



May 9, 2024

BSE Limited

Department of Corporate Services
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Dalal Street, Kala Ghoda, Fort, Mumbai 400 001
Scrip Code No: 542665

National Stock Exchange of India Limited

Listing Department, Exchange Plaza,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051
Company Symbol: NEOGEN

Sub.: Q4 & FY24 - 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 Q4 & FY24 Earnings Conference Call held on May 2, 2024.

The transcript is also being uploaded on the company's website at <https://neogenchem.com/financial-performance/>.

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 FY24 Earnings Conference Call May 02, 2024

Moderator:

Ladies and gentlemen, good day, and welcome to Neogen Chemicals Limited's Q4 FY24 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 this conference call, please signal to the operator by pressing "*", then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, sir.

Nishid Solanki:

Thank you. Good afternoon everyone, and welcome to Neogen Chemicals' Q4 FY24 Earnings Conference Call for analysts and investors. Today, we are joined by senior members of the management team, including Dr. Harin Kanani, Managing Director and Mr. Ketan Vyas, Chief Financial Officer. We will commence the call with the opening thoughts from the management team, post which we shall open the forum for Q&A where the management will be addressing queries of the participants.

Before we commence, I would like to share our standard disclaimer. Certain statements made or discussed on the conference call today may be forward-looking in nature. The actual results could vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q4 FY24 earnings presentation, which has been uploaded on stock exchange websites. I would now like to invite Dr. Harin Kanani to share his perspectives. Thank you, and over to you, sir.

Harin Kanani:

Thank you Nishid. Good afternoon, and warm welcome to all participants on the call. We are here to discuss the Q4 FY24 earnings performance of Neogen Chemicals. I would like to commence by sharing my views on the performance, key developments, expansion initiatives and strategy, while our CFO, Mr. Ketan Vyas, will take you through the financial highlights.

Fiscal year 2024 was a landmark year for Neogen Chemicals marking the initiation of an expedited growth journey, where we laid a strong foundation to energize India's rapidly evolving EV ecosystem. To fuel our future success, we have undertaken several strategic initiatives this year, such as, acquiring BuLi Chem, securing a licensing agreement with MUIS Japan, raising capital through a preferential offering and enabling Neogen Ionics' expansion with land acquisition. The dedication and focussed



efforts of the Neogen family team members have been instrumental in achieving these goals, and I would like to thank them for their contribution and being a part of this dynamic journey.

Moving to our performance for the year, we traversed through a tough operating environment characterized by cheap imports, inventory corrections, geopolitical tensions, and logistical disruptions. We demonstrated resilience amidst these global challenges by harnessing our agile business model and robust manufacturing expertise. That being said, I am pleased to share that we sustained/ increased our base volumes in certain cases by adding new customers and through cost improvement initiatives.

Let me quickly summarize the key financials. For Q4 FY24, our consolidated revenue stood at Rs. 200 crore, while EBITDA came in at Rs. 36 crore, higher by 10% year-on-year, translating to EBITDA margin of 18%. Profit after tax stood at Rs. 17 crore, up 18% year-on-year. Mr. Ketan Vyas will share more insights on the financial performance.

Turning your attention to our segmental performance, in Q4 FY24, organic revenues reported a growth of 22%, while inorganic revenues declined by 53%. Both bromine and lithium raw material prices significantly declined during the year. However, we were able to maintain our performance trajectory due to higher volumes across various product categories.

Now before moving to our expansion initiatives, let me share one important development. Based on the recommendation of our Board, we will file for amalgamation of BuLi Chemicals with Neogen Chemicals as now most of the customers have registered transfer from Livent to Neogen's ownership. There are additional synergies here due to common exposure to pharma and agrochemical customers, internal use of organolithium in Neogen and by product recycling and further, this will also lead to lower administrative costs, lean and cleaner structure.

Coming to our expansion initiatives, we are making rapid progress in establishing our greenfield battery materials project. The plant design using MUIS technology is ready, and we have started issuing POs for activities related to construction work of the plant. Construction including related utilities is expected to start soon, keeping us on schedule to inaugurate this facility by second half of FY2026.

The CAPEX of the total upcoming capacities at all sites is around Rs. 1,500 crore, and I am glad to inform you that we have already tied up majority of funds through existing bankers to fund this through project finance route. In the interim, our initial commercial capacities of electrolyte and lithium electrolyte salts will cater to the immediate needs of our customers.

For the 2,000 metric ton electrolyte, mechanical work is complete and the trial production has already commenced. For 400 metric ton lithium salts plant, 200 metric ton per annum is already commissioned, and the first approved material has been shipped to the customers. For remaining 200 metric ton per annum, trial production has already commenced, and we have already started construction work for expanding this capacity to 2,500 metric ton by the end of the current financial year.

We started shipping small batches of lithium electrolyte salts to global customers and electrolytes to local customers and the response with respect to product quality is awaited. Several domestic as well as international customers have visited and approved the facility and we are now awaiting approval of the commercial products manufactured at the site.

The opportunity size for both electrolyte in India and lithium salts in international markets remains promising. In addition to the PLI advantage, there are additional 7 to 8 non-PLI players, who have also announced significant battery capacities to come online over the next 3 years. For salts as well, the demand for non-Chinese lithium salts remains strong and is projected to grow at a healthy pace by 2030. At present, there are only 2-3 active manufacturers of Lithium Electrolyte Salts outside China. Lithium battery manufacturers, electrolyte producers want a China-free/China+1 kind of supply chain due to implementation of IRA in U.S., other regional policy initiatives and security of supply. This represents a potential market for Neogen Ionics, which will drive faster installation of lithium salt capacities ahead of required to support the electrolyte salt demand in India.

Our growth going forward ahead will be driven by:

- Augmenting the capacities of both organic and inorganic chemicals
- Higher focus on CSM and Advanced Intermediates through portfolio expansion
- Expanding our capabilities in adjacent complex chemistry, including organolithium chemistry and lithiation chemistry
- Making deep inroads into the Battery Materials segment and
- Leveraging our strong R&D expertise to introduce innovative offerings

I will now conclude by saying that the ensuing year appears more promising considering the current pace of recovery. Our objective is to leverage our core strengths across various chemical domains to consistently enhance value for all our stakeholders.

That ends my opening remarks. I would now request our CFO, Mr. Ketan Vyas, to share financial highlights for the period under review. Over to you, Ketan.

Ketan Vyas:

Thank you, Dr. Harin. Good afternoon everyone, and welcome to Neogen Chemicals' Q4 FY24 earnings conference call. I will take you through the financial highlights. Please note that these are on a consolidated basis and based on year-on-year comparison.

In Q4 FY24, revenue stood at Rs. 200 crore and for FY24, it came in at Rs. 691 crore. Despite substantial decline in raw material prices, notably bromine and lithium, we managed to sustain/ increase our base volumes, as mentioned by Dr. Harin.

In Q4, our battery materials also contributed to this performance through initial sales of lithium electrolyte salts. Organic chemicals saw revenue growth of 22% to Rs. 169 crore in Q4 FY24, whereas inorganic chemicals reported a decline of 53% to Rs. 31 crore. In FY24, organic chemicals grew by 17% to Rs. 543 crore, whereas inorganic chemical revenues came in at Rs. 148 crore. The domestic and export mix for FY24 stood at 73% and 27%, respectively. EBITDA increased by 10% to Rs. 36 crore in Q4 FY24. And for FY24, it stood at Rs. 110 crore.

Higher employee costs were primarily attributed to acquisition of BuLi Chemicals and setup of Neogen Ionics. However, despite this increase, we managed to maintain our operating EBITDA for the full year, resulting in an EBITDA margin of 16%. EBITDA margin for Q4 FY24 stood at 18%. Profit after tax for Q4 FY24 stood at Rs. 17 crore, higher by 18%, while the same came at Rs. 36 crore for FY24. PAT performance was lower due to high depreciation and interest expenses linked to ongoing capital expenditure within the battery material divisions. We utilized the proceeds from preferential allotment in Neogen Ionics to improve working capital and reduce high-cost debt. These actions underscore our commitment to prudent financial management and long-term value creation.

On consolidated basis our net debt, after including current maturities of long-term debt, stood at Rs. 381 crore in FY24. The Board of Directors has recommended a final dividend of Rs. 2 per share, that is, 20% of the face value for FY24, subject to shareholders' approval.

That concludes my initial remarks. I will now request the moderator to open the forum for Q&A session.

Moderator:

Thank you very much. The first question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella:

So, the first one was actually with regard to the working capital. It seems to have increased quite significantly one more time at year end. So if you could please just help us understand the reason for this? Is it something to do with unsold inventory at BuLi Chem or is there some other reason for this?

Harin Kanani:

Yes. So, as regards to our inventory situation, as we said, when we started this year, we were basically planning for a full utilization of organic production (facility) for a long time. We also saw a dramatic change in the demand on the agro side. So basically, this, along with the fact that when we acquired BuLi Chem, there was almost 0 inventory; and now BuLi Chem business has also taken off significantly. So, the combination of all these basically increased both inventories.

And when we think of debtors, as you saw that usually, our exports are 40% to 50% of our revenue. And when we have exports, usually, the payment terms are better or we have factoring mechanism which are available. Whereas when we are doing business domestically, especially generic market, since majority of our business and export was agro, which was in fact significant as well as there was some impact on the pharma business also in export market, we had to compensate that through more business in generic which is where you know the payment terms are a bit longer and the realizations take longer, which is what affected the debtor side.

Again, as we said, this was a very challenging year where we started with one objective, and then we had to do course correction many times to respond to the market. Over the next 2 years, as we achieve full utilization levels, some of our new products start getting approval, there will be significant improvement, especially in terms of number of days. The inventory that we have, the debtors we have, can support Rs. 1,000 crore of a revenue, that is, may be Rs. 250 crore of revenue per quarter. We are basically aiming for that to achieve by the end of at least the next financial year so that we are on track to get a Rs. 1,000 crore plus kind of revenue from Neogen Chemicals in FY26 as we have targetted earlier.

Abhijit Akella:

Got it. That's helpful. The other one was Dr. Harin, there was this announcement by a small NASDAQ-listed company regarding some licensing deal they have entered into with Neogen with regard to battery separators. So, if you could please just help us understand what the company's thought process is on this front and whether that's an area where we intend to move forward in the future? Also, is there any synergy with our existing lines of chemistry for that?

Harin Kanani:

Sure. This company has basically developed some technology, which is for separator, and it is very early stage. So, they just have a very small line where they make the separator which in combination with a specific type of electrolyte can give very good performance at a high temperature.

As you all know, in India, the temperatures are much higher and in most of the world, the batteries were tested only at 25 degrees Celsius. The whole world is now getting ready that these batteries will be used in India, Africa, Latin America, Middle East, where the temperatures are going to be higher. This is a company which has developed a separator, which in combination with electrolyte can give improved battery performance at high temperatures.

So, we were very keen that ultimately, as India starts first-generation technology, where majority of this is basically coming from what has been tested in the international market. As they get into second-generation India-specific design, this technology, if it works at a commercial scale, along with the electrolyte design that we have for it, together can give batteries, which are most optimized for India. That's the partnership. We are using some of the trials, small quantities, which they have made, we are offering to all the Indian customers. So, they recognize that Neogen has a good reach for all these customers, and we can offer that combination of different separator along with the relevant electrolyte. So that combination our customers are testing. Most of them will not be used in their first generation of cells, but in the second generation. So right now, it is an exclusive distribution agreement, and if in future, any customer likes the design and wants to use it at a commercial scale, then we can also have a potential joint manufacturing activities. But currently, there is no revenue guidance, which I can give. It is just technology. If it works at a commercial scale in our customer trial as well, then it has a potential to have a very unique offering, specifically for India and can solve the high temperature issue of India. That is why we entered into this deal with them.

Abhijit Akella:

Got it, sir. Just one last thing, if I may, before I get back into the queue. Two parts to this actually. One is, now that we commenced shipments of the salts, are the realizations we are making in line with our expectations? Let's say, in the range of \$20 to \$30 a kilo, is that still in that ballpark? That was one.

And the other thing was just on the balance sheet. There's been a significant increase in both other financial liabilities and other non-current assets. So, if you could please just help us understand what that might be due to?

Harin Kanani:

Yes. The realization that whatever pricing we are seeing is looking into that range. Of course, Neogen has also partly intermediate of that. Some of it is the intermediate sales, some of it is the final product sales. But yes, it is in that range of what we are talking, what we are expecting so far. Also, some of the discussions which we are having with the international customers, which are, as I said non-binding MOUs or some purchase agreements or something like that, pricing formula based. There also, it seems that the realization remains in the range of \$20 to \$30. And all are basically lithium-linked kind of reasons.

I am not sure what you mentioned about the other financial assets. Some of these are related to, I don't know if it is in standalone, then part of it is also related to the investments which we are making, plus which is happening between Neogen and Neogen Ionics. Neogen Ionics was established just last year, and we had to wait for some regulatory clearances before which some of the investments could directly be made by Neogen Ionics. Now all the future investment directly will be done by Neogen Ionics, but because of that, some of them are associated with that. But may be subsequently, when we share our detailed financials with all the schedules, you will get more clarity around that.

Moderator:

Next question is from the line of Manish Gupta from Solidarity.

Manish Gupta:

I had four questions. My first question was on Neogen Ionics. There's a lot of excitement about the renewable energy opportunity in India and people putting up wind and solar. I wanted to understand, sir, that, are we in discussions also with these guys for their storage requirements and whether these guys are going down the lithium route or the sodium route? And whether in our business plans, this segment is also of interest or will our plans will really be for the EV manufacturers in India?

Harin Kanani:

So, Manish Ji, for the 160 gigawatt hour guidance we had given for India's electrolyte demand, roughly around 120 gigawatt of that was estimated to be EV and another 30 gigawatt to 40 gigawatt was likely to be the solar and wind energy storage and just overall, what is called as grid level energy storage kind of business. That has been a part of our plan and projections from the beginning. And this is one area where, if it really picks up, then you can have a positive surprise because EVs, you can say, okay, maybe 30% penetration, you have a good amount of estimate of how much number of EVs, which are going to get sold and at a 30% penetration, you can calculate relatively quite accurately as long as that 30% penetration number holds, the battery requirement of that. But renewable and solar are still developing fields. Depending on how fast these pick up and make logical sense. If the renewable energy contribution has to increase, then, that is where that 30/40 gigawatt hour that we estimated can go even higher.

Having said that, we don't directly discuss with them. I mean, this is basically an opportunity for battery makers. And I do know that some of the battery maker customers that the cell and the battery producers

who we are talking to, that they are also see this traction and they are planning more and more contribution or sales coming from the renewable energy side as well.

Finally, your question about sodium. Yes, there are some people who are thinking of sodium for renewable energy as a potential. But so far, most of the renewable energy storage people are considering lithium as chemistry. And some of the calculations that we have internally done, only if lithium prices remain at a very high level, then sodium will become attractive. Otherwise, most likely lithium should continue.

In my view, lithium prices, the level which lithium prices have to be, it is very difficult for lithium prices to sustain that levels. Personally, I think that lithium will be the main driving technology. However, in case it comes to sodium also, at Neogen with its existing facilities with few modifications we can make Lithium Electrolyte Salts. And I think you require almost very limited modification to make the electrolyte formulations for the sodium and battery also. I hope this answers all your questions.

Manish Gupta:

Yes. So, this answers my first question, sir. My second question was that under the U.S. Inflation Reduction Act, there is a clause where they want a lot more local manufacturing. Is my understanding right that, you can shift the intermediate of the salt and they will do maybe the last step of that and that will qualify under the Inflation Reduction Act. Is that understanding, correct?

Harin Kanani:

Partly correct. Just a little clarification. There are two criteria of Inflation Reduction Act. One says, how much value addition you have to do locally; and the second says what is the percentage which you cannot do with countries of concern. So basically, whatever we supply and when they bring the final electrolyte there, whatever we supply will be considered as the import. So even if the final formulation is made in U.S., our imports will still be considered as an import at the final cell level calculation. However, as we know, electrolyte is around 10% of the cell cost and the electrolyte salt will be somewhere around like 4% to 5% of the final cell cost. So, at even battery pack level, it would be hard to meet 3% to 4% kind of a level. Because of that, it will remain into the things which you still have to import. Therefore, it is not going to create a big challenge from IRA perspective, if the salt is still getting imported from, say, India. They need it from India for that non-China and non-foreign countries of concern part. So that is where basically Neogen's offering becomes attractive for IRA compliance. Of course, ideally, they would have wished that it helps them with that value addition also, but that's little bit in the future. And still if there is some, I think, 15%, 20% leeway, which they have. So most of the OEMs or electrolyte producers feel comfortable buying the electrolyte salt from India. So, their requirement is more non-China than local.

Manish Gupta:

But sir, I mean, I'm just curious like why would they not buy this thing from, say, Mexico? There's a lot of automotive components that are going into Mexico now. Why would they want to import this thing from a geography so much farther away?

Harin Kanani:

If Mexico can make at the same prices, then yes. If they can get quality and reliability, they would prefer that. I agree with you there. But the fact today is that there is no manufacturer there. There is no person with the lithium expertise there. There is only one company which has made just an

announcement that they will set up a plant in U.S., but again, no strong headway there. So again, from the timing perspective, from the long-term perspective, can they get everything from U.S., the amount of quantities that they need. This is a tough chemistry. You require somebody who understands lithium well, do all the purification there, like understanding, having experience of that, also being able to handle fluorine chemistry. So, if Mexico can offer this kind of combination of competitive rate and expertise which would be very close to China, then that would be preferred over Neogen. But so far, they don't have a credible option and definitely not an option which can take care of the entire U.S. demand.

Manish Gupta: Okay. Great. So sir, based on now your latest visibility, any broad guidance for what the battery chemical business could do in FY25 and FY26?

Harin Kanani: The capacity that we have, right? So let us first talk about FY25. The capacity that we have, can produce roughly around Rs. 250 crore. The capacity we have and what we are setting up during the year, in FY25 we can do around Rs. 250 crore/Rs. 300 crores capacity is online. But we think that we will have a full utilization level, in FY26. So in FY26, we will have a minimum Rs. 250 crore to Rs. 300 crore revenue. On top of that, the capacity which is coming online during the year and coming in FY26, will also contribute. So it will be something more than that, but it is a little bit too early for me to say exactly how much it will be. And similarly, for FY25 also, we are ready to do a revenue of around Rs. 200 crore/Rs. 250 crore in the current year also. The electrolyte demand will take some time. So, majority of my customers are saying towards the end of Q2 or early Q3, their trial production would begin for cell production. So that is when the electrolyte demand would pick up.

And electrolyte salt also, we are just shipping out or started shipping out some trial production in the last quarter. Some will happen in this quarter. So that will start picking up. With their approvals maybe towards the end of Q2, Q3, you will really see major contributions coming at Q2, Q3. So, I would guess the number would be like Rs. 100 crore plus. But a little bit early for me to give you a more precise number for this year.

Manish Gupta: Yes, sir. And my last question, sir, was, in the existing business. Have we signed up any more contracts on more downstream, value-added projects?

Harin Kanani: What do you mean downstream value? There are only two things we do here. One is electrolyte salt and another is electrolyte.

Manish Gupta: Sir, I meant the bromine business.

Harin Kanani: We have not signed up contracts. But yes, we have initiated with maybe 4 or 5 companies, what we say, early-stage contract manufacturing. As we said, we wanted to work with bigger customers. So, we have started in agrochem space. We started projects with them. We have also started two or three projects in agrochem space - new ones. One of them is a combination of bromine plus N Butyl lithium. So, we have signed up for projects where this combination is critical. And we have also signed up with 2 more pharma projects. But they are a little bit long term in nature, like they are clinical trials, Stage 3

kind of molecule. All of these will start contributing in a meaningful way beyond FY26. Up to FY26, our existing pipeline itself is sufficient. All will help us beyond FY26 to continue the growth trajectory.

Moderator: The next question is from the line of Parth Mehta from Vallum Capital.

Parth Mehta: First, if you can help me, what would be your capacity utilization numbers for FY24 and the Q4 quarter? And for organic chemicals and inorganic chemicals separately.

Harin Kanani: So now include three categories - Bromine Derivatives, Advanced Intermediates, CSM as well as BuLi Chemicals. All four were there. As we saw in Q3, we had a bit of a challenge because of the price fluctuation in lithium metal and having lower demand on the BuLi Chemicals. We are very happy that we recovered from that. The organolithium itself contributed to almost Rs. 17 - 18 crore to our revenue even with a lower lithium price. Again, this was still not full utilization. So I would say, at a utilization level, roughly, in the organic space, we are at around 60%- 65%. In the lithium space, we are almost at around 75% to 80%, which is very close to the peak utilization levels that we have. Of course, the revenues were lower, but if you look on a volume basis, we were about 4%/5% better in this quarter as compared to the last quarter - I mean previous year, same quarter - just because of the price differential. That is why you saw Rs. 66 crore become Rs. 35 crore. I think inorganic chemicals is close to full utilization levels. Organic chemical is at around 60% - 65% kind of utilization levels overall. Our inorganic chemical is almost close to 75% - 80% utilization levels. At organic chemicals, we are at around 60% - 65% kind of utilization levels, and we still have room to grow further there. And battery materials we are just starting.

Parth Mehta: Great, sir. Just if you could help me with volume growth for this quarter and full year. I think, this quarter, you mentioned 4% to 5% volumes; for the full year?

Harin Kanani: For inorganic chemicals, it was 4% to 5%. I think full year was also close to 4% to 5%. Again, for us, it is very difficult to do metric ton to metric ton level because of the product mix. But the way we look at it, that if the same prices, which were there today were given in our last year or last quarter, what is the revenue, which would have been different. So similarly, vice versa, when we do that, we see a volume growth of around 5% to 10% in the inorganic side. And on the organic side, we see almost 25% to 30% for the full year.

Parth Mehta: Great, sir. And if you can help me, we have set a target of reaching 40% revenue contribution from CSM business. So where do you currently stand? And as last quarter, you had mentioned we are somewhere around 30%, you are still on 30%. So, when do we see reaching 40% contribution?

Harin Kanani: I think 40% contribution is in our CSM and Advanced Intermediates together. So Advanced and CSM together is going to be 40%. What we said 40% is going to be of bromine derivatives and 20% is going to be inorganic lithium salts on a stable lithium price. So there also the breakup right now stands 50% and 30%, out of which 15% was CSM and 15% was Advanced Intermediate. And I think the idea is to have 20% - 20%. This is an area where we expect that the future growth as we reach Rs. 1,000 crore by FY26, you will see more contribution coming from Advanced Intermediates and CSM business. So, by

FY26, we would be at 40% from Bromine Derivatives, 20% CSM, 20% Advanced Intermediate and 20% Battery Materials, that is, Inorganic Lithium Salts, non-battery within Neogen. So that is the breakup which we are targetting.

Parth Mehta: Okay. Great. And sir, in last quarter, you had mentioned we are facing some challenges in the agro and pharma side. So what is the current situation? Is the current situation improved? And if not then, when do we see it improving?

Harin Kanani: On the pharma side, my view remains the same. In specialty pharma, which are not very bulk like statins or like your sartans or anti-retroviral. Those kind of pharma we have seen normalization and some of them are now even growing very well. Fortunately, we were part of some of these value chains. If you might also recall, we had signed a long-term agreement with one innovator customer for supplying intermediates to their APIs. That business is also doing very well and growing very fast. That is taking care of some of the business which we are losing out on lower demand from our traditional bulk pharma customers.

Agro, we have still not seen...we have seen some increase in April in the bulk pharma. So we started seeing maybe after March, the inventory correction has happened and you see a little bit of uptick in even the bulk pharma. So sartans kind of revenue also has started increasing, where it is too early to call out whether it is just for inventory, they are building up inventory after controlling it in March or whether it is going to be long term. So, we will take a view of that.

Then agro side, the interest for non-China remains very strong. As I said, we started working with two or three more customers in say, 3 to 6 months, who want to have an alternate to China, so that interest remains high, but we have not seen volumes come up. Most of them are saying that 2025 is when they will have their demands, calendar half of 2024. Maybe towards September, October, they might start releasing POs for their '25 requirement. Agro, we are still expecting in the second half to start contributing.

Parth Mehta: Okay. Great. Sir, just the last one, if you can help me, what would be the current bromine and lithium prices?

Harin Kanani: We can't give you...lithium prices touched their lowest and they have just started increasing again. But we are still below what I call is a long-term sustainable price of lithium. So I don't know how the industry develops, but my expectation is over let us say, next 2 years, you will see an increase in lithium price. And depending on how fast demand growth comes, you might again see crazy lithium prices in FY26 or FY27. So that's on the lithium. And bromine also has reached its bottom price and has started increasing slightly or at least stabilizing. We have not seen further decrease on either bromine or lithium in the last one year.

Moderator: Next question is from the line of Archit Joshi from B&K Securities.

Archit Joshi: Sir my first question on the expectation of doing somewhere close to Rs. 300 crore of revenues through Battery Materials in FY26. And sir, obviously, some rough calculations. If I look at it from the realization range that you gave, would it be fair to assume that we would be able to service around 2.5 to 3 gigawatt hours of battery capacity in India basis, the Rs. 300 crore revenue that we are expecting?

Harin Kanani: Yes Archit. The electrolyte 2,000 metric tons can take care of 2 to 4 gigawatt hour, depending on whether it is LFP chemistry or NMC chemistry. NMC, it can support up to 4 giga. If it is LFP, it is closer to around 2 giga is what on the electrolyte side. So that is something which can happen.

And on the electrolyte salt side, we have basically 5,500 metric tons, which will be fully available for FY26. So that can support, let us say, around 30 gigawatt of final electrolyte production and then battery is made out of that. So on electrolyte salt, for FY26, we will have a 30 gigawatt hour capacity available. And on the electrolyte, it will be around 2 to 4 gigawatt hour capacity. So roughly, you can say 80%, 90% of the salt, of course, this is just beginning of FY26. And then in FY26 in the second half, our Pakhajan site will also come online. So then overall electrolyte capacity available for FY26 will be even higher. Because when that comes in, in the second half, I can support 30 gigawatt hour more. So if you go to the second half of FY26, we will have a capacity to serve upto 30 gigawatt hour on electrolyte side and up to 30 - 35 gigawatt hour on the electrolyte salt side.

Archit Joshi: Sure. Got it. Got it, Sir. Lastly, small bits on our expected books. Sir, we have recently in the Board meeting approved a Rs. 500 crore infusion through CCDs. Is that expected in FY25 immediately? And what will that entail into - an incremental debt? Is there any other debt than the CCDs that you are infusing in Neogen Ionics? And if you can give us the peak debt that we might go to in FY26 also?

Harin Kanani: So in terms of CCDs, this is a request basically from our bankers. We are very fortunate that our existing bankers have extended to us 10-year/12-year term loans, especially for our Pakhajan site, where majority of the CAPEX we are doing. We have received a 12-year term loan with moratorium for 2 years on interest, then 1 year on principal and then a gradual repayment over 9 years. So these were very strong preferential terms that we got.

And the equity portion, the bank requested directly as an equity, but we didn't want to put everything as at-par equity. So the CCD was a way for us to basically put up equity or, quasi equity into the Ionics. Again, this is an enabling resolution up to Rs. 500 crore. We will be doing it gradually over 3 years of time. And even our existing investment, which is either in terms of transfer of some assets or in terms of transfer like intercorporate deposits. So even now so far, we have already invested around Rs. 220-odd crore. So out of that Rs. 500 crore, Rs. 220 crore would be the investment which we have already done, which will be converted into the CCD subject to shareholder approval and all the formalities are completed. So that is basically the reason behind that.

Archit Joshi: So sir, and the peak debt number in FY26, sir? What might be?

Harin Kanani: In FY26, out of the Rs. 1,500 crore CAPEX, around Rs. 1,150 crore would be the debt which will come from outside. Again, this debt not only includes direct CAPEX, but under the terms, they are also

funding GST, which we can't use, the initial working capital, the interest for the 2 years. So, everything together will be Rs. 1,500 crore. Of which around Rs. 1,150 crore will be funded by our bankers. And this will be all at Neogen Ionics level, so it will not be on Neogen. At Neogen level, we feel whatever is our current debt will remain stable as we may infuse a little bit more depending on how much we generate versus how much we infuse.

There might be a slight increase in working capital utilization, which today, like we have a working capital limit, which can support up to Rs. 400 crore. So maybe some of that might get eventually used as we put our own money and do infusion, let's say, into Neogen Ionics. So, I would say Rs. 1,150 crore there and maybe what we have another Rs. 350 crore here; maybe another Rs. 100-odd crore more, so at Rs. 450 crore. So somewhere around Rs. 1,500-odd crore over the next 3 years.

Archit Joshi:

Sir, I was speaking of net block, which has been increased by around Rs. 140 crore, and we have another CWIP of close to Rs. 110 crore. And our CAPEX numbers, as you mentioned previously that we are expecting to be, with the 30,000 plant that we are expecting to commission and capitalize by FY26. The balance seems to be around Rs. 1,200 crore/Rs. 1,300 crore of incremental CAPEX infusion. So sir, if you can give us net as to what might be the CAPEX you are expecting in FY25? And what would be the balance left then at FY26? That would be my last question.

Harin Kanani:

I think, we are expecting another Rs. 400 crore to Rs. 500 crore in FY25 and the balance will be coming in FY26.

Moderator:

Thank you. The next question is from the line of Bhargav from Ambit Asset Management.

Bhargav:

Sir, my first question is that on the revenue size of about Rs. 700 crore. Clearly, the CAPEX of Rs. 1,500 crore is a sizeable sum. So have we sort of decided that we will go ahead with the entire CAPEX or will we have some milestones, which we will monitor and take a slightly risk-adjusted approach for this CAPEX?

Harin Kanani:

You are absolutely right. That is something which I would have also been happier if I had to do this CAPEX over 3 years, 4 years time, instead of 2 years time. But the situation demands this way. But we are watchful. As I mentioned, our first facility from where we can supply electrolyte salts and electrolytes, we are sending this approval. So in the next 3 to 6 months, we will start having approvals. And for the electrolyte business also in next 3 to 6 months. As I said, end of Q2 and early Q3, some of the Indian customers are also starting their electrolyte facilities.

So, we will keep watching both, how the international electrolyte salt approvals are progressing as well as how India electrolyte demand is developing. In India, mostly, we feel it is a demand issue depending on how well the Indian battery industry starts manufacturing cells. And if required we can slowdown and we can moderate our CAPEX accordingly. So we will be watching it very carefully. Please be rest assured, there will be milestones. For example, we can delay some of the equipment deliveries or do some of the investment in the electrolyte module depending on where there is a slowdown, in electrolyte salt or electrolyte. We will keep watching that.

Bhargav: Secondly, sir, this IRA Act in the U.S. is likely to be passed in 2025. But in the event that there is a delay in passing of that, then how does it impact our exports revenue that we are targeting? Is there a plan B in place?

Harin Kanani: The IRA Act has already been passed and that is already implemented. So this is one clarification I wanted to make. The second thing is, yes. So, the plan B is the capacity, which I just answered in Archit's question earlier where I said the capacity for the electrolyte salt is 30 - 35 gigawatt hour and the electrolyte capacity is 30 gigawatt hour. So, if we feel that anything which is happening in the U.S. market, which is adverse, in such a case we can go slow on the 3,000 metric ton electrolytes salt facility which we are going to do in our Pakhajan site. And then we can build it gradually if we are not looking at the international market and if we are looking only at the India market. So therefore, plan B is India electrolyte market, where we feel we have the maximum rights to win. Being one of the first mover, having MUIS technology and already having relationship for and already having supplied electrolyte for the trial productions of the customers for the last 15 - 16 months.

Bhargav: And is there any government support expected to protect the domestic manufacturers in the event there is any dumping from the foreigners as far as electrolyte or salt is concerned?

Harin Kanani: There are two levels of protection. One is the people who have bid for the PLI scheme. And today, that is basically Ola and Reliance and who are already selected and who are active. And there is also a separate follow-on PLI, which has just been concluded and the applications are under process. These companies have to meet certain value addition criteria if they want government subsidy which is very sizeable. To meet that value addition criterion, the electrolyte salts, electrolyte have to all be produced locally. They are incentivized that 'if there is a small difference, please buy from India'. Otherwise, you lose out on subsidy, which is almost 25% to 30% of the cost of the cell production. So, this is one incentive for the companies which are having PLI. Then historically, in our interactions with government policymakers, they said that once they see any component being made in India, they are ready to increase custom duties and have protective custom duties to support the local industry. So currently for, cell manufacturing on cells, there is very low custom duty.

As cell manufacturing will come online, the policymakers have said they will put custom duties on that. And similarly, as component manufacturing will start, then they have promised custom duties. Internationally, such duties are in the range of 15% to 25%, U.S. being highest. So on top of the IRA, they have also put 25% duties on imports of the electrolyte and other components from China. So similar protection, we are also expecting in India. Once the manufacturing here is stabilized, the manufacturing of cell production will also start.

Bhargav: And sir, lastly, if we succeed on utilizing the salt capacity, but we struggle on the electrolyte capacity, then what could be the difference in terms of return on capital employed that we can expect only from the salt utilization vis-a-vis the electrolyte utilization?

Harin Kanani: I am just guessing that if the electrolyte utilization -- saying electrolyte utilization struggle meaning, India is not manufacturing enough cells is your concern. Am I right? Is that correct?

Bhargav: Yes.

Harin Kanani: Okay. So in the case where India is not able to make enough cells and therefore, there is less local electrolyte demand, there are two options. One option remains that there is some cell manufacturing starting in other geographies also where there is no electrolyte producer or no electrolyte producer is going there very fast. So, we can offer in such international market with Mitsubishi's permission. As long as we are not conflicting with them, we have that option also available with us.

The second option, worst case scenario, even that doesn't happen. And if you have no electrolyte business coming. If we see that happening, first of all, we would also graduate the investment which we are doing. So, we would not do the entire Rs. 1,500 crore. Some of the paraphernalia like our ISO tank filling capacity, drum filling capacity, our storage tanks...the CAPEX of these can be modulated and we don't have to do everything upfront, if the demand doesn't come.

So with that, and after we would have done and then we have a surprise or something like that, we would have at least 14% or 15% ROCE in the battery business. If just the salt happens and electrolyte happens at a partial level. Although the way my customers are making progress, for me, it is a little bit difficult to believe that India will not be able to make 30 gigawatt hour of cells by 2028, which is what we are targeting.

Moderator: The next question is from the line of Jason from IDBI Capital.

Jason: Sir, my first question was just relating to your base business which has been soft. Q3 also was pretty weak. Now you have mentioned that pharma and agro, we are seeing some green shoots there. Now I just wanted to know in terms of the BuLi Chem acquisition and the lithiation chemistry, which we added to our skill set, does that help us give a strong boost to this business? Should we see a strong boost to the base business from this acquisition?

Harin Kanani: Yes. Thank you so much for your question. To answer your question, I am really excited with the BuLi Chem acquisition that we did and how it can help us in our base business. There are three aspects of this. As I have mentioned earlier, one is this base business. It will support our Advanced Intermediate and CSM, because we have a very unique combination, somebody who can make organolithium compounds, somebody who can combine it with bromine derivatives. And when we make and do the combination, we have lithium, which comes out as a by-product, which we can again recycle back to our non-battery lithium business.

So that is a combination which is very unique in the world and whenever we want to innovate for our customers, they simply love this idea, especially when they know lithium price is going to fluctuate. So at that time, with the recycling, we can reduce that and they really like that part.

Also, there are many customers and very few suppliers of N Butyl Lithium as a whole. Again, this is a business which is normally done locally. And there are only two or three companies in the world which are basically lithium mining companies, which also were doing organolithium business. This is the first

time, we are one of the significant companies which has a plant, a proven plant with 17 years of track record which can manufacture these organolithium compounds. That has allowed us to also enter many pharma, like specialty material customers, even semiconductor customers. It has increased Neogen's visibility to a larger group of companies in the international market. So I feel, over the next 3 to 5 years, this will play a very big role - just selling N-butyl Lithium and the organolithium compounds as well as doing the combination. I think both opportunities are very exciting for Neogen.

Jason: Sure. And sir, in terms of battery chemicals, the margins which we are expecting should be in line with our existing 16%/17%? Or do you see scope for more upside on those levels?

Harin Kanani: For the Battery Materials, what we feel is, it is basically going to be ROCE-driven business. So therefore, a bit like right now, if I think of a stable lithium price. At that stable lithium price, we expect that, around 16% kind of margin basically works out based on the ROCEs. But again, incrementally also when we will go beyond this capacity, it is something which is going to be driven by ROCE. Where we can really get better margins is, if we give something which improves the performance of the customer. Now that we are doing in partnership with MUIS. As we were discussing in earlier question that a combination of a specific kind of electrolyte along with a specialty kind of a separator can improve the performance of the batteries or the cells for the end user. When we do that, we earn the right of getting higher EBITDA. Otherwise, again, it is a ROCE-driven business. And I think if we do a 20%-plus kind of ROCE for this kind of scale, I think that would be a very good outcome. EBITDA level, I think, will work out at around 16% or so.

Jason: Sure, sir. And sir, I just want to ask you if you could provide a breakup in terms of end user industry. For example, our whole market - of course, battery chemicals is different - in terms of our whole end-user industry - pharma, agro chem, engineering, etc. - how would that breakup be? And I also want, you had shared this earlier, but I sort of missed it. You had mentioned about the bromine compounds, the AI, the CSM and the organolithium, what breakup is it currently? And what do you aspire it to be? So, I would want both of these breakups if you could provide that.

Harin Kanani: For the breakup based on our categories, what we today are at around 50%/55% on bromine derivative, around 30% on our Advanced Intermediates and around 15% to 20% on the lithium chemicals. We feel by the time we will reach full utilization levels, we would be around 40% on bromine derivatives, another 20% on Advanced Intermediates, another 20% on CSM. So together, Advanced Intermediates and CSM would be 40% and around 15% to 20% would be the non-battery lithium compounds. This is a non-battery business breakup.

In terms of industry, the industry, usually, it is 50% to 60% is pharma; agro is usually around 20% - 25%; engineering around 10% to 15% and remaining 5% to 10% is other industries. That is the normal case. Currently, because agro is low, agro is like almost close to 10% or below 10%. And consequently, the pharma segment is a little bit higher - close to 70%/75%.

Jason: Sure, sir. And just one last follow-up, sir. You had mentioned the lithium salt is around 4% to 5% of the cell cost. Is that right?

Harin Kanani: Yes. Electrolyte is between 8% to 10% of the final cell cost and electrolyte salt is between, depending on the price of lithium, 40% to 60% of the cost of the electrolyte. So at the cell level, it becomes around 4%, 5%. At the battery pack level, it will be somewhere around 3% to 4%, or 2.5% to 3.5%.

Moderator: Next question is from the line of Rohit Nagraj from Centrum Broking Limited.

Rohit Nagraj: My first question is on the 2,000 metric ton electrolyte and 400 metric ton lithium salt. For both these we have mentioned that the electrolyte salt we have already shipped the material. And on the electrolyte front, the trial production has commenced. So what is your understanding in terms of the approval process and commercial supplies for both these facilities? And when do we expect maybe optimum level of utilization given that everything goes as per plan in terms of the approvals, and the battery manufacturing maybe from domestic or from the international players?

Harin Kanani: Sure. If we think of electrolyte salts, we feel that in Q1 we will be shipping out trial volumes. It has in fact just started. And in Q1 also, we will be making trial production, 2 ton, 5 ton kind of supply for the electrolyte salt. And with that, we should start seeing permissions come by the end of Q2.

Again, some customers will be a little bit higher, some will be lower. So, by the end of Q3 and Q4, we expect that this 400 metric tons will be used fully. And as more capacity will come online as we go from this journey of 400 to 2,500 metric tons in different phases, different sections, the capacities will come online, they can start contributing in the second half of the year. This is on the electrolyte salts.

On the electrolyte, it is more geared by how fast cell manufacturing comes up in India. Our understanding is that initial one or two customers should start towards the end of Q2 and early Q3, and if they start even at a bare minimum, like 1 gigawatt hour kind of capacity, depending on how fast they stabilize. Q4 of the current financial year or Q1 of FY26, we should be seeing full utilization level of our electrolyte plant.

Rohit Nagraj: Fair enough. That's helpful. Second question is just in terms of the INR 1,500 crore of CAPEX from FY24 to FY26. If you can provide a broader breakup across the electrolyte salt, the legacy business, the electrolyte through MUIS and the newer Pakhajan facility?

Harin Kanani: I am sorry. There is too much information here, which I am not able to share because of confidentiality and several other reasons. But broadly, if I were to say that there are four components of this. One is the investment in land, which is not only for today but also for future. And when you buy land, you have to do the initial facilities wherein you have to take water connections, pollution permissions, power connections. So basically, it is land and common infrastructure. That is one segment.

The second segment is going to be 3,000 tons of salt. Third segment is going to be 30,000 tons of electrolyte. And as I explained earlier, based on the request from our bankers, they have also included in the Rs. 1,500 crore interest during this period as well as the non-usable GST and our working capital contribution, etc. So, all of that together is the INR 1,500 crore.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to the management for closing comments.

Harin Kanani: Thank you, everyone, for joining the call. I hope we were able to address your queries. If you have any further questions, please feel free to reach out to our Investor Relations team, and we will address them. Thank you once again, and we look forward to connecting with you again in the next quarter.

Moderator: Thank you very much. On behalf of Neogen Chemicals Limited. That concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

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