November 21, 2024

BSE Limited
Department of Corporate Services
Floor 25, Phiroze Jeejeebhoy Towers,
Dalal Street, Kala Ghoda, Fort, Mumbai 400 001
Scrip Code No: 542665

National Stock Exchange of India Limited
Listing Department, Exchange Plaza,
Bandra Kurla Complex, Bandra (East),
Mumbai – 400 051
Company Symbol: NEOGEN

Sub.: Q2FY25 - 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 Q2FY25 Earnings Conference Call held on November 13, 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 RAJESH KANANI

Digitally signed by UNNATI RAJESH KANANI
Date: 2024.11.21 15:15:17 +05'30'

Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131

Enclosure: As above

Neogen Chemicals Limited

Q2 FY25 Earnings Conference Call Transcript

November 13, 2024

Moderator: Ladies and gentlemen, good day and welcome to Neogen Chemicals Limited's Q2 FY25 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. Should you need assistance during this conference call, please signal an operator by pressing "*", then "0" on your touch-tone phone. Please note that this conference is being recorded.

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

Nishid Solanki: Thank you. Good morning, everyone, and welcome to Neogen Chemicals' Q2 FY25 Earnings Call for analysts and investors. Today, we are joined by senior members of the management team including Dr. Harin Kanani – Managing Director, Mr. Anurag Surana – Director and Mr. Gopikrishnan Sarathy – Chief Financial Officer. We will commence the call with opening thoughts from the management team, post which we shall open the forum for Q&A where the management will be addressing queries of the participants.

Before we commence, I would like to share the standard disclaimer. Certain statements made or discussed on the conference call today may be forward-looking. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q2 FY25 earnings presentation, which has been uploaded on the stock exchange websites. I would now like to invite Dr. Harin Kanani to share his perspectives. Thank you and over to you, sir.

Dr. Harin Kanani: Thank you, Nishid and thank you all participants for joining us for our 2nd Quarter Earnings Call. Seasons greeting to everyone. Hope you had a joyous Diwali with your family. Wishing everyone a very Happy and Prosperous New Year.

As you know, we have appointed Mr. Gopikrishnan Sarathy as the Chief Financial Officer of Neogen Chemicals. We welcome him to the new role and wish him the best. I will be sharing my views on performance and strategy while, Mr. Gopikrishnan will take you through the financial highlights.

Neogen Chemicals achieved a robust performance during the period under review, demonstrating resilience and strong execution. This came amidst a challenging market landscape characterized by weak demand, oversupply situation, geopolitical tensions and inflation which impacted industry's pricing power as well as profitability. Neogen's performance was driven by volume gains registered in the base business with additional contributions from BuLi Chemicals and Neogen Ionics. This achievement is a reflection of our team's commitment to excellence, their ability to innovate and adapt to changing circumstances to deliver results.

I will now present a concise summary of the key financial figures for Q2 FY25 on a consolidated basis. Our revenues grew by 20% YoY to Rs. 193 crore while EBITDA came in at Rs. 35 crore, an increase of 33% YoY. This translated to EBITDA margins of 17.9%, an increase of 180 basis points. Profit after tax stood at Rs. 11 crore, representing an increase of 30% YoY. As informed, Mr. Gopikrishnan will share more insights on the financial performance.

Now, shifting your focus to the segmental performance, in Q2 FY25 organic chemicals' revenues reported a growth of 34%, while inorganic chemicals' revenues declined 24%, mainly due to lower lithium prices. Both bromine and lithium raw material prices experienced a steep decline during the period under review as compared to the same period in the previous year. Adjusting for this fall, the organic revenue would have been higher at about Rs. 186 crore in Q2 FY25, while the inorganic revenues would have been higher at Rs. 55 crore during the same period.

I will now provide an update on our expansion activities:

1. *New capacity of 400 MTPA for manufacturing lithium electrolytes, salts and additives:* We have already commissioned the first 200 MTPA and initial approval of the material that we have shipped to the customers has already been received and the volumes in this area will start growing in Q3 and Q4. For the remaining 200 MTPA, trial production and optimization of the processes are currently ongoing. We have already had some customer site visits who have approved the facility, but further, more rigorous approval process is currently ongoing.

2. *Plant for manufacturing the 2,000 MT of electrolyte at Dahej facility:* We are implementing phased commissioning strategy here and in the first phase, 200 MT has already started with which we now have approved more than four customers at the commercial level. In Q3 and Q4, as our customers ramp up their cell production volumes, we expect our electrolyte volumes also to get ramped up. Both these will be fully online and get approved before the end of the current financial year.

3. By closely collaborating with our customers, we have jointly developed and exchanged multiple recipes of electrolytes with different lithium salt combinations. In the process, we have also gained valuable insights on the technological capabilities and market trends. We are committed to maintaining stringent quality standards and adhering to strict safety protocols. The positive feedback from our customers validates our commitment to delivering high quality and efficient products. Our business development team has been actively engaged with domestic and international customers, hosting them for onsite inspections and approval visits.

4. About the Greenfield battery material facility using MUIS technology, with the financial closure secured, we have already initiated construction, and the project is

progressing as planned. We have started civil construction at the site and our partner, Mitsubishi, has started the plant construction at their end. So, both are meeting the targeted deadlines. We have a dedicated team in place to expedite the completion of the project. Several large battery manufacturers are expected to start operations soon and we are progressing with long-term contract discussions. We are phasing the commissioning of this facility in FY26 as per our original plan.

There is still a strong demand for the non-Chinese products, coupled with ongoing discussions and MOUs that we have, which basically secures the international salt business expected from this site.

We believe India's expanding EV industry presents a significant opportunity for the electrolyte markets. The work which Neogen has done both, domestically as well as internationally, we are seeing a lot more interest coming both from local as well as international customers. And as the country strives to achieve its EV adoption goals, the demand for high quality, locally sourced electrolyte is expected to surge. With the work we have done in last two years, we are in the right position to take care of this demand. Consequently, we are committed to making long-term investment to secure our future growth and success.

Our growth strategy is focused on scaling up our organic and inorganic chemical business. Also, we are seeing good progress in our CSM business. Of course, we are waiting for improvement on the agro demand for this business to develop further. Navigating the current global economic landscape, Neogen Chemicals is demonstrating resilience, embracing innovation and staying focused on delivering value to our stakeholders.

That concludes my opening remark. I would now request our CFO, Mr. Gopikrishnan Sarathy to share the financial highlights for the period under review.

G. Sarathy: Thank you, Dr. Harin. Good morning, everyone and welcome to Q2 FY25 Earnings Call. I am delighted to be part of Neogen Chemicals family and look forward to contributing to its future success.

As stated by Dr. Harin, I will take you through the financial highlights. Please note these are all on a consolidated basis and the comparison is on Y-o-Y basis.

In Q2 FY25, our revenue increased by 20% to Rs. 193 crore, driven by higher volumes in core business along with incremental contribution from BuLi Chemicals and Neogen Ionics. Organic chemicals (business) witnessed 34% revenue growth YoY at Rs. 164 crore, while inorganic chemicals (business) revenue declined by 24% to Rs. 29 crore. The revenue for both could have been higher but for the decline in the raw material prices during the quarter.

EBITDA rose by 33% to Rs. 35 crore, led by higher plant throughput as well as better operational efficiencies. EBITDA margin remained healthy at 17.9% even in this weak pricing environment and the startup related cost at Neogen Ionics.

Profit after tax came at Rs. 11 crore, an increase of 38% year-on-year. This was in line with strong operational performance. The increased capital expenditure in battery chemical segment is expected to result in higher depreciation and interest cost going forward.

The domestic and export mix during the quarter stood at 74% and 26%, respectively.

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

Moderator: We will now begin with the Q&A session. The first question is from the line of Abhijit Akella from Kotak Institutional Equities. Please go ahead.

Abhijit Akella: So, first, with regard to the CAPEX numbers for the first half, in the consolidated cash flow statement, I think we can see a number of about Rs. 140 crore odd. How much of this would have been towards the battery chemicals segment and what should we expect on a full year basis for CAPEX for the overall consol company? Is it tracking in line with the timeline given that we have to spend Rs. 1,500 crore may be in less than a year now to commission the Mitsubishi plant?

Dr. Harin Kanani: Yes, the CAPEX that you see is mostly for battery materials and while Rs. 150 crore is in the first half of it, totally I think we have spent around Rs. 350 to Rs. 400 crore in the battery material space, out of Rs. 1,500. Some of this was already sitting on Neogen's balance sheet, which was then transferred. So, therefore when you are looking at a consol number that transfer you do not see. But in the battery material space overall, we have already invested around Rs. 350 odd crore to Rs. 400 crore. We feel we should end the year somewhere around Rs. 700 – Rs. 750 crore CAPEX of the total Rs. 1,500 crore which we are targeting this year and then the balance would come in next year. Also, the way we are constructing it, Mitsubishi is constructing the main plant, so that sets kind of as an advance and they have already started construction on their end, and then the entire plant will be built there and then transferred together. So, that is going to be a big chunk which will come in the next financial year once that plant is ready. But from our side, the investment on that is already progressing.

Abhijit Akella: Also, on the subsidiary revenue breakdown for this quarter, would it be possible to just split it out between Neogen Ionics and BuLi Chem if possible?

Dr. Harin Kanani: Broadly speaking, I would not like to give a specific number because these are one product kind of companies. But when it comes to what you see, the total difference, I would say the Neogen Ionics is still in single digit crore and the balance is basically from BuLi Chem. But we have seen significant improvement in BuLi Chem. Q1 and Q2 from a battery material point of view has been more or less similar - single digit crore.

Abhijit Akella: And just one question with regard to the environment in the US now. I believe the Trump administration had indicated plans to revoke the Inflation Reduction Act if it came to power. How do you see the risk over there in this scenario?

Dr. Harin Kanani: What we have seen and what our experience has been when we have talked to the customers. Of course, the discussions with the customers were before the election results, but there was always this possibility, and we had heard about it. The feedback which the customers have given is ‘look, even if IRA is there or no, we still need this, especially in the electrolyte salt business because just to have a second backup, because 95% of it coming from China is something which we are not comfortable with. They continue to take the view that are you the best source outside China? This is one question. Then the second question which they have seen is that like I said, if they look at last four years, with the formula pricing which we have, they would still have been better off than buying in the spot market from China. So, these are the two decisions.

Separately, they have also commented that so much amount of investment also which has happened related to IRA driven investments and that too in so many states where there is a very strong support for Trump, that they feel it is going to be very difficult to completely unwind IRA. There might be a few variations or changes around that, but mostly they feel there will be some form of IRA with some modifications still continuing. This is the view from our customers, but so far as our investment is concerned, they said, 'Harin, don't stop. We need more', and they even encourage us to think of some other molecules. So, anything which doesn't require a presence in the US, they are telling 'Neogen, please consider these options.'. So, their interest remains and is still very high. Recently, we had visits from them and during their visits also they were satisfied with the progress we are making and given us more confidence to challenge ourselves to do even more than what we have currently planned.

Abhijit Akella: From the perspective of the second half of this year, with the salt volumes ramping up, I am not sure how the traction with regard to the commissioning of battery capacity is going from large guys, like Ola and Exide; but in the context of whatever you see, do you still believe that Rs. 100 or Rs. 150 crore of battery chemical revenue is possible for this year FY25?

Dr. Harin Kanani: No. For battery chemicals, we had guided for this current year around Rs. 75 crore to Rs. 100 crore range. And what we still feel - again it depends a little bit on the electrolyte ramp up - but what we see is somewhere, let us say between Rs. 50 crore to Rs. 75 crore. I will be honest. The first six months, the approvals have taken longer time for the new site, especially for some of the salts. So, based on that today what I am looking at is the best for this particular year for battery would be somewhere around Rs. 50 crore to Rs. 75 crore. But next year or the year after, I don't see any change.

Moderator: Next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Dr. Harin, you mentioned that the volume growth was very robust in your core business. My estimate suggests that it is close to about 50% Y-o-Y basis. So, can you tell me which category of products has shown such high growth - is it in advanced intermediates or lithium derivatives, bromine derivatives or in CSM?

Dr. Harin Kanani: For us, when you are comparing, we have seen good growth in lithium derivatives because if you see the corrected numbers, we have seen almost a 30% - 40% increase on the lithium side. Of course, you are not seeing it just because the lithium prices are one-third and even our consequent per metric ton prices are less than half. We have shared in slide 20 of our presentation what the number would have been if the prices would remain the same.

In case of organic, the main contributor is going to be the BuLi Chem because we were just starting with our BuLi Chem plant at that time and now we are almost running at full capacity. So, those have been the main drivers. In our organic production, right now, the major improvements that we have seen is the non-agro CSM and also the bromine derivatives. We have a few bromine derivatives which were used in a molecule, which was getting approved by the innovators. If you remember, when we did our Dahej site expansion, we said we had signed one long term contract, a five-year contract with a pharma customer to whom we are going to be supplying bromine derivatives? As the molecule gets more approvals, the demand will also grow. So, I think that business is improving quite a bit. I think bromine derivatives is doing a good job. In terms of non-agro CSM, we had a target to reach around 20% CSM, but in the last two quarters we are already at 15-18%. We want to reach 20% by next year, but we are already at 15-18% in spite of a lower demand from agro. The agro demand not being there, the CSM that we have done (is) for semiconductor (business) or what we are doing for our flavors and fragrance and some specialty polymer and other specialty materials. Fine chemicals have also done well; lithium salts have done well.

Advanced intermediates, which we basically sell in the market, that is still the area and agro is the other area where in advanced intermediates, the Chinese competition and slightly lower demand in bulk API is still something which we need to improve upon. The agro CSM has not picked up this year, although we are doing several projects which we had done last year and now the customers will start planning their 2025, especially the Japan customers. They start their planning from October onwards. So, by January we will have Japanese agro chemical demand. That will give us an idea about how that CSM is going to work out. We will get clarity on that. And the advanced intermediates is another area where we still need to work.

Nilesh Ghuge: As you mentioned that BuLi Chemicals has already reached its peak utilization. So, the benefit out of that, as we have the entire chain of bromine right from lithium derivatives to extraction of lithium technology. Are we getting benefit out of that? These salts regeneration of lithium and getting lithium back?

Dr. Harin Kanani: Yes. We have already started recycling the lithium, which was being given out externally and that is helping us increase some of the lithium volumes. Some of the businesses where we used to have the price pressure because we are able to do this recycle, we have been able to increase volume even though the lithium prices are depressed. So, I think that benefit is coming. You are not seeing it fully, like I said, because of the depressed lithium prices, but otherwise, that is something which is already helping us.

Nilesh Ghuge: The second question is on the margin. We can see more than 200 bps improvement in EBITDA margin if I compare that with the last year. Is it largely because of correction in product prices or is there an increase in absolute level per Kg EBITDA for the products?

Dr. Harin Kanani: I think it is largely driven by this price fluctuations. Last time it was a bit lower, because lithium prices were on the higher side. On an absolute the margin was okay, but per metric ton, I mean the percentage EBITDA was looking a little bit lower. Now, lithium prices have also corrected. Last one or two quarters, even after lithium price correction, there was a lot of Chinese pressure and utilization levels were lower. So, as you know, last two quarters BuLi Chemicals has been making profits. That is something which is basically helping us and overall, those were the drags. Even now the battery is still not broken-even. We are just into few single digit crore as I mentioned and the expenses are still there with the production and everything going on. So, I think we will still see improvement in the margins as you see better utilization levels. But largely it is just lithium price corrections which are giving you percentage improvement in the margins.

Moderator: Next question is from the Arun from Avendus Spark. Please go ahead.

Arun: Dr. Harin, the first question is on the working capital performance during this first half. We have seen moderate improvement in the working capital. Can you just indicate, is it seasonal or is it a permanent reduction? How we can expect this working capital to further reduce over the next couple of quarters?

Dr. Harin Kanani: We had already targeted that by the next financial year we wanted to reach around 130 - 140 days of net working capital on a net sales days basis. And what we are doing right now is, we said, we had done maximum investment that was needed for working capital, in terms of inventory, in terms of debtors and we needed to work very hard to improve upon that. So, I think that trend has already started, and we would like to maintain that. Again, every quarter because we are still ramping up in a very variable kind of scenario's, we are seeing improvement in our demand especially on the pharma side and sometimes they are also coming very suddenly. So, we have to continuously keep shifting and adapting ourselves. But I think this will all stabilize and we continue to maintain what we had said that by the end of the next financial year when we have full utilization levels, we have Rs. 1,000 crore, our working capital will stabilize and go back to historical Rs. 120 - Rs. 140 crore and beyond that Rs. 1,000 crore when we go is when you will start seeing improvement over that because then we will have more mature molecules or CSM business will have stabilized. So, we can expect working capital improvement beyond that in FY26/FY27.

Arun: When we ramp up battery chemicals, should we expect a similar kind of working capital days from that segment so that means that will drag certain working capital on an overall basis?

Dr. Harin Kanani: Right from the beginning, what we expect that battery business is a very different business in the sense that we have fewer customers, we have fewer products, we have fewer raw materials, they are dedicated plants. That is where we can basically engage in working capital very well. The only variable there would be that some of the customers are very large and they would want longer payment terms. But what we are hoping is that with such large customers we should be able to get factoring or invoice discounting or some kind of financial arrangement. So, again this is going to be Gopi's expertise area that we are going to depend upon. Even if our customers want a long credit, we can maintain our working capital cycle with a good financial arrangement. But at least from an inventory point of view, what we can say is that we can contribute and we can control 75 to 90 days and hopefully reach a situation where debtors and creditors basically balance each other out. Our target is a 90 days kind of working capital cycle against 120 to 140 in Neogen's base business. We target around 90 days for the battery business. Again, we are just starting with this business, but this is what we feel we can achieve.

Arun: Secondly, you said that BuLi Chemicals is already near full utilization. Any chance that with the capacities fungible with the other facilities that we have and we can make BuLi Chemicals products given that it seems to be in demand. Can we utilize some of our other facilities and manufacture BuLi Chemicals related products there or we will need to put some kind of a Brownfield expansion there?

Dr. Harin Kanani: BuLi Chem is a very dedicated and a special plant. Because of its hazardous nature, it is very unique. So, unfortunately it is not fungible. The good news, however, is that we can increase capacity at that site. We have a capacity to grow up to five times.

We have already applied for environment clearance and have already received Centre's approval on that. Now, we are working at the state level approval and fortunately, with a very small CAPEX, 2x capacity increase, we can do because this site had maintained the same capacity over a long period of time and they had done some cycle time improvements and debottlenecking over time. So, around 50% to 100% increase in the capacity can happen as soon as we get the environment clearance and the necessary permissions for the increase. And then we would have to do a Brownfield to go from 2x to 5x. That is still a further view, but I think up to 2x that we are trying to secure and now that we have got the Center's approval, if we get the state approval, in the next three months or so, if we are able to do that, then for the next year we would have almost a 2x capacity available.

Arun: If you go up to this 2X kind of approval, would you revise your guidance of Rs. 1,000 crore revenue potential for the base business, and if yes, what would be the indicative figure for that?

Dr. Harin Kanani: For BuLi Chem, depending on the lithium price, as we had indicated, the revenue will be somewhere between Rs. 50 to Rs. 100 crore on that X capacity. 2x would also be Rs. 100 to Rs. 200 crore kind of revenue potential depending on the price of lithium. With the way the price of lithium is moving, it is going to be closer to Rs. 100 – Rs.125 even at the 2x capacity. So, it is not going to change significantly. That 1,000 at the max would change to 1,050, but with all the other things happening in the agro world, etc., I would like to keep that Rs. 50 crore as my buffer and I would like to still maintain Rs. 1,000 crore. Let us first get the environment clearance, let us see how the agro recovery is and then we will see next year if we need to revise our projection on the base business. Also, as you might have seen earlier, we had requested for merging BuLi Chemicals with Neogen Chemicals. So that applications are also going online and most likely by the end of the current financial year, we expect BuLi Chemicals to become part of Neogen, because it is similar to the base business. That is why we wanted it to be part of Neogen. Then we would have just two entities - Neogen and Neogen Ionics. Most likely in the next financial year it will become a part of our standalone results.

Arun: Finally, on the battery chemicals, you said in your opening remarks that a few of your customers are going to start the plant. This is in which geography? And also what kind of a battery capacity that the customer is putting up on aggregate level, how many GW hours? That will be very helpful sir.

Dr. Harin Kanani: Basically, what I meant is that the electrolyte business for India, which is basically all the battery plants which are coming up in India. As we know, Ola has already started production and they are ramping up as well as few other smaller battery makers with 100 MwH, 50 MwH, 250 MwH, they are also starting and they are ramping up and then of course Exide and Amara Raja would be targeted at some sort of start and a ramp up in the next financial year. So, what I meant was our electrolyte ramp up is basically based upon Ola, Exide, Amara Raja and other battery makers who are planning how that capacity is coming on line. So, that is mentioned. The salt business that we are doing internationally, the capacities are existing there. The capacities are running together into hundreds of GwH kind of levels. The only question is that of shifting from Chinese source to Neogen as a source. So, that is the shift which needs to happen. As our capacities get approved like I mentioned in my call, some of the basic infrastructure, the quality system, these things are approved, but in battery there is a more rigorous system where once your process is completely optimized, that is when they will come and do an audit where it is a parallel audit. You are doing all the production in front of them. That rigorous audit is something which is pending for a few of the clients and once that happens, then the volumes will start ramping up there.

Arun: And post rigorous audit that you are talking about, after that, again, there will be a few more months for us to get the first contract or is it like…how does this process happen?

Dr. Harin Kanani: The contracts are already in place with some of them. What is remaining is the PO. So, the contract is there, the pricing, the volume, everything is decided. Once you clear all those audits then the POs start flowing and that is when you start doing the shipment. So, from the audits to shipping, shipping time will not be too long.

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

Ankur Periwal: First, on your comment on the plant inspection that we have been seeing. One, is it for the electrolyte from the domestic players or largely from the salt manufacturers globally wherein you were commenting on the extended rigorous audit?

Dr. Harin Kanani: Each company has its own, but yes, both have the same procedures.

Ankur Periwal: But from procedural or ramp up perspective, are we closer to seeing a ramp up or product approvals on the salt side and how has been your status of discussion with the domestic players for electrolytes in terms of plant approval and other things?

Dr. Harin Kanani: I think electrolyte side also, with the four customers which we mentioned we work with, some of them have already taken trials, they have used our electrolyte in their cell manufacturing facility, and some have seen satisfactory performance. Now they are ready to place bigger volume orders. So, there the main bottleneck is all the approvals, whatever they need from our side, we are more or less ready. There are some comments or improvements which the customers have requested, which we have overcome and we are doing the improvement like we do in any pharma audit also. So, it is a very similar level. There, the main challenge is that they are also increasing their cell-manufacturing capacity because all the smaller ones, the bigger ones, they are just right now in the trial production phase. So, as their trial production becomes regular production, our electrolyte volumes go higher.

Ankur Periwal: And you also commented on the new recipes and the new learnings that you had while working on these trials with the customers. What exactly, if you can substantiate that? Are these learnings more on the larger number of recipes that you could have done or is it a new salt or more efficiencies? Your thoughts?

Dr. Harin Kanani: Basically, earlier we were focusing on how we make electrolyte of the best quality, so the process of manufacturing. Now, as we work with more and more customers with different kinds of cell designs, we are getting a deeper understanding into that (as to) for a certain cell design which electrolyte becomes better. Again, here also we have a collaboration with Mitsubishi. When a customer wants, we can bring in Mitsubishi also together and then Mitsubishi, Neogen and the customer together help design the electrolyte for the customer. Some of the customers have already completed their first-generation cells and now they are working on the second generation and the third generation cells. So, that is where we are now being a part, right from the beginning to help them design. What the electrolyte should look like which will give them the best performance especially in India kind of a scenario where

India is a high temperature region. So, some of the electrolyte designs have to be optimized for India and in the beginning, everybody is basically trying to make whatever their technology partners were making, except for a few who design their own. But like in the next generation, people want to design their own unique electrolytes, and we are basically partnering with them to basically help them develop those electrolytes. So, that is the learning that you had. If you have this kind of a cathode, you have this kind of a binder which is the additive which works better or does not, if you want to improve charging what kind of electrolyte additive can help you, but it will create the other problem. So, depending on what the customer wants, how we can optimize. And again, we also have Mitsubishi help here. So, with some of the customers we are working together and designing together these electrolytes.

Ankur Periwal: On CSM side, you did mention a target of 20% for the next year and we are already at probably 15-17%. Given that agrochemical is still sort of slightly subdued here and you mentioned you have got good traction from other sectors. Can this growth be slightly more front-ended or maybe the ramp up in this business could be sharper? And secondly from the capacity perspective, where are we in terms of ramping up this business to may not be 120, maybe even higher number from a growth perspective?

Dr. Harin Kanani: Sure. When I am 17-18%, that is like a run rate of around Rs. 100 – Rs. 200 crore. So, when we are at 1,000, first of all that becomes 250 and that itself is like a 25% growth. You still have to grow this business by 25% and then also another to catch up on that 2% to 5%, you would need still another 30-35% increase over what we are doing today just to meet our target next financial year. I think we have already a capacity for that and I think we have shared earlier that we feel once we reach the full utilization level, with some debottlenecking, this site itself, our existing capacities can give us still 15-20% more with better utilization of all the assets. So, we might have to do some debottlenecking CAPEX kind of thing, but we feel FY26, we can be at that Rs. 1,000 crore and FY27, the base business can bring somewhere around Rs. 1,150 – Rs. 1,200 crore kind of revenue. We will give you a more exact number next year. But this is what we can target and we will see.

Right now the way I am seeing it, till we see the light at how the advanced intermediates in the generics space plays out, we want to just basically say okay, our better CSM numbers are just a backup for advanced intermediates, because from chemistry point of view those advanced intermediates which are the multi-stage chemistry and the CSM which is also a multi-stage chemistry that basically is fungible like reactive capacities is what we are basically using there. So, we will use it as a backup. But what I feel is that with the slowness of the agro and for us also to understand the semiconductor and utilize our capacities fully, if we are in a position where we have too much of capacity, too much of demand and less capacity, we would also like to optimize our product mix slightly for better margin or better working capital cycle.

So up to FY27 unless something dramatic comes, my view is that I want to focus more on stabilizing this business, making it more efficient from margins, working capital, product mix points of view, and then FY28-29 is where all the work which we have done on this, will basically allow us to the kind of rapid growth we are seeing in battery. I don't know the same level, but like the long-term view of the CSM to have single customer who can give you significant hundreds of crores kind of revenue of business. So that is something I am looking at the ramp up happening from FY28 onwards. And by that time we feel battery also would have stabilized. So, from bandwidth point of view, from a cash allocation point of view, we see the rapid growth in the battery in FY25-26-27 and this is the time when we stabilize our base business like BuLi Chemicals gets completely utilized even hopefully the 2x capacity, the synergies of that start playing out and based on that with the agro, pharma and the other industries like semiconductors, aroma, CSM will see where we are adding most value and then we use that particular customer or that particular industry as a focus for further growth in the base business beyond FY27.

Ankur Periwal: Just if you could remind us, FY26 our target was 20% CSM share. What was the same number for FY27?

Dr. Harin Kanani: FY27 we have not. Like I said, we have so far said only Rs. 1,000 crore for FY26. For FY27, it is just debottlenecking to becoming Rs. 1,150 to Rs. 1,200 crore using the same capacity is what we are targeting. Right now, let us just keep 20% as the target. The main CSM push or significant move will happen when we set up specific plan for a specific molecule. Once your single molecule is Rs. 150 crore - Rs. 200 crore, you can have a plant, one single plant which is doing only one or two molecules kind of an MPV. Right now, our one single plant is doing 30 products, 40 products. So, we want to basically move on to Rs.100 crore plus kind of molecules beyond FY27. So, that is what will basically drive the CSM growth beyond that.

Ankur Periwal: Just two book-keeping questions, if I may. One is on the pricing of lithium and bromine. While year-on-year, obviously there is a decline, even on a QoQ front, there is a further dip, or are prices largely stable now?

Dr. Harin Kanani: Mostly stable. I think bromine has started firming up a bit. Lithium is, I would say (has been moving) within that one month, half a dollar, less half one dollar, one dollar more. Just in that noise level, but no strategic shift or change in lithium. What we know is, this is historically low. A lot of lithium miners are consolidating or deciding their strategies going forward. What we are seeing is worldwide overall GwH, even after some of the slowdowns and some of the closures, are still growing significantly. So, I would say, again you will see some lithium price correction in the next two financial years.

Ankur Periwal: Lastly, for this quarter in our standalone financials, the other overheads have sort of dipped by 10% odd. We were largely stable in that range for the last probably three quarters, but this quarter there is a dip. Anything specific to read in there?

Dr. Harin Kanani: I am sorry I have not looked very closely into that. But other than some product mix, I cannot think of any specific reason for that. Let me just look at a little bit more closely and maybe in future calls, if there is a specific reason beyond… sometimes there are some provisions which you had kept, and those provisions are adjusted or some reasons beyond that. If there is something, I will let you know. But otherwise most likely in my view, it is just some of the provisions which we had kept were on a higher side, which were corrected or some of the expenses between Neogen Chemicals, Neogen Ionics and BuLi Chemicals are now a little bit more accurately bifurcated because they have some common facilities. So, other than that, there should not be any major reason.

Moderator: Next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: Sir, I just wanted to understand, I mean, we did talk about the business, but I mean really, what has been happening here is the pricing side of it still remains weak. But considering that also just wanted to understand, I mean I understand that there has been some discussion, but we are still sticking to that base business guidance of around Rs. 9.5 to Rs.10 billion by FY26?

Dr. Harin Kanani: Yes, Rs. 950 to Rs.1000 crore. We are sticking to that.

Jason Soans: In terms of the realizations, we have spoken about the realization for salts to be around \$28 to \$35 per Kg and electrolytes around \$8 to \$9. I understand that coming from a non-Chinese perspective, always have negotiation going on compared to the Chinese pricing and so on. Just wanted to understand, I mean of course also looking at the exports market, electrolytes, domestic, so how are the negotiations going on in terms of benchmarks for Chinese pricing? Just wanted to understand that, because clearly that will move the needle a lot. So, just wanted to understand how are those negotiations playing out?

Dr. Harin Kanani: First of all, the negotiations when we are having with the customer, we are basically saying, look, lithium prices are going to fluctuate and that is something which we cannot control. So, the numbers you said were like closer to stable lithium price what we are expecting between \$20 to \$25. Right now, that price is almost less than half of that. On top of that, you have other raw materials which also contribute in electrolyte, which are at their historical low. So, the topline remains maybe numbers would change, but both me and my customer are more concerned with what is Neogen's cost of production, our contribution, our ROCE. So, I am basically protecting my ROCE and the customer is also more concerned with Neogen's overall operating costs. So, negotiations are around that. In fact, the customers work in two ways. If they are talking to four guys they say okay, this is the lithium price, what would be your price. You tell me that. Or they would say okay, other than lithium, what is your contribution? And the feedback that you constantly received is that outside China, either they say you are the lowest or you are the second lowest. So, that is why all the customers keep talking to us and even the contracts that we have already entered into.

So, as I explained in some of my previous answers, we already have contracts in place. Once the approvals come through, based on that contracts, the POs will start flowing. So, in this also the margins have been optimized and even I said some of the recent customer visits also I checked that okay, this was something six months ago, is that still the case. So yes, still, that is the case where they feel that for the salts where we had entered into contract, we are still the number one or number two lowest outside of China. So, that is what basically they are focusing on. With Indian customers, we have not yet entered into long term contract. But for a reference check, customers can tell us, okay, this is the price in China, but electrolyte is something that everybody acknowledges, that ideally you want to make it locally. There are a few companies in the world who have tried internationally for smaller volumes, but when you get into larger volume, it is just too complicated. So, basically, they are looking and we being very fair that we do not want to take a very extraordinary margin just because they want local, etc., because we know ultimately they also have to compete in the international market with the Chinese cell prices. So, we have been very fair, and we are basically targeting to protect our 20% ROCE, which we feel something like the risk that we are taking is what we deserve. So far, again, we have not entered into any long-term contracts, but the smaller volume businesses, we are trying to close at around this price. But again, we will have a better answer on this once we enter into any long-term contracts for the electrolyte, which is so far not there. But so far, we have not received a very strong pushback on when we have given our conversion price at a 20% ROCE.

Jason Soans: But clearly there will be probably a downside to those realizations which I mentioned.

Dr. Harin Kanani: Yes, but again by the time the plant starts, if lithium is back, it could be higher also, it could be lower also, right? The selling revenue will depend upon input cost, but the ROCE that we are targeting or the absolute EBITDA that we are targeting, that remains unaffected.

Jason Soans: And I just wanted to also understand, you did mention that battery chemicals revenue for FY25, you expected around Rs. 50 crore to Rs. 75 crore. For FY26 would you want to probably give any guidance as such, for battery chemicals revenue?

Dr. Harin Kanani: Yes. We had shared in the past that the capacity that the 400 ton and 2000 metric ton which we feel will be fully approved in the current financial year. So that itself can give us around Rs. 250 crore of revenue. So, that was the bare minimum with which we would start with. On top of that we are increasing our salt capacity from 400 MT to 2,500 MT. So, those capacities will come online and in the second-half those capacity also will get approved. So, we would have something additional coming from there and our Pakhajan unit also is expected to come in the second-half of next financial year. So, in FY26, we said Rs. 250 crore is base plus additional revenue from the increased capacity and plus Pakhajan maybe last quarter depending on how long the trials and approvals happen. So, that is why we have said it could be somewhere around Rs. 400 crore to Rs. 500 crore. A more precise number we can give, but it will be at least that much is what we feel. And then once we have more visibility on these approvals of the additional facility as well as more visibility on electrolyte ramp up in India is when we can give you more precise number if it can be more. But my sense is at least Rs. 400 crore to Rs. 500 crore and then maybe more.

Jason Soans: Sir just wanted to understand one last thing. We were looking into Rs. 15 billion CAPEX and last time you said for the debt component you have tied up around I think Rs. 9 billion with SBI and the remaining Rs. 1.52 billion was under discussion. So, has it been tied up or we are still under discussion? Could you give an update on the debt status, basically the loan process.

Dr. Harin Kanani: Yes. So, what we need for Pakhajan is fully tied up and on top of that, what we need for Dahej where we are increasing the capacity. Partially that has already been tied up and remaining is in the final stages. Let us say another close to Rs. 1 billion is almost tied up and remaining is in the final stages of discussion. We had to also undergo rating independently for Neogen Ionics, so that process is getting completed and post that in this quarter we are expecting to close that. But we are not stopping work for that. We are also putting our own money to make sure that there is no delay there. The work will continue there.

Moderator: Thank you. The next question is from the line of Rohit Nagaraj from Centrum Broking Limited. Please go ahead.

Rohit Nagaraj: So, first question, probably a naive question. In terms of the electrolyte recipes that we are giving to the battery manufacturers. Generally, the battery manufacturer will have a single vendor for such recipes or there will be multiple vendors and if there are multiple vendors then would it be generally that the top vendor will get maximum share, and it goes down reducing for the second or third vendor?

Dr. Harin Kanani: No. Generally what happens is in case of battery historically what we have seen is many battery companies like to work with a single vendor. Some battery companies work with two vendors. But when they work with two vendors, what they do is that if they have 4 different cell types one vendor is giving them two or three cell type and another vendor is giving them one cell type. So, usually they divide it on a cell type basis. Normally it is very rare that for the same cell as I am just saying hypothetically that if there is electrolyte maker which is making…GM has three car models and Ford has 3. So, he is making electrolytes or batteries for them. So, he is making six different kinds of batteries. And in that six different kind of battery, let us say in three or four batteries he is using one particular electrolyte maker and for another two, he might use another. So, when they try to work with multiple, they generally try to work that for one single model design, they would basically work with one electrolyte maker. Then maybe they have a second-generation cell or third-generation, or a different application cell, they might use a second. But normally for one specific, they do not usually do multiple vendors.

Rohit Nagaraj: So, just an allied question to that. When we are approaching the battery manufacturers domestically or internationally, they are probably giving us the opportunity for the newly developed batteries or the existing ones. I mean particularly in case of say international markets where they already have the manufacturing in place.

Dr. Harin Kanani: Electrolyte is only domestic market. So, Neogen's focus for electrolyte is only domestic, whereas electrolyte salt is international. The recipes come into play only for the electrolyte which we are offering in the Indian market. And as you know in Indian market, almost everybody has their own new design, either their own design cells or some technology collaboration through which they will be getting. So, that is basically the India case. So, it is broadly for the new cell production which they are starting.

Rohit Nagaraj: And second, again coming back to lithium prices and bromine prices. Given that the pricing remains at the same level and even if there is fluctuation, you mentioned from the battery perspective our per kg margins or the ROCE threshold will not change. Will it be the same situation even for the base business because we have seen that in certain time zone the prices are up or down, there is an impact on absolute EBITDA or the EBITDA margins.

Dr. Harin Kanani: No. Historically when lithium prices went crazy high and then crazy low, our absolute EBITDA was more or less protected except for one or two quarters. The percentage looked lower when lithium prices were very high, but from absolute EBITDA point of view, I do not think we had an issue. Sometimes we had an issue when there was very strong price correction, especially in the case of lithium there was one quarter where there was a very strong price reduction and customers were holding back and then ultimately specially when we had taken over BuLi Chemicals, and we had imported expecting a very high demand with a new business and then it sharply corrected. So, that is where we had to take an inventory hit. But otherwise in lithium, we are very mindful that we are controlling…have a back-to-back POs so that we can maintain absolute margins. Historically other than BuLi Chemicals, we have not seen inventory hit which we had to take, and we were able to protect absolute EBITDA. Of course, a little bit what we have pressure on absolute EBITDA is in our advanced intermediates and bromine derivatives with Chinese competition. They are giving very low price so in the international business also, sometimes we have to correct these prices to match where we have a Chinese competition and in domestic also advanced intermediates, we have to match that. And that is what we are basically doing over long term - looking at how it plays out. Otherwise, as we said, once we reach Rs. 1,000 crore full utilization, when we are increasing capacity, we can also try to optimize the product mix and the business which have more stable margins or more predictable margins and better working capital cycles.

Rohit Nagaraj: Just last one clarification on the guidance. FY26 base business guidance, Rs. 950 crore to Rs. 1,000 crore. For the Battery Materials, Rs. 400 crore to Rs. 500 crore. Does it include BuLi Chemicals as well? And if you can just spell out for FY27 also, what could be the guidance for base as well as the battery materials?

Dr. Harin Kanani: Rs. 950 crore to Rs.1,000 crore includes BuLi Chem. Battery chemical as I said, Rs. 400 crore to Rs. 500 crore is a possibility. I would not call it guidance. Give us some more time for that to happen. But we see a very strong possibility of at least doing that and better and FY27, yes, our target would be to look at if we can achieve revenue of around Rs. 1,150 to Rs. 1,200 crore in the base business. And like when I say base business, BuLi Chem will include like I said, it is going to merge and become a part of Neogen. And as a business, I see it similar to the organic business that we have in Neogen. So, it will be that and that would be for FY27. And again, battery with the variability that you have, it is too early to tell you or give guidance for FY27. But it should be above Rs. 1,000 crore though how much above is something we will have to figure out depending on how the electrolyte business is developing and how the salt market is playing out. This is just a view, but a clearer guidance we can give you only in the next financial year.

Moderator: Thank you very much, ladies and gentlemen. We will take the last question from the line of Pallavi Deshpande from Sameeksha Capital. Please go ahead.

Pallavi Deshpande: In your earlier remarks, you alluded to the Indian player being competitive globally and the cell manufacturing part and that you want to support them by charging just a normal ROCE 20%. How long do you see for them to be globally competitive? Can they really be globally competitive, given that CATL is working on has a 20,000 R&D team and they are looking at using AI to get the next generation of battery materials?

Dr. Harin Kanani: Yes. There are two ways, either they get knowledge by partnership or they are generating their own knowledge. And frankly speaking, what I see is Indian battery people last 2-3 years were catching up. Once we catch up then we can really innovate. Whatever I have worked with, I am very happy and I even feel proud that some of the battery development and the expertise that we have in India is really good. Some of the Indians are also international and some of them are even willing to come back to India at even very senior levels to help India basically catch up on the world. So, after we have caught up, we will innovate. Also, in case of India most of the companies if you see also have a very strong captive consumption. For example, companies like Ola, they have their own captive consumption or Tata who has announced they will have their own captive consumption. I personally feel that there is going to be…and similar like Lucas TVS or JSW. So, many of these are not trying to sell the batteries and make majority of the revenue by competing internationally. There will be localization and here the performance also will matter a lot.

We can also improve performance specific to India and nobody is going to work specific to India other than Indians, right? So, that is where what we are working is that, hey! India has high temperature, which cell performance will work best in India. So, let us basically try and develop that and then once you have the performance, then you create more value out of it. So, it is not just the cost of manufacturing or the scale. So, I think yes, India can be competitive. In fact, some of the people I have worked with in Japan, many of them feel that outside China, the best potential place to make cells globally on a long-term basis is India because like China, we have the local demand also, which can be significantly high. We have the skill set, we have the manpower, we have the expertise, and we have the land. Many of us doubt that can India make cells competitive? But the international people are looking at India as the next best base to manufacture cells long term once we have caught up with the world and once, we have the initial start. So, this is the view, and I strongly believe that.

Of course, we are not just part of India, so we are also taking care of international requirements. We are also into international supply chain as well as Indian supply chain. That also gives us a lot of good insights. Just recently in our last Board Presentation I was summarizing companies with which Neogen is working. So, we have worked with now in different forms more than 30-35 companies in India which have either plan to make cells or are planning to make cells at different scales and we have worked with more than 40-45 companies internationally in different aspects of battery material supply chain. So, I think last 4-5 years, being one of the early adopters in India has given us the option to both play very strongly with Indian customers who are interested as well as international customers. Now whatever work we have done in the last 2-3 years, we have to basically achieve the results from that in the coming three to five years. And that is just the beginning. What we are talking 3-5 years, 30 GW hour is what we are currently targeting in electrolyte. That is peanuts of 3,000 GW hour that the world is going to be. So, I think there is still a lot of room for growth for India as well as companies which are in the battery material supply chain.

Pallavi Deshpande: And the second was on this the partnership because a lot of them are working with partners. So, Ola here is going on its own. The Mitsubishi partnership does that benefit Mitsubishi or how are they managing, I just need your thoughts there.

Dr. Harin Kanani: I didn't get your question clearly

Pallavi Deshpande: How fair a chance to compete with somebody like an Exide and Hyundai partnership and how does it play overall? And like you mentioned, the capacity will be such that they will need to export around 50% is what they can use themselves, given the size of capacities that they are putting up. So, they will have to compete globally very soon, I guess we just wanted to understand your thoughts around with the competitive dynamics in India.

Dr. Harin Kanani: I think in your question, there are two parts. One is getting technology from outside better or making your own technology? Both have their pluses and minuses. When you get technology from outside, you are getting many years of their experience.

When you do your own, you create your knowledge. And I think most of the Indian companies which basically tied up with outside, they have also developed their own R&D. So, even if you look at Neogen, I mean we knew 85-90% of the stuff but we tied up with Mitsubishi to get the remaining 15% catch up so that we have the most efficient technology available with us. So, that is basically the combination but if you look at the scale of investment with somebody like Ola did for R&D, it is much higher than as a percentage of revenue or as an absolute number also. So, I think those are both approaches which can basically work together, but ultimately we will have to catch up with the world.

There are different ways of catching up with the world. One is to spend a lot of money on R&D on your own. Second is to tie up with someone and do your own R&D and then over a period of time, you internalize that knowledge, then you build on that. So, I think we have all taken, depending on the time at which we started, different approaches to gain knowledge and catch up and then build on that.

And again, when you look at internationally, one fact remains that the whole world is going to say, hey! the whole world cannot depend on China for cells. So, just as what we said for electrolytes salt, they are also going to say outside China, who is the person who can give me the lowest cost cells. So, the main question is, one you can say can you compete against China. And the second question again outside China, can you be the best source and then over a period of time what is the gap between China and you. Is it a 10% gap, is it 25% gap, it is 50% gap? Even today in the US, there are 25% duties or if we see even in Europe in EVs, I think 40%, 50% kind of duties. So, if your gap is within that, then you have a right to play and I do not think we will be so bad because again lithium prices are almost similar for a Chinese company or an Indian company. Nickel, cobalt, whatever materials costs are quite similar. So, as we grow our scale becomes 10s of giga and 100s of giga will narrow the gap with the Chinese quite a bit where India will be seen as a viable option.

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.

Dr. 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.