.5 times. Overall, I think advanced intermediates, because you are also working for MNCs, and the standard because of complex chemistry, the investment also is a little bit on the higher side. And on the other side, the processing time, as I mentioned earlier, is also long.

**Ashutosh Garud:** So, just if you can give us some idea of how the ROE and ROCs would shape up? Because we are talking about CAPEX, the asset turnover was slightly lower. And if the margins are going to be similar, then do you think these return ratios would be lower, let's say, three, four years down the line as compared to the healthy ones which we have right now?

**Dr. Harin Kanani:** So, I think Ketan has done this analysis, I would let him answer this question.

**Ketan Vyas:** What we think, our estimate is that ROE should improve down the line, and similarly at the ROC level for this financial year, that's ending 2022 we might improve slightly. But in the coming years, we should improve by at least 2%, approximately.

**Moderator:** The next question is from the line of Sameer Dosani from Carnelian Asset Advisors.

**Sameer Dosani:** My question is more on the CAPEX side. So, out of the Rs. 135 crore CAPEX, what is the organic component? So, Rs. 75 crore is for organic chemicals, right? What is the other breakup of this number?

**Dr. Harin Kanani:** All of this is for organic.

**Sameer Dosani:** Okay. So, our planned CAPEX of Rs. 75 crore, is there a cost overrun or can you just explain why?

**Dr. Harin Kanani:** So, there was some cost overruns. About a few crore or something. So, we will have a clearer picture when Phase 1 and Phase 2 both gets completed. So, we will have an exact idea. But recently you might have seen the steel prices have kind of increased a bit. Also, some of the costs were higher because of COVID related challenges. Some of the pre-operative expenses also kind of build up because earlier this was planned to get started in January to March. So, there is some increase to the tune of around Rs. 5 crore to Rs. 10 crore in the range so far. But I think we will have a proper idea once we finish the year, that, okay, what does the overall CAPEX number look like. But I think the increased debt numbers which Ketan shared earlier, they basically take this into account.

**Sameer Dosani:** And what part of the Rs. 55 crore CAPEX of advanced intermediates is included in current year CAPEX?

**Dr. Harin Kanani:** So, again, both these are in the same plan and there is no distinction that this is advanced and this is bromine derivatives. But our estimate would be Rs. 25 odd crore of the second phase we would have done. We still have around Rs. 30 crore to Rs. 35 crore.

**Sameer Dosani:** So, Rs. 35 crore would be something which we will be spent next year, right?

**Dr. Harin Kanani:** Additional CAPEX in Dahej in the current year. I mean, FY22, there will be Rs. 30 crore - Rs. 35 crore more CAPEX to get this project completed. And there will also be some other maintenance CAPEX and others.

**Sameer Dosani:** Some guidance on that number?

**Dr. Harin Kanani:** Currently, we have not finalized, but we expect it to be in the range of around Rs. 20 crore to Rs. 25 crore.



- Moderator:** The next question from the line of Bob Lee from Falcon.
- Bob Lee:** As we move towards higher scale and higher value-added molecules, which of your peers are you trying to emulate? Are there any players that have achieved, say, a turnover of about Rs. 1,000 crore or so on this business, in bromine derivatives?
- Dr. Harin Kanani:** Thank you for the question. So, we have basically three businesses - bromine derivatives, advanced intermediates, and part of that is custom synthesis and manufacturing; and then you have the third one which is the lithium business. So, as such, if you were to look at each individually, there are no peers in India which specialize in bromine or there are no other peers who specialize in lithium. But when it comes to advanced intermediates or CSM, or similar kind of specialty chemical, if I take a broader view, then there are companies like Navin Fluorine or SRF which have some legacy business like ours, then they have the specialty intermediates which have done Rs. 1,000 crore plus kind of business. So, there is Atul, there is Aarti, there is Navin and there is SRF, and there are some others also in CSM space, who have done that. So, I think there are some peers like that.
- Bob Lee:** But what I mean was specific to bromine.
- Dr. Harin Kanani:** So, specifically to bromine chemistry, there are some eight, nine companies in the world, which specialize in making specialty bromine derivatives. So, they are in Europe, they are in Japan, some of them are in China. But they have not ventured into the advanced intermediate business. So, we are one of the kind of odd one out when it comes to pure play specialty bromine player who also does more advanced intermediates. So, that's why it is difficult to tell.
- Bob Lee:** So, are there bromine players who do bulk bromine?
- Dr. Harin Kanani:** Yes, so when it comes to bulk bromine derivatives, that's an entirely different business. And most of the time there are few worldwide big bromine manufacturers, who themselves make bromine derivatives. So, if you were to look at a company called Albemarle, and there was a company called Chemtura, which was acquired by Lanxess; and in Israel, there is a group called ICL, Israel Chemical Limited, so they have a sub division which is into bromine derivatives. Similarly, Chemtura is now taken over by Lanxess. So, they also make bromine and bromine derivatives. And the third is Albemarle.
- Bob Lee:** Right. I am aware of that. I think my question relates to whether your specialization, your rather narrow specialization in bromine derivatives allows for a high scale. Because there aren't many companies that are as narrowly focused as you are. And I don't see companies achieving very high scale. Is this a really niche market where you can scale up much, I guess, is really what I am looking for.
- Dr. Harin Kanani:** Yes. So, if you were to think of specialty bromine derivatives as a business, what is estimated that the worldwide demand of specialty bromine derivatives per se is about 50,000 metric tonnes. As against that, we are somewhere already at around 3,000 metric tonnes of bromine consumption before our expansion, and it may increase to around 4,000 metric tonnes to 5,000 metric tonnes, in that range, over the next two to three years. So, we kind of are at around 10% of what is worldwide specialty bromine consumption range. Of course, what happens is your revenue depends on using that bromine, do you make a \$10 or \$15 molecule, or you add more chemistry and make it more complex and make a \$200 or a \$300 molecule. So, that basically says what is the revenue you can get out of that. So, that's what we have done, instead of just limiting ourselves to making only bromine derivatives, we started doing bromination plus other chemistries. And now we have done almost six, seven stage, multistage reaction now for several molecules. And this plant is also designed keeping that in mind. So, now, it's not only bromine, like how we scale

up through other businesses. So, we already kind of envisioned our plan that the share of this in our business will enhance as we double our business. And then going forward, yes, this is the piece which will keep increasing. And what also happens that once we demonstrate ourselves and our ability to do multi-step chemistry, then sometimes we are also get projects where there is no bromination. And still just because of our reliability, customers come. While the bromine gets the customer interested to begin with, they see the reliability and then give us other molecules, which is a opportunity.

**Moderator:** The next question is from the line of Aniruddh Shetty from Solidarity Investment Managers.

**Aniruddh Shetty:** My first question is, if I look at your gross profit margin for the last two years, it has been between 39% and 41%. And this is despite your downstream business increasing from practically zero to now 30%. Given that it's a much higher gross profit margin business compared to the bromine derivatives why hasn't that reflected in the overall gross profit numbers?

**Dr. Harin Kanani:** Yes. So, these advanced intermediates have contributed more significantly. This has been there since almost FY17. So, you have to start looking from FY15, FY16 numbers. But you are right, basically my range is usually 38% to 42%. Even in advanced intermediates, within that there's multi step chemistry, where there is a bigger differential. So, if you are doing one stage, two stage, three stage, it makes a difference. But sometimes what happens is, what you are combining also has a higher value. So, it depends on that. That's why when I answered earlier question, just because it is advanced intermediate, so gross margins are better, that's not always true. Again, within that also it depends on molecules. And there are some molecules where, especially when you are doing five stage, six stage chemistry, which we just started doing last year. So, that's where you have seen some improvement. And I think that layer also of the business is relatively lower. And along with that a lot of other things are happening in lithium, other bromine derivatives and things like that. So, that's why it has been in this narrow range, but we have seen some improvement. As I mentioned, give us just one year to kind of stabilize and then we will have a better idea where the margins will go, and as the percentage of this business also increases.

**Aniruddh Shetty:** Got it. And my second question was on the net debt number. So, in FY22, are we looking at Rs. 250 crore to Rs. 275 crore net debt number, just wanted to reconfirm?

**Dr. Harin Kanani:** Yes.

**Aniruddh Shetty:** So, given that we are looking to do about Rs. 450 crore of sales, and assuming EBITDA margin stays at 19%, that's about Rs. 85 crore of EBITDA. So, we will be closer towards the 3 times kind of net debt to EBIT. So, I just wanted your thoughts on how do you look at balancing growth and the balance sheet strength? And if there's any red line that you guys think of internally beyond which you all would not like to go?

**Dr. Harin Kanani:** So, I think we mentioned that. Ideally, debt equity, not more than 1.25 times and debt EBITDA not more than 3.5 times. I mean, this is what we don't want to do. And that's when we think we will take a pause. Of course, now what has happened is that in this year we are doing Rs. 450 crore, but majority of investment for reaching up to Rs. 650 crore will happen now. So, that's why this is the year, and then next year we will again take a call whether we need to do that, or we need to take a pause. Or even if we do, may be we will do it in second half. Because we have enough headroom for FY23. And only once we have clarity on how much we are reaching in FY23, and only when we feel that the capacity is now hitting 80% utilization on a regular basis, that is when we will think of significant CAPEX. I mean, we will do



maintenance CAPEX, we may do some small incremental CAPEX for some specific molecules for modification, or things like that. But this is what our current comfort levels are. So, we are okay, when we know for some quarters or for a year we are exceeding this slightly, we are okay. But not for a long period of time.

**Moderator:** The next question from the line of Dhavan Shah from ICICI Securities.

**Dhavan Shah:** So, I have just one, two questions. Firstly, about the customer engagement for the CSM business. So, you said that may be the additional two to four customers that we were engaging, may be two or three quarters back, so is there any stopping block over there, I mean, because of the COVID related challenges, the negotiation has not been improved or is there any other challenges you are facing? So, if you can share thoughts on that. And may be if we get one or two customers, may be new additional customers for the CSM business, do we have to come up with the further CAPEX? I mean, this Phase 2 may be doing some bit for the organic growth, but if another two customers comes in, then do we have to go ahead with another expansion, if you can share thoughts on that?

**Dr. Harin Kanani:** So, I think on the first, basically what is happening is that, at the end of quarter two when we had planned our additional CAPEX, is when we had mentioned that number. So, roughly around two quarters ago we had that discussion. And generally there is no challenges with regards to COVID, it's only that it's going through the stages. So, there's a developmental cycle, as I mentioned, where you first make it few KGs in R&D, then you make few hundreds of KGs in pilot plant, then you make a first commercial run of 1 tonne, 2 tonne or couple of metric tonnes, and then you go get into the tens of metric tonne or hundreds of metric tonnes, depending on how many stages and value of the material. So, I think we are just going through that phases and it is going from one stage to another to another, and that is something which is expected. So, some of these are the ones which would be required in the second half of FY23 or early FY24 they would most likely materialize. And again, if they don't for any reason, we also have existing demand from our existing customers which will be required. So, I think that is answering your first question.

The second question is that, yes, as long as the revenues are remaining in this phase, up to Rs. 650 crore, what our estimate is that the existing capacity should be sufficient. I mean, we may have to do some rejig here or there or change few reactors etc. But we don't require a major CAPEX where we have to build a new manufacturing block. If the revenue potential goes beyond Rs. 650 crore, that is when we will have to set up another manufacturing block, either in the Dahej or Karakhadi. For which we have environment clearance and now we have major infrastructure, so relatively it can come up with a shorter duration of time. So, we will think of that only once we have a very clear visibility on the Rs. 650 crore - Rs. 675 crore, and that's when we will take a call.

**Dhavan Shah:** And how is the order backlog of these two customers which we have got, may be two quarters back? How is the order booking in the CSM business? I mean, how much revenue are we expecting for this first year?

**Dr. Harin Kanani:** Yes. So, I had guided that we are expecting around Rs. 60 crore to Rs. 80 crore between the two customers in this year. And more or less based on whatever POs we have already received or once customer releases PO every quarter on quarter, they give us a volume projection. So, based on that we are in that range, that these two contracts together should contribute around Rs. 60 crore to Rs. 80 crore in the current financial year.

**Dhavan Shah:** Okay. Lastly about the other expenditure. You mentioned that there was some higher manufacturing cost, but still if I look at on quarter-on-quarter basis, I mean, around

Rs. 3 crore to Rs. 4 crore is still higher. So, is this entirely related to the manufacturing cost? Or is there any one-time cost also?

**Dr. Harin Kanani:** No, this is entirely manufacturing cost. One is, the utilization levels in this quarter were a bit higher, because previous quarter there was always something or other related to COVID. But in Q4, we hit almost close to 90% utilization levels in organic at both my plants, where normal norm is around 80%. So, that was one of the contributing factors. And the second was, as I said, we had a set of products where the processing time was more, and the raw material cost was lower, so the RM percentage was lower and the manufacturing cost was there. So, there is no specific one time for this call.

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

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

**Moderator:** Thank you. On behalf of Neogen Chemicals Limited, that concludes this conference. Thank you for joining us.

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