Neogen Chemicals

Q2 & H1 FY20 Conference Call Transcript
November 13, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Neogen Chemicals' Q2 & H1 FY20 Earnings Conference Call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shiv Muttoo of CDR India. Thank you and over to you, sir.

Shiv Muttoo: Thank you, Lizan. Good evening everyone and welcome to Neogen Chemicals Limited's Q2 & H1 FY20 earnings conference call for investors and analysts. The call has been hosted to discuss the Q2 & H1 FY20 financial performance and share the operating highlights of the company with you.

Joining us on the call today are senior members of the management team including Dr. Harin Kanani – Joint Managing Director, Mr. Anurag Surana – Director and Mr. Mahesh Tanna – Chief Financial Offer.

We will begin the call with comments from the management team following which we shall open the call for Q&A session where the management will be glad to respond to all the queries that you may have.

At this point, I would like to highlight that some of the statements that can be made or discussed on the conference call may be forward looking statements. The actual results may vary from the forward-looking statements made in the call. A detailed statement in this regard is available on Neogen Chemicals' Q2 & H1 FY20 earnings presentation which has been shared earlier. I would now like to invite Dr. Harin Kanani to commence by sharing his thoughts on the Q2 & H1 FY20 financial performance of Neogen Chemicals, strategic progress made by the company and the management's long term vision. Thanks.

Dr. Harin Kanani: Thank you, Shiv. Good evening everybody and I thank you for taking time out to join our Q2 & H1 FY20 earnings conference call. I am sure all of you would have gone through the results document, which was shared earlier and now also available on our website.

We have once again demonstrated encouraging performance during the quarter under review. Our performance stood on expected lines and was supported by positive demand from our customers, greater capacity utilization as compared to last year at our plants and stable-to-better realization of our key products. One important thing to be noted here is that the revenue base in the first half of last year was lower as we had carried out some major maintenance activity at that time. To that extent, the growth in H1 of this year appears high. The same will get normalized from H2 of this year.

Let me now update you on the status of the Greenfield expansion project. As highlighted in the previous call, we had already started construction activities at the Inorganic facility in Dahej SEZ in the state of Gujarat. And now I am glad to share that trial production has already started. So, we have already taken few trial batches and we remain on track to commence commercial production for the Inorganic production in Q4 of FY20 as we were targeting earlier, so we are on schedule. Our Organic facility is also coming up in Dahej SEZ and as we had planned, the work will begin very shortly and we expect it to be ready by December 2020. So, in Q4 FY21, we are trying to make it ready for commercial production. Let me remind you that once both these facilities are operational, it will almost double our Organic and Inorganic capacity.

Now, I would like to also move your attention to our Q2 FY20 financial performance. Please note that we have made the comparison with Q2 FY19 when we are giving all the percentages. So, during the quarter under review, we delivered a healthy topline growth of 35% to Rs. 77.1 crore, which has come on the back of higher utilization levels as compared to previous quarter. This was supported by a 53% revenue growth in Organic chemicals of Rs. 63.6 crore and Inorganic chemical was at Rs. 13.5 crore, slightly lower than the same period last year. Performance in Inorganic chemical segment was also impacted largely due to lower raw material prices of lithium. The EBITDA expanded by 48% to Rs. 14.8 crore, translating to EBITDA margins of 19.1%, an increase of 160 basis points. Solid EBITDA performance was driven by higher revenue growth and optimal capacity utilization, better efficiencies on the larger scale of operation as well as tight control over operating expenses. The profit after tax came in at Rs. 7.7 crore which was higher by 53% over the same period last year.

Overall, we basically would like to maintain the growth targets which we had for this year. I think in the first half, we have basically covered a lot of ground and the revenues in the first half was around Rs. 141 crore which is as compared to Rs. 145 crore in the second half of last year. And we think with this, we will also be bolstered by our focus on advanced intermediates and specialties and increasing our contribution from custom synthesis and manufacturing portfolio. This will help us augment our growth in both domestic as well as global markets in future. Therefore, we believe that we are well positioned to realize the growth opportunities in our core business segments once we have the additional capacities commissioned.

That concludes my opening comments on our performance and outlook. I would now request the moderator to open the forum for questions from participants.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: I just wanted to understand the decline that we have seen in this Inorganic business. While it will have an impact on your sales, it should not have a material impact on your EBITDA because if you are operating on fixed EBITDA per tonne or kg, in that case if the sales or the ESR comes down by 10%, your actual margin goes up but your EBITDA per tonne remains constant. Is that a right assumption or do we have some high cost inventory and we could not pass on etc.? Some kind of an impact on that.

Dr. Harin Kanani: So, basically, first of all the Inorganic lithium's contribution is relatively small. It is now, I think, below 20% contribution which is already coming from Inorganic and most of the times, basically when the rates declines, the raw material contribution whatever is the decrease in the rate gets kind of passed on. So, more or less, so far the change in rate of lithium has not had any impact on our EBITDA, but the lithium markets currently are very dynamic. So, usually the prices would remain almost constant for a year, but we are seeing the prices changing almost every quarter and our customers are requesting for a re-pricing and in turn our suppliers are also passing on pricing change in market. So, we are kind of trying to balance both, but overall what is impacting is to some extent, the value of the sales, but it is within normal quarter-to-quarter variations because we cannot get always the same quarter exactly. If you look over the past 6 months, actually it is slightly higher. In this particular quarter, it was slightly less, but for the 6 months, this time it was Rs. 29.6 crore as opposed to Rs. 28.1 crore in spite of slightly lower lithium price towards the end of this quarter. So, overall, I do not think it will impact EBITDA significantly, one, because the value itself is low and second is to some extent there is a pass on.

S. Padmanabhan: Second is if I am looking at last year numbers, one is the second half was significantly better than the first half and part of it, I would assume is because of the maintenance shutdown that we have taken, also in the press release you had mentioned that as a business mix itself, the second half is better than the first half as far as both EBITDA and topline is concerned? So, on a normal basis, how do we see, the first half versus the second half? Second is that, because you had a maintenance shutdown, was there a kind of additional push that you have seen in the second half of the previous year?

Dr. Harin Kanani: So, I think mainly last time as we had said, it was kind of a planned maintenance upgrade, I would say because what we had done was, that, we had added a few reactors in the previous year in February, we had built also some inventory and then keeping in mind customer request, we had basically taken for the maintenance and upgrade, which went slightly longer than our plan, but I think as you rightly said and as it is already shown in our presentation, the second half is always better. Of course, last time the difference was very high. So, Rs. 95 crore and Rs. 145 crore, this was mainly backed by the fact that we had lower utilization in the first half because of the maintenance related activities. So, even now we expect slightly better, but the difference will be nowhere close to what was last year because we do not have any downtimes in the first half. So, even if you see, we said that from third quarter of last year, we are practically working at full utilization levels. So, last time in the 6 months period, we did around Rs. 145 crore and this time in the first 6 months, again we have done Rs. 141 crore. So, roughly around Rs. 70-80 crore in that range is our kind of quarterly run rate. So, we expect that and maybe slight push for better performance. So, our overall guidance for this year target was around Rs. 300 crore. So, already having achieved Rs. 141 crore, we feel Rs. 160 crore balance in second half is very much within our reach ensuring that we are able to reach our target of around Rs. 300 odd crores.

So, it will not be as dramatic in terms of percentage as compared to last year. I think the run rate is around Rs. 150 odd crore and there will be slight better improvement than that, so will be closer to again Rs. 300 crore as we had targeted at the beginning of the year.

S. Padmanabhan: And in terms of margins, how does the mix change in the second half versus the first half?

Dr. Harin Kanani: So, basically, whenever our turnover is higher than the margin tends to improve, so in the first quarter of last year, we had Rs. 64 crore and this quarter we had Rs. 77 crore. So, the margins were better. So, again I would say, more or less closer to Q2, but because of product mix, because of so many business reasons, some expenses in specific quarter, I kind of stick to the earlier guidance which I have of 18.5% which is our sustainable margin and depending on business conditions, it can be 1% up or down. So, in that range, we would try to remain.

S. Padmanabhan: If I can squeeze in one last question from my side. One is on capacity utilization, given that you are talking about capacities running at almost full at 80% and only one leg of the business comes in that is the Inorganic business and historically, we have been growing at about 24%-25%. Number one is if you are looking at it from that side in FY21, can we have capacities to grow. And second is if you can also throw some light on the working capital which seems to be a little lopsided in the first half. We have kind of burnt a lot of cash on the working capital.

Dr. Harin Kanani: So, two parts of your question. One is FY21 and second is working capital. I am addressing the working capital question first. Since we are working at full utilization levels, we basically want to make sure that the capacity whenever is available is getting fully utilized. So, you have seen a built up of inventory and this is also historical reason. Even last year also, in 6 months in spite of the maintenance also, there was a built up of inventory and you can see the end of the year, inventory was actually slightly lower than the previous. So, this time, that is slightly higher. So, this is like more like a 6-month scenario and you will see that some of the inventory increase is to support the larger in process material or larger let us say raw material inventory to support the growth that we had, but some of it is also kind of made for, let us say, next future quarter sales.

So, that you will see inventory go down. We were at least able to manage to reduce debtor days. As I mentioned to many of you, once the equity investors have come on board, one of the targets they have given us is to improve on our working capital cycles, so we have already made some effort and we will continue to improve on the debtor cycle also for improvement. So, to answer about the inventory, there is no significant change, will have some improvements in debtor days, but more or less overall for the year in terms of number of days, inventory will be more or less in line with last 2-3 years range and debtors also may slightly improve if all our efforts continue to bear fruit. So, that is on the working capital cycle answer.

The second question you asked me is FY21 growth. Yes, so this is like, I have said many times that I had a very clear picture of FY20 and I have a very clear picture of FY22. FY21 is a bit of a question mark. So, as you very clearly pointed out the drivers are do we have the capacity to have that growth in FY21? So, from our side, we are still keeping our target of December 2020 for the Organic unit to be ready. So, if it is ready by December 2020, it still gives us one quarter and since the capacity increase itself is 100%, one quarter of 100% still giving us let us say 20% growth. Of course, it will be lopsided in like Q3-Q4. So, this is one thing which is the growth driver and it will depend on exactly when that Organic capacity comes on line. So, this is one of the factors.

The second factor is the Inorganic capacity. Now inorganic capacity, we have a clarity that yes, by Q4, the inorganic capacity will be in place and this lithium, we are now targeting for in Inorganic mainly the international business of lithium. So, these are new customers we are developing, and we have always said that it will take us 2 or 3 years to fully utilize this lithium capacity. So, once we will have this capacity fully running by December-January, there will be some customer visits for the approvals and then how much of the Organic, Inorganic capacity we are able to utilize, so let us say even if we are able to get a 50% utilization, that gives us some Rs. 20 crore which on a Rs. 300 crore is already 7%-8%. And then, when we get the Organic capacity, will decide overall growth. So, we will have something like, my guess is at least between 10%-20% kind of a growth depending on when we can get the Organic capacity on line. And we are also trying some debottlenecking or some products optimization. So, with the same capacity if we can get more turnover, these efforts are also on, but these are like small here or there kind of efforts and may give us few percentage points. So, we will see how much of that kind of bears fruit. So, I hope this answers your question.

Moderator: Thank you. We will move on to the next question that is from the line of Ashish from InvesQ. Please go ahead.

Ashish Upganlawar: Just wanted to know, any development that you could share with us on the custom synthesis or probably the specialty side which you think has moved ahead from what you shared last quarter?

Dr. Harin Kanani: So, no significant update from what we had shared in the last quarter. I think the projects are moving like we said there are different stages. So, we do the R&D, then do the pilot, then some initial trial commercials, then sometimes in between there are customer approvals involved after every stage. As we have mentioned that we are basically timing it in a way that by the time FY22 comes, some of these customers have all the approvals and the initial commercial trials are either done at Mahape and Vadodara so that we are ready for the bigger commercial production from the Dahej facility. I think things are more or less just through their normal, one after another kind of a state. They are progressing. There is neither any big setback or a no specific contracts signed or anything like that. So, it is kind of going as per plan and I think the way we had said it that in FY22 when we will have a capacity to make Rs. 500 crore, our target would be to basically keep advanced intermediates and custom synthesis (which is basically a subset of advanced intermediates) at around 30%. So, let us say around Rs. 150-170 crore kind of a turnover. So, that still continues and we expect the same kind of a product mix -around 50% is bromine derivatives, 30% is advanced intermediates and about 20% is lithium. So, more or less the same trend to kind of continue.

Ashish Upganlawar: Another thing, I mean there is lot of interactions or other discussions we have had in the last couple of calls on the working capital cycle and basically how the debt would move in the business? So, is it a permanent nature that we should assume that your working capital cycle will remain such that the growth will need more capital being blocked in working capital and that is why you will need to raise debt in a timely manner basically? So, is it going to be that way as far as the overall balance sheet is concerned for you or is there anything that can change because cash flow generation on the operating side that is not being seen as such good growth actually.

Dr. Harin Kanani: So, I think two points here. So, actually I wanted to say maybe address it in 3 different sub units. First unit is what we have said is that for sure if we decide to stop growing, in the sense if we have zero growth, then we can start generating cash. So, for example, if we thought that let us say after FY22, we say okay, not adding more capacity for FY23 and let us wait for one year and have a flattish kind of a year. So, whenever we do that, we can directly start generating cash. So, at any point of time, as a company, we feel that the debt levels are getting higher. We can just take a pause on the growth and make sure that we can generate cash and keep the debt within manageable level. So, it is not something which is out of your hand. It is a conscious decision that you make or a choice that you make whether you want to capture growth or whether you are comfortable with the debt. So, this is the first point I wanted to make.

The second point that you had told us about can the working capital cycle change and then like a connected question to that is related to the debt, the additional debt that we will have to take. So, now when it comes to working capital cycle, what my longstanding answers have been mainly that okay, yes, what will happen is we are trying to work with our customers especially some of the large customers to have ways in which we can reduce our debtor days. So, this is one of the efforts that we are doing. We have seen some improvement, but I want to basically be able to do it for several quarters where I can tell you confidently that yes, we will be able, so I think last 2-3 years our debtor days, end of the year were closer to like 90 days. So, we will see whether we can improve upon that.

In case of working capital, in case of the inventory, this has been also again a function of capacity utilization levels and wanting to make sure that we are utilizing capacity throughout. So, for this, as I discussed in quite detail in previous call, what we basically are targeting is that as our size becomes bigger, there is another issue which is related to this is not having too much risk with just one single customer. So, let us say if our revenue is Rs. 300 crore, we are generally comfortable between 10%-15% as our top clients. So, even at 10%-15% of the top clients, we are at something like Rs. 30-40 crore kind of a business which is coming from one client. And so that is about the level at which I can dedicate the reactors and then there is no penalty for changeover and things like that. So, as our size increase, we can have more products or more customers, each one contributing significantly higher amount where the changeovers are not a penalty and in such case, the inventory levels can improve.

So, as our business mix changes and again tying into your earlier question that if we can have a very good visibility of 3 years, 5 years with our customers and a good schedule from our innovator customers, so in that particular case this inventory can improve. So, again, it can improve by few days and maybe come closer to industry standards which at least to the best of my understanding is around 90-100 days as opposed to ours which is around closer to 120 days. So, this will be the other and hopefully, going forward, if the margins improve, then even to support the growth inventory, we are generating that much more cash that the amount of debt that we need to take may reduce to that extent. So, it will be in a function of these three and we are surely working to see the improvement, but I think the biggest driver will be having more capacity. So, I think FY22 or FY23 onwards you should see the bigger differences.

Ashish Upganlawar: And you mentioned in your remarks that there is some volatility in the lithium price. So, do you see any implications of that on the EBITDA margins that you generate maybe in the next 12 months or is it manageable to that extent?

Dr. Harin Kanani: I think it is manageable. One, we try to make sure contracts are back to back so whatever lithium is coming except for a little bit more, we have commitments from customer. Within that, we tend to get at a lower end of things and get the changes faster. So, we should be able to manage those inventories. And again it contributing only 20%, so even small variation here or there overall in the entire company, it will be within that plus or minus 1% range which I mentioned to 18.5%.

Ashish Upganlawar: Lastly, the growth that we are seeing and what we are projecting maybe do Rs. 500 crore in next couple of years, is this mostly from the existing customers, is it possible to break it up how you are seeing on the existing customers and the new?

Dr. Harin Kanani So, what basically we had planned that it is from the demand from existing customers, I can make sure that we can fully utilize the Rs. 500 crore and if we have new customers coming, then we can optimize and choose the best business mix that we have. So, when we planned our capacity for Organic, we kind of ran through various scenarios. Scenario one being for example, entire growth will come from existing customers and let us say scenario number 5 being all growth will come from completely new products and new customers and we wanted to make sure that our multi-product facility is ready to basically cater to both the scenario 1, 5 and all the options in between, so we have planned it that way. So, what will actually happen, as we get closer, we will have a clear visibility, but we have kept ourselves ready for all the options.

Ashish Upganlawar: Is there any listed competitor who is very near to your business that way across the globe?

Dr. Harin Kanani: There is a company in Japan called MANAC which is into specialty bromine derivatives, but they do not do lithium, they do not do much advanced intermediates. And even in bromine derivatives, they do bulk as well as specialty. So, I don't know if their contribution is but my guess is maybe 60%-70% bulk and 25% or 30% specialty. That is the closest I can get you.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: My question pertains to strategy perspective. So, you have been pretty confident that you will be able to achieve 100% utilization for the new facility in the first year itself. So, we have said that potentially we will be able to have revenues of Rs. 500 crore by FY22. So, if we were to grow after that, what are the plans that we are having in place, because in terms of expansion, certainly we will have to get the necessary clearances. So, what are the current plans on the drawing board and which and all areas are we looking at from expansion perspective?

Dr. Harin Kanani: So, just a small clarification. So, what you have said is that in FY22, we will have the capacity available for Rs. 500 crore fully and I think what we basically are saying that, yes, in the first year we will, if it starts in December then we will already have one quarter to basically streamline production and we can achieve revenue anywhere between Rs. 450 crore to Rs. 500 crore in that broad range. So, we will be having a major utilization, but let us say in that range of Rs. 450 crore to Rs. 500 crore is what we are targeting for FY22. And we will narrow the range once we are closer. This is answering your first part of the question.

The second thing that you wanted to know that, beyond that what? So, for example in our Dahej unit, we can put up almost close to 5 MPPs and you know we have a permission, I mean, so we can now plan one more MPP or multi product plant to set up in Dahej or in Vadodara and the decision on that right now it is too soon for us to take. But once we are closer to the capacity coming online, where we have a clear visibility of, let's say, Rs. 500 crore kind of a business where it is going to come from the exact customer identified, then we will see what is the immediate demand still addressable or requirement and how urgently it is required. So, based on that, I think basically at the board level, we will discuss and take decision for the next CAPEX. So, if we want to do the CAPEX, we will at some point of time, either I would say, if December is a target, maybe 1 or 2 quarters around before or after we will take decision for the new CAPEX. And in terms of the permissions, we had an EC hearing and the minutes of that are already on the website. So, that is permission that in the next 5 years we can go up to 5 times in Dahej from our 5 MPPs worth of production which has already been approved in the committee and the minutes have been circulated. We are awaiting the final EC letter in our hand. In Vadodara, we already have permission for additional let us say 1,500 - 2,000 metric tonnes kind of additional production and we have also applied for EC in Vadodara for the next 5-7 years. So, we will have hopefully over next one year by the time we are ready to take the next decision, will have permission at both the sites for further expansion.

Rohit Nagraj: Alright. And just a concurrent question to that. In terms of the expansion plans at Dahej for Inorganic and Organic, what is the spilt up of revenues that we are expecting from both the streams and what is the kind of CAPEX for both the streams, if you can split it up?

Dr. Harin Kanani: So, roughly given that it is around Rs. 15 crore CAPEX for the inorganic. This is other than the land - what we had already invested before in previous financial years only. So, around Rs. 15 crore for the Inorganic and around Rs. 60 - 70 crore range for the Organic. So, this is the mix of Capex. In terms of turnover, the Inorganic can do a turnover of around Rs. 40 to 50 crore and the Organic can do a turnover of let us say Rs. 150-200 crore in that range.

Moderator: Thank you. The next question is from the line of Nav Bharadwaj from Anand Rathi. Please go ahead.

Nav Bharadwaj: My question was more pertaining to the other expenses. Irrespective of our income, it has remained fairly constant. So, could you guide us to what is the way going ahead on this?

Dr. Harin Kanani: So, I think in terms of other expenses because we are now more or less working at the full utilization levels, our power, fuel, these costs remain almost same because it has been at full utilization levels since last September. And I think we are also tightly controlling costs. Manufacturing costs are more or less the same. There is some fluctuation in admin and sales. So, whenever we have more exports, then sometimes the sales expenditure is higher. Also, we participate in marketing shows, I mean we take part in international exhibition, sometime some quarters like for example October to December we have the biggest CPhI Pharma show in Europe and then CPhI India where we do majority of our marketing spends. So, sometimes that is high. So, more or less these are the things and we are also trying to keep a control on other overheads. So, that is why you can see more or less similar. It will vary by few crore here or there depending on quarter to quarter.

Nav Bharadwaj: Alright. In terms of depreciation, what will be a possible number for this year?

Dr. Harin Kanani: So, I want to make sure you got the clarification that in this particular quarter because we have done some lease contracts where as per Ind-AS, the rent is now bifurcated. So, there is a note also in our results which we have published, which basically shows that now as per the new Ind-AS, any long-term lease that you have. So, for our office and for our warehouse etc. wherever we have warehouse storage, those leases, they make it for the life of the contracts so we create right to use assets and apply amortization. So, that is why you see a big jump on depreciation. But I think what you see in this quarter will continue and then it will go slightly higher because we will have in this quarter Dahej Inorganic plant capitalized. So, in Q4, you will have, Q3 partly and in Q4 you will have some depreciation out of that. And sorry, I don't have the whole year number after adjusted for this. So, you can just maybe use the note and you will get some sense of the value.

Nav Bharadwaj: No worries. Right now, the contracts that we have and what we had guided for in the earlier calls in terms of revenue and all that remains intact, right?

Dr. Harin Kanani: Yes. So, I think we are more or less in line with whatever we had. Now because in the first half itself, we have done for example Rs. 141 crore. So, even if we do Rs. 145 crore, what we did in second half, no change, or same as first half still we are at Rs. 280-290 range. So, what we have said, in the worst case scenario Rs. 280-300. So at least we feel we have more or less crossed the worst case scenario and expect to be more closer to Rs. 300 crore.

Moderator: Thank you. We will move on to the next question that is from the line of Anirudh Shetty from Solidarity Advisors. Please go ahead.

Anirudh Shetty: I missed the point on the clearance for Dahej. Is the EC letter still pending for that and by when do we expect to get that?

Dr. Harin Kanani: So, there are two parts. For the Inorganic, it is the state level permission. So, this permission was granted to us in last year itself and based on that, we started work on that and that's kind of everything good to go. For the Organic stage, there are 3 parts, I mean we had applied long time ago, we had already got the first stage clearance. We had already collected the data and submitted and then we had an EC committee meeting. So, the committee meeting was done last month and then the minutes have been already shared, so which is in line with what was discussed in the committee. So, I think generally once the minutes are out, it is a 2-week or 3-week kind of a time for them to issue the final EC letter.

Anirudh Shetty: Got it. My next question is on the advanced intermediates and the downstream business, this first half of the year how much could it be as a percentage of total sales?

Dr. Harin Kanani: Sorry, advanced intermediates?

Anirudh Shetty: Our downstream business.

Dr. Harin Kanani: Anirudh, if you have other question while I get that number for you?

Anirudh Shetty: Sure. I just have one more question. It is a follow up on someone's earlier question on the competition. In the specialty bromine space, who are our top 5 competitors, you had mentioned MANAC, any other names?

Dr. Harin Kanani: Since it is a listed company, I can give the name. Other I am not sure whether I am allowed to give the name. But there is a company based in UK, there is a company based in France. There are 4 or 5 companies, out of which 3 are significant comparable to our size in China. There is a company in Israel and MANAC. So, overall, I feel these are 10 major players. Five in China, two in Europe, one in Japan, one in Israel and one in India. So, these ten I feel are the major ones, so we all have like 150-200 products, we all have been in bromine derivatives, catering to pharma and agro customers for many years. So, these are the ones I consider as significant. And the European, Israel and Japanese even precede Neogen. So, they started anywhere between 1975 to 1985. So, they kind of had a 10 or 20-year head-start over us. And the Chinese competitors started more or less at the time when Neogen started or few years after. Also to answer your question about contribution of advanced intermediates, it was about 30% in H1 FY20.

Anirudh Shetty: So, in a way we have achieved our target that we have set for in 2020 but this is just for the half year?

Dr. Harin Kanani: Yes. So, I don't have unfortunately in front of me a quarterly number, but to give you exactly, I think it was around 26% for the first 6 months.

Anirudh Shetty: And this competition that you mentioned would that be comparable in scale with us or are they smaller, much larger, how does it work?

Dr. Harin Kanani: So, overall because the Japanese company is also doing bromination for bulk bromination, so their volume of bromine consumption as well as the reactor capacity is much higher. But as I said, I don't have an exact idea on the specialty bromine segment of theirs, but my guess is they would be larger. What I feel is the UK, now the scale at which we are, I would think we would be somewhere between number 3 and 5, because all the other companies are not listed. But based on bromine consumption pattern that I understand, with Vadodara now running at full scale in terms of bromine consumption we would be either number 3, 4, 5. So, there are two or three people bigger than us and another 2-3 at a comparable level and then few whose reactor capacity and bromine are smaller than us.

Moderator: Thank you. The next question is from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.

Rohit Nagraj: In terms of application for different segments or different industries, which industries are we expecting that the application is expanding or there is a larger growth because since we have said that Inorganic capacity will be consumed within a relatively shorter period of time, what is the segment which is growing from application perspective?

Dr. Harin Kanani: We said actually Inorganic capacity will take some time for fully utilization. The Organic business that we have it basically caters to pharma and agro primarily and the lithium segment basically caters to the engineering polymer as well as pharma and few other kind of industry. So, historically in last 2-3 years as the growth has come largely from pharma, this was because the Vadodara site already had many pharma business approvals, so this was very easy for us and quickly we could grow our capacities there. And also in terms of our number of customer base in pharma also is much wider. So, we could tap into that. But what is in pipeline today and at least what we desire to see, we also expect agro to start growing significantly especially once we have MPP, the Dahej organic unit come online. So, if you look like the industrial segment, so historically our pharma was between 50% to 60%, agro was around 15%-20%, engineering 15%-20% and then 4%-5% all other industries combined. In last 2 years post acquisition because lithium capacity has not increased and because pharma was heavy in Vadodara site, pharma has increased to 75% to 80% in that range and if the way we are seeing things, if our new products in the agro pan out, depending on what I said previously, my option 1 happens or option 5 happens, we may see the agro share of the business kind of increase.

Rohit Nagraj: That was very helpful. And in terms of product pipeline, how are we placed for the new product introductions from the R&D perspective?

Dr. Harin Kanani: So, I think I have shared this in some forums with the investors that the business that we can see from our existing molecules and when I say we can see means, this is the requirement of the customers with whom we are in touch. So, that number comes to somewhere around Rs. 3,000 odd crore for the organic molecule and around Rs. 1200 odd crore for the lithium. So, that is the Rs. 4,200 crore worth of product customers with whom we are in touch with and we will of course have only some section of that, but we have awareness of that. And what is currently in the R&D, in different stages, that has additional potential of Rs. 2,000-3,000 crore. So, kind of also give you a sense of what is in R&D and what is the ultimate potential of all the molecules in R&D.

Moderator: Thank you. The next question is from the line of Ritesh Kumar, an Individual Investor. Please go ahead.

Ritesh Kumar: Can you throw some light on the legal proceedings pending against as filed by Neogen Corporation in India and USA?

Dr. Harin Kanani: So, just to give a brief update or a background to people who are maybe getting aware of this for the first time. Basically, we started Neogen in 1991 and we also got our trademarks registered somewhere around 1999 etc. Few years ago, there was a company Neogen Corp in USA. They try to register their trademark in India and at that point of time, to protect our trademark, we had taken objections from their trademark getting registered. Subsequently, just before our IPO, Neogen Corp also filed a court case in High Court requesting to maybe keep a pause on IPO and stop Neogen's operations and our lawyers basically since than have been fighting the case in the High Court. So, that case is still continuing. Like normally it happens that we file our evidence and they do response and we respond to that. So, maybe one or two rounds of that has happened.

Ritesh Kumar: Is it pending in Gujarat High Court or where?

Dr. Harin Kanani: It is in Bombay High Court.

Ritesh Kumar: Is it a writ petition or civil suit?

Dr. Harin Kanani: It is a trademark. I do not think it is a writ petition.

Ritesh Kumar: But you said that we had challenged there, we had filed objections when they attempted to register their mark in India because ours is a prior mark. So, we succeeded in that?

Dr. Harin Kanani: That is in parallel. So, that is with the trademark authority and normally that is a forum. Again it also has that we say why there should not be, then they give the answer, then we respond. So, those proceedings are also on and then they wanted some immediate relief, so they went to the High Court. So, now running at both the locations and now more recently, they have sent us a notice that in state of Michigan, they have filed a case against us and again, actually we are expected to respond within next week. So, we have already appointed some lawyers in US who will then respond to their request in the court.

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

Dr. Harin Kanani: Again thank you everyone for taking time out to join our call. I hope we have satisfactorily answered all your questions. Should you have any further questions, please feel free to contact our Investor Relations team – CDR India and we look forward to connecting with all of you again in the next quarter. Thank you and have a great evening ahead.

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