Neogen Chemicals Limited
Q4 & FY20 Earnings Conference Call
May 25, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Neogen Chemicals Limited's Q4 & FY20 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

Nishid Solanki: Thank you. Good afternoon everyone and welcome to Neogen Chemicals' Q4 & FY20 Earnings Conference Call for Analysts and Investors. The call has been hosted to discuss the fourth quarters and full year's financial performance and share operating highlights of the company.

Joining us on the call today are senior members of the management team including Dr. Harin Kanani – Joint Managing Director, Mr. Anurag Surana – Director and Mr. Mahesh Tanna – Chief Financial Officer. We will commence the call with opening thoughts from the management team, post which we shall open the session for Q&A where the management will be glad to respond to any queries that you may have.

At this point in time, I would like to add that some of the statements that may be discussed on the conference call today may be forward-looking statements. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q4 & 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 Q4 & FY20 financial performance as well as strategic progress made by the company. Thank you and over to you, sir.

Dr. Harin Kanani: Thank you, Nishid, Good afternoon everybody and a warm welcome to you on Neogen Chemicals' Q4 & FY20 earnings conference call. I hope everyone is safe at home during this pandemic situation. Wishing you all good health and strength during this difficult time.

I am sure all of you would have glanced through the results documents which were shared with you earlier and also uploaded on stock exchanges and on our website.

We demonstrated robust all-round performance in FY20 until it was disrupted towards the end of the March 2020 due to COVID-19 outbreak and subsequent lockdown resulting in plant shutdown for a few weeks. Having said that, I believe that our operations showed strong resilience especially during this testing times and I would like to thank all our employees for their continued support and tireless efforts throughout this period.

Now, I would like to briefly take you through the financial performance for the year. During FY20, we reported a solid top-line growth of **28%** to Rs. 306.1 crore led by positive demand momentum and higher capacity utilization. This growth could have been much higher in Q4 FY20 but for the lockdown impact. Revenue growth in organic chemicals was strong at about **30%** to Rs. 249 crore while revenues from inorganic chemicals came in at Rs. 57 crore, higher by 21%. EBITDA increased by **34%** to Rs. 58.1 crore translating to EBITDA margin of 19%, higher by 80 basis points. Improved margins resulted from better utilization of plants, various cost management initiatives as well as favorable product mix. Based on robust operating performance during the year, profit after tax improved by 37% to Rs. 28.8 crore.

For FY20, our domestic and exports mix stood at 64% and 36%, respectively.

Likewise, our performance during the fourth quarter could also have been much better but for the national lockdown. Lower sales growth recorded during the quarter impacted our plants and resulted in higher inventory, while closure of the banking channel and customer's office led to higher receivables at the end of the year. In recent weeks, our operations as well as those of our customers having re-commenced, liquidity in the market has improved considerably as well as for Neogen. Accelerated inventory liquidation and customer collection have led to an improved working capital situation at the current date.

Let me also inform you that our organic capacity expansion is on track and construction activities have now restarted at Dahej SEZ. We see no cost or time overrun due to the month-long disruption and expect the new plant commissioning by end of current fiscal year in Q4 as planned. Just to reiterate, once commissioned this will double our organic production capacity.

Now, let me briefly take you through the impact COVID-19 pandemic had on our business operations:

- As you know, we had temporarily/partially closed our manufacturing operations at all our plants from March 24, 2020 in compliance with the government directives. Now, after obtaining requisite permissions from concerned government authorities, we have resumed production at all our plants from the month of April 2020 in phased manner;
- Current capacity utilization after May 15 across various plants is more than 70% being operated with all requisite precautions for health and safety of the people. This is against 80% which is considered as our peak utilization. So, we are very close to our peak utilization levels;
- Neogen Chemicals also derives majority of its revenues - almost 85% - from pharma and agrochemical industries and therefore it falls under the essential service category;
    - We witnessed some disruptions initially with respect to logistics and labor availability. However, this is getting increasingly normalized as we speak;
    - Order inflow from various customers, both domestic and global, remains unaffected. Further, the company has not witnessed any significant order cancellation due to COVID-19 pandemic. As best practice, we have also reached out to all our customers with the status of their shipments and tentative delivery timelines throughout this period;

- Also importantly, let me highlight that our liquidity position remains comfortable. We have not opted for moratorium given by RBI and we have been servicing our debt even during lockdown and we have still surplus unutilized working capital funds available with our banks.

- Let me assure all of you that we will continue to monitor the situation on a real time basis and will inform all stakeholders accordingly.

Now the road ahead holds strong potential for the business as we stand to gain from the favorable shift in the global supply chain to India backed by our strong product portfolio, deep engagement with customers and robust technical expertise in chemistries that we offer. Our overall performance will be further bolstered by continued higher contribution from advanced specialty intermediates as well as custom synthesis and manufacturing portfolio. This is in addition to the planned upside from the recently commissioned inorganic capacity and upcoming organic capacity, both of which are doubling based on the visibility from the market and discussion with customers. This gives us the confidence of fulfilling our growth initiatives in a calibrated and sustained manner.

This concludes my opening remarks. I now request the moderator to open the forum for questions from participants.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from Vihang S from Samsung Asset Management**.** Please go ahead.

Vihang S: My first one was on your raw material sourcing strategy, if you could just tell me little bit about it like where does the raw material come from or do you take it from any random player in Israel or is it coming from somewhere else?

Dr. Harin Kanani: Broadly speaking, you can divide raw materials in three categories for Neogen. One is bromine sources which is bromine and hydrobromic acid, second is lithium sources which is lithium carbonate and lithium hydroxide and the third is a broad category of intermediates which we basically use to react with them. So this is a distributed list. We mostly purchase bromine from India and also Israel, Jordan and the US. This is where the other world's biggest producers are. So primarily around 75% to 80% is from India and remaining 20%-25% is imported just as a security of supply.

When it comes to lithium, it is primarily coming from Argentina, Chile and we have three suppliers who are world's three biggest lithium producers. They are our suppliers for that and the other specialty or the other bulk commodity chemicals that we buy, broadly are either imported from companies of the likes of BASF and Eastman or such other companies from Europe, US and Japan or there will be small quantities bought from distributors and traders in India.

So when it comes to bromine, we again have multiple sources of bromine in India as well as international and lithium is fully imported, all coming from Argentina and Chile.

As of now, thankfully for majority of the local as well as international players, their plants are running and there was some disruption in the Indian bromine supply or bromine production like again the same lockdown weeks and up to may be second-third week of April 2020. But because of our inventory and because what was in the pipeline internationally, we were able to make sure that raw material supply availability did not impact any of our operations.

Vihang S: Just a follow-up on the bromine bit. I have read somewhere that most of your bromine is actually bought from one of your competitors, Agrocel which has actually kind of denser competitive advantages in some way. So, would you like to comment on that if that is true or do you think that has no base?

Dr. Harin Kanani: Sure. So Agrocel is basically a bromine producer and we have in our past conference calls made the distinction that there are some large molecules which generally companies like Agrocel, Dead Sea Bromine, Albemarle which are the bromine manufacturers make. So these are companies basically who make flame retardants, they make oil field derivates; they also make some chemicals which are used in agro with very large volumes. So mostly what is seen is that any single molecule which has more than 10,000 metric tonnes kind of demand worldwide, this is made by companies like Agrocel and other bromine manufacturers. Anything which has a worldwide demand of less than 2,000 metric tonnes is made by companies like Neogen. Now there maybe couple of molecules between 2,000 to 10,000 metric tonnes level, where sometimes a company like Neogen also may make and a company like Agrocel or Dead Sea or Albemarle may also make. So that is only limited to 1 or 2 molecules. But I think largely the distinction is between these molecules made by the bromine companies and the molecules made by us is very clear, that is even true now. So we may have 1 or 2 molecules which we may overlap in future with Agrocel, but largely our molecules that we are targeting or the business segments that we are targeting are separate.

Having said that, Agrocel is run by Excel Group of Companies, Mr. Shroff's family and I have shared even earlier that Mr. K.C. Shroff whom we call Kaka, was a mentor to my dad in his early career and we have a very old and very good relationship with the founders of Agrocel. I mean, the relationship goes many years before even Neogen and Agrocel started.

Vihang S: So, you don't see any kind of competitive overlap there or any kind of bargaining power which they hold over you which can probably cap your upside potential or your growth. There is nothing which you see of that sort?

Dr. Harin Kanani: Yes. I don't see, because bromine is basically a bulk commodity. So, hypothetically speaking, even if there was a scenario where they would like to control that, there are other players in India as well as internationally who would give us at a competitive price and we have relationship with all of them.

Vihang S: Last question from my side. I remember previously in calls you had mentioned your visibility and probably your guidance on crossing Rs. 500 crore turnover over the next 2 to 3 years. So, post COVID, do you kind of see any change in your guidance or do you still want to like stick to what you had said earlier?

Dr. Harin Kanani: So, just to clarify what we had said that after the doubling of capacity, our current existing capacity is good enough for doing around Rs. 300 odd crore and then with the doubling of capacity of Dahej etc., we should be able to do at least Rs. 500 crore with this additional capacity and this capacity will be fully available for us by FY22. So in FY22, what we had said against the Rs. 500 crore available capacity, we should be able to do at least Rs. 450 crore and the year after which is FY23 we can look at crossing Rs. 500 crore and maybe more if further additional capacity is decided by the board and we decide to even add more capacities. So that guidance will continue. There is no impact on demand side or the projects that we have in our hands or the interest that we have from the customers and our capacity expansion is on track to complete in Q4 of FY21 which will give us the full capacity available for FY22 and our business also remains on similar trend as what was before. So that guidance continues to have a capacity available for Rs. 500 crore in FY22 and doing at least Rs. 450 crore out of that.

Moderator: Thank you. We will take the next question from the line of Sudarshan Padmanabhan from Sundaram Mutual Fund. Please go ahead.

S. Padmanabhan: If I go through the presentation that you had uploaded, one is, clearly it looks like we have relatively done better in the inorganic which I assume is because of the new capacities in both quarters and somehow quite muted on the organic side while I think we have kind of reiterated that the demand looks very strong on the organic part of the business. Two things here: one is, if you can give us some clarity with respect to whether there has been any postponement of shipments from the fourth quarter to the first quarter and the second is, now that we are looking at the demand, have we kind of normalized as far as organic business is concerned in the first quarter of FY21?

Dr. Harin Kanani: I think there are several parts of your question. So first, organic versus inorganic you are comparing only specifically quarterly growth. If you look for the whole year, the organic business has increased by almost 30% and inorganic chemical has increased 21%. This demand or the growth in the organic is just in terms of percentage. But if you look at absolute terms also, again the amount of additional business we have got in from organic is much higher as compared to the inorganic. The last two weeks in March, there was lot of confusion, when the news came we were under the impression that okay, it is work from home but the plants will continue to run. But lot of material which was either almost ready or just required final purification or processing, those were the ones which kind of got stuck and this was both in organic as well as inorganic. As you see, historically also we have shared that in our Q4 we always have higher sales as compared to Q3 or in Q2. This is maybe the first time in last 6-7 years where our Q4 sale is almost same as Q3 and slightly higher than Q2. So, this was abnormal Q4 for us. Luckily for us at least we were able to complete the normal portion by 15th and 20th March since when the operations got stopped. So, I mean in both organic as well as inorganic there was a room for growth in Q4 which we basically missed out. Also, one more driver which we have now got in inorganic is that as I have mentioned earlier that one of the uses of this inorganic is in pharma and that use is also in antiviral. So that particular use, even though it is not targeted for any COVID application, it is basically anti-HIV. But still overall the demand for anti-viral has increased and the volumes of this inorganic application for pharma usage is also picking up. So, this is also one more positive trend. This was one of the drivers and the second driver for the inorganic was our engineering customers were doubling their capacity and we were of course also looking to add new customers internationally.

So, we have had some success with new customers internationally and I think if I didn't share earlier, may be even before lockdown, we were able to shift two containers for export from our Dahej SEZ facility, so not only that capacity got commissioned but even exports and customer approval started.

Some more international customers which were going to visit the site and approve, that got a bit delayed because of COVID but some of them have decided to take trial consignment even without the visit. So, it will be a little slower approval but that is in progress. The pharma business into the anti-HIV also will be a good driver for positive growth. Against that, the challenge is that. Currently, while agro and pharma customer requirements are very clear and the demand is increasing and there is no stoppage of work, the engineering companies were basically locked out because they are not considered as essential service and their customers are also spread across industries. It can be hotels, malls, steel plants, power plants, pharma plants, everything. So how much of their revenue will get affected or their growth plans will get affected that is still currently being understood. So, the positives are, the new customers we are trying to add for new businesses and the pharma use for anti-HIV. The question marks are in the organic and it is the engineering sector, although they have said, they expect things to be at least the same, if not improved, but still I mean there are some question marks and some more clarity is needed which will be after next 2-3 months when they re-start. So, this is on the inorganic side of it.

On organic side, both pharma and agro demand remain strong. In the last quarter, we have added some new innovator customers also who have started buying molecules from us. This is completely new demand because these are new molecules getting launched; both in pharma as well as agro sectors and we have received like 6 months, 9 months kind of POs or contracts of considerable value from these for organic chemicals. So, there is going to be a good demand on the organic side as well as inorganic side. Going forward of course overall as you see, volume wise there is much higher demand in organic as compared to inorganic and that is how our capacities are also being ramped up.

S. Padmanabhan: And any spillover from the fourth quarter to the first quarter as far as the booking of sales is concerned?

Dr. Harin Kanani: Yes. So, none of our customers have cancelled any POs. We mentioned even in the opening statement that what we did is proactively we kept informing our customers the exact status of the PO whether it is semi processed, whether it is fully processed, whether it is at the port, etc. So, we kept giving them very regular updates and every week we would give them an update on that and also whatever measures like Government permissions, etc., or even basic operations were starting, so we kept them updated. We worked with them if they wanted to change delivery from sea to air or because of the change now they made some alternates, so air to sea and things like that. So, we worked very closely with them. None of them have cancelled. Some of them have even placed further POs - after completing existing, this is my next requirement. So again considering the tight capacity situation, they have gone ahead and blocked the capacity, so more or less up to July-August 2020, we are almost fully booked, except for few molecules which are being discussed by some customers on a month to month or quarterly basis, majority of the capacity is fully booked up to July - August 2020 on the organic side of it. So, these POs will spillover and I think this is one positive factor for this quarter.

The negative part was that in the first one month and 15 days, our capacities were either completely shut or working at 50%-40% of capacities on a weekly basis. After 15th May, capacities were more or less between 70% to 80% range which is close to full utilization. So, we lost some sales in the first one and a half months, about 50% of this quarter because of non-availability of capacity. But then we got spillover from the previous quarter which has been the positive to kind of make up for this capacity shortage to some extent.

S. Padmanabhan: And one last question from my side is on the balance sheet. I mean if I look at the receivables and inventory, specifically inventories, are up almost from Rs. 72 crore to Rs. 130 crore which is more than 60% and receivables is also more or less in line with sales. So, I mean, if I look at the working capital, number one I can understand that some block in the inventory could be because of probably the entire issue going around because of the COVID factor. But from a run rate point of view where do we see the working capital. I mean, we are now in over 120 odd days, 130 days, so where do we see that from a normalized side?

Dr. Harin Kanani: If you look at our last three years - and I am now talking this inventory number of days of net sales, kind of a number for an easier comparison - we were somewhere between 110 to 125 days. This year also we wanted to improve and be between 100 to 110 days - in that range. Again, as we said earlier, the major structural change will happen only post FY22 once we have the full capacities available because till that time, we are into capacity constrained mode and we want to optimize the capacity by kind of bunching demands together. So, we would have been very close to our target of 100-110 days, had COVID not happened. Because almost around Rs. 20 odd crore, our target was to have at least Rs. 20-25 crore of additional sales which we could not achieve., From that target at least Rs. 15 to 20 crore out of which something Anyways, sometimes last minute some issues come up, but at least Rs. 15 to 20 crore we would have got (which could not happen due to COVID). So, I mean if you take the impact of that out, and then if you look at the numbers we were more or less close to the same range as before. The only change is which would be that the RM inventory we were purposefully keeping a bit higher considering potential supply disruption which already started happening in January and February 2020 in China and then some disruptions in Europe. So, we were keeping some inventory of RM on a higher side. So, we were roughly going to be 110 days plus/minus 5 days in terms of inventory at the inventory levels and receivables also would have been kind of slightly better again if the COVID would not have happened. At present, in spite of the COVID impact etc., it is at par.

I mean part of it is because some of the sales did not happen which would have added to the debtors but at the same time, some of it also was that many LCs which we couldn't discount and many shipments did not go through against which we were supposed to get money and things like that and some of the customers also were kind of slow in paying because in the last 10-15 days, everybody was working from home and things were not completely standardized.

So, our practical experience has been that, in April 2020 still we had some challenges on the receivables. I mean we were getting the money but not with the same level as it used to be before. Just to give you an example, what we collected in the whole month of April 2020, we collected in this last week, so just after 15th of May. So now situation is getting better day by day, be it at my customers end, be it banks or even couriers have started. So, they can start discounting the LCs and send it for collections and things like that. So, it is getting better. And I think it will be more or less close to normal, if there are no further COVID kind of lockdowns or if there are no future closures like broad closures as we had in the month of March and April 2020. We expect things to be more or less similar to before and, the specific impact of COVID would not be very high and it would have been normal what we were targeting. So, stock inventory between 100 to 110 days and the debtors would be somewhere around 80 odd days is what we are targeting. This is based on a net sales days. I mean if you do specific gross RM, purchase, etc., then the days will be slightly different.

Moderator: Thank you. We take the next question from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Short question on what you said that capacity expansion is very much on track for your organic plant in Dahej. How much do we expect the debt to increase because of this in the current year?

Dr. Harin Kanani: We had discussed earlier also on the debt levels. So, we have taken right now a Rs. 55 crore term loan specifically for this organic expansion, out of which we have currently utilized around Rs. 4 or 5 crore. So there is still around Rs. 50 crore of debt which we are likely to avail. Working capital cycle was slightly on a higher side because of less collection in the last quarter. So, overall, I think we were targeting around Rs. 160-175 crore at the end of this financial year and we should be more or less somewhere close to that.

Nav Bhardwaj: Alright. That is great. And also at the cost of repetition, none of our previous orders have been cancelled. It was spilled over to Q1 FY20 despite major chunk being inorganic. Is that right to say?

Dr. Harin Kanani: So, yes, everything has spilled over to Q1 FY20. It was both, organic as well as inorganic and the customers have kept their demand on. Only the deliveries for the engineering they are requesting now because they are reviewing their entire customers whether the customer still want the delivery or not and what will be the schedule and things like that and again they are still lining up because that sector opened up much later as compared to pharma and agro which were continuously running. So, with regard to pharma and agro, whatever we had in March 2020, we have completed in April 2020 or a little bit in the month of May 2020. Inorganic chemicals we have just started. I mean the plants have just started and they just started taking the deliveries and they are reviewing the delivery schedules and things like that. So, there are no major cancellations and there is no shift to a different vendor. They are still buying from us. The deliveries whatever were in March 2020 are already completed for the pharma and agro customers. For engineering, the deliveries are expected to complete by June, maximum by July 2020.

Nav Bhardwaj: Also in your opening remarks, you mentioned something about our CSM business. So, anything incremental over there that you would like to share with us, empirically if possible.

Dr. Harin Kanani: I don't have anything numerical unfortunately to share at this point of time, but as we have shared earlier that with several customers we are going to next stage. I mean some customers have now placed - what we call - a pilot order. Some customers who had already placed pilot order have placed the first commercial order which is one-year trial run and so that business especially in the agro space. So the engagement that we had with the customer with the idea that by the time Dahej capacity comes online fully, if some of these customers are fully on-boarded and we have a good visibility from them, then that helps us for the next MPP plant, so that continues and is on track.

Moderator: Thank you. We take the next question from the line of Puneet Kabra, Individual Investor. Please go ahead.

Puneet Kabra: Just two quick questions. One, I believe you had mentioned in the past that we were looking at some change in inorganic capacity in Mahape, so that we are able to leverage that for organic; and inorganic we will manufacture out of Dahej whether it is for local or exports. Can you just throw some more color or update on that?

Dr. Harin Kanani: So, I think basically we have the Dahej capacity which is available right now for inorganic and this is currently not yet fully utilized because like I said all the new customers are not on-boarded fully for that. So we were just basically trying to tweak how we can optimize between Mahape's inorganic capacity and Dahej's inorganic capacity. So, whatever is possible if some of the Mahape's inorganic production can be done by Dahej and in turn if Mahape can produce more organic, so this is still something which our operation team is reviewing. Honestly speaking up to 15th May, our first plan was to make sure that all the plants can start running fully and all the challenges with regard to maintaining social distancing and modifications that we need to do in the plant and getting all the contractors and everybody in place so that we can run with efficiency. So far this was on priority. Now that more or less we have achieved that goal, now we are trying to look at that. So, this will be just, again increment a little something which will give us extra 2%-5% benefit in terms of being able to sell more organic without compromising on the inorganic business.

Puneet Kabra: But technically the capacities are fungible. You can actually make organic out of the inorganic equipment.

Dr. Harin Kanani: We will have to modify some equipment also in that case. This is the optimization which we are looking at.

Puneet Kabra: Okay. The second question, you have answered that a while back, but could I say that the lost sales for March we are pegging that number to be around Rs. 15 to 20 crore? So, if COVID would not have happened, our sales should have been higher by Rs. 15 to 20 crore?

Dr. Harin Kanani: At least, yes.

Puneet Kabra: Okay. So that will give me the normalized rate?

Dr. Harin Kanani: Yes.

Puneet Kabra: And, just to add one more question. You have given some guidance for FY22, can you just share some view of how you see now FY21 playing out assuming say we don't have any more lockdowns and we know that we lost about one month of complete production and may be 50% of the first 15 days. So how do you see this year playing out considering lockdown, considering 2%-3% extra capacity that we will get considering the backlog of orders you have or say the more complex or advanced molecules that we are now working on. I am assuming that they will have better margins. So, can you just share some color on it?

Dr. Harin Kanani: One of the most important thing is that for whatever I said, the sentence that you mentioned that assuming there are no further lockdowns or further disruptions, I mean this is with very big (assumption) and people have been predicting there can be second wave or third wave or there can be selected areas which can have an issue or unfortunately for example if something happens or some cases are identified in our plant because of something which they got exposed outside and there might be quarantine. So, these are you know still big (assumption) and these are the things which still are the reality with which we all have to deal. I mean we try to minimize the chances of that and some things are in our hands and some things are beyond our control. But having said that, overall if I were to just look at it from a business perspective, the fact is, we didn't completely lose 1-1.5 month, we had slightly lower - I mean we had significantly lower utilizations. But as against that we also got a Rs. 15-20 crore of almost prepared or semi prepared material from the previous quarter. So that quarter kind of took that hit. So considering that what we see is that, overall yes, I mean if nothing else happens we are able to (deliver) what we had earlier said that with some additional capacity tweaking, by better product optimization, doing some de-bottlenecking or optimizing or processes and things like that. We were looking at around 10%-15% growth over our previous year which again puts us around Rs. 350 odd crore of a turnover. This is still an internal target and still looks like achievable. There is business available for that. Since our capacities have now normalized beyond 15th May, we see that this is a number which we can also still try and reach**.** Again the bigger focus for us is to get the capacity on line for the next year because from business point of view, while the existing businesses are there, some incremental business here or there or switching one customer with another or one product with another, we will really be able to do much more once we have the doubled capacity. So, FY22 remains our main focus, but even in this year we think that we should be able to get at least 10% of the earlier number which we would have achieved or let us say, now because we have achieved a bit less sales, around Rs. 15 odd per cent of the Rs. 306 crore. So roughly around Rs. 350 crore, somewhere about that is what we are targeting.

Puneet Kabra: Thank you. And thought that you can give on the EBITDA margins or may be even the gross margins? We expect to hold our margins or the margins can be expected to trend upwards because of the mix?

Dr. Harin Kanani: See, there are many factors which are happening simultaneously. As I also explained earlier that we would start preparing for our new capacity which is going to come online. So, when you start doing, you start hiring people much in advance because you need to have the people on board. You also need to train them and you want to make sure that they are on board. Sometimes you need to keep a customer for the next year when the capacity increases to meet his basic needs. So, for that even with a non-optimized situation also you might have to run in the existing facility that molecule which is not super optimum because it is not mainly designed for that. So even in absence of COVID, we have given a range of 18.5% plus/minus 1% of EBITDA margin, so let us say, a range of 17.5% and 19.5%. It depends on getting these timings right, many hard decisions sometimes you need to take, to make customers happy, so my expectation in a normal non-COVID sense would be in that range.

Also with COVID being present or now being a reality, there are some additional cost pressures which can come. I mean this is for example, non-utilization for 1 to 1-1/2 months, the additional cost that we have to incur in transportation, in logistics, in getting people, employees, so lot of these costs have increased. So I would say that instead of making plus or minus 1%, I would like 1.5% or 2% more as a safety because of the uncertainties which are associated with that.

Moderator: Thank you. The next question is from the line of Manish Poddar from Nippon. Please go ahead.

Manish Poddar: Just one thing, so with this new facility, would we get some tax benefits?

Dr. Harin Kanani: So the new facility is coming up in SEZ. Since we roughly have about 40% to 50% business which is coming out from exports, we will try and shift maximum of our exports to the new site. Since it is an SEZ, it will also have a tax benefit for us. So this is also one of the reason why we have not opted for the Government's 25% option because our turnover was anyway below Rs. 400 crore. This year we are eligible for 25% plus with all the surcharges around 29% is the average tax rate but by FY22 and FY23, once we start getting more and more output from Dahej, this tax rate will significantly reduce. So let us say, if half the turnover comes from there depending on profitability, at least from let us say current 29% it can go to 20% or 22% or something like that so which is the reason why we have not opted for the 25% concessional rate, we are sticking to the normal rate of tax for now and FY21 may remain similar but by FY22 once significant contribution comes from Dahej, our tax rate will improve.

Manish Poddar: And one more. Given that we don't understand much of the chemistry, the layering which is there in manufacturing, in times like this if you make some complex chemistry as manufacturer, can't you increase prices to cover the cost which you are incurring and maintain or probably look at expanding margin given a lot of supply chain that would be broken across players?

Dr. Harin Kanani: There are 2-3 things: one, whenever there is a shortage, you have a sense of at least ensuring your margins, I mean this is your first duty, attempt that ensure your margins first and then the second is that okay, is there a scope for improvement. Now, there are 2-3 points to consider here: one point is that if you are doing it solely because your competitor is not able to deliver or there is complexity without any reason, then it leaves a bad taste in the mouth of the customer that you are seen more as an opportunistic and at Neogen, we really take pride that in spite the fact that in the last three years we have grown almost three times, but 50% of our business comes from customers which are more than 10 years old and 75% business comes from customer which are more than five years old. So, these are very old relationships which back us in times of trouble.

One more point is that many of the POs were annual POs which were already determined in the month of February and March 2020. As I said even in some of my earlier calls that many of my customers had already placed the POs, etc., so it is not right to go back and renegotiate. The last point is that I have historically shared that my competitors are based majorly out of China, Europe and Japan and like Neogen, all these companies are also working. Japan has done very good job of managing this. Even the Chinese companies now have all restarted. So while they were closed for a while, they are now again back and even the European competitors, because they are serving pharma just like Neogen, are all working. So majority of us are all working. And I think in general we have not seen either my raw material suppliers increasing the price or we just want to do it based on that. But of course wherever we get new contracts we are requesting our customers for price increase because of the impact which has come out of the higher operating costs of COVID and many customers are also accepting that and giving us but overall margins will be a factor of many things which I mentioned earlier.

Manish Poddar: My question is more from maintaining margins, let us say given the environment not from let us say expanding margins meaningfully.

Moderator: Thank you. Next question is from the line of Rishab Bothra from Sharekhan. Please go ahead.

Rishab Bothra: Just can you please let us know plantwise utilization level for FY20?

Dr. Harin Kanani: We don't share our plant wise utilization levels. Before COVID, what I can tell you is that the organic capacity both in Mahape and Vadodara was more than 80% utilization which is basically normally considered as a thumb rule, the peak utilization for a multi-product plant like Neogen.

Rishab Bothra: And for inorganic?

Dr. Harin Kanani: For inorganic, it was mostly out of our Mahape plant and even Mahape plant was also at 80% utilization level and above and Dahej plant we just got started. We had only made two containers, so there the utilization was lower because the customers are yet to approve the site and ramp up has to happen.

Rishab Bothra: And in terms of WIP, is there anything which gets obsolete because of non-movement or something like that sort?

Dr. Harin Kanani: Generally, our products have a known-stability between 1 to 2 years and even after that we might sometimes have to just re-purify it and reuse it, so this is an alternate available to us where with a slight incremental cost we can make it. So, for our bank purpose we track non-moving stock more than 6 months or 9 months, roughly, it is about 1.5% or 2% of our inventory level. Again, it is not very high and we rarely have a write off related to this becoming old, so let us junk this and we have to scrap it.

Rishab Bothra: Lastly on the CAPEX side. By FY22, both the organic and inorganic capacity will be doubled, so FY22 will be full year of operation for double capacity?

Dr. Harin Kanani: Yes.

Rishab Bothra: And what would be the debt which we will receive and the CAPEX amount which will be incurred in FY21?

Dr. Harin Kanani: In FY21, we are looking for, right now we have more or less finished, our CAPEX for inorganic. So on the organic side, we have Rs. 75 crore of total CAPEX, Rs. 75 to 80 crore is the CAPEX that we are looking at, of which we have done some Rs. 3-3.5 crore and some advances have been paid for procurement of equipment but none of it is capitalized. So majority of this will come in the current financial year and in the other side for some modification or some de-bottlenecking we may spend between let us say Rs. 5 to 10 crore kind of a CAPEX, so overall somewhere around Rs. 80 to 90 crore of CAPEX is what we are looking at.

Rishab Bothra: Debt figure. What would be the near about debt figure, you mentioned that you had borrowings roughly of Rs. 55 crore term loan for organic expansion, so currently our gross debt stands at around Rs. 152 crore, near about?

Dr. Harin Kanani: Yes. Two parts here. One is long term and short term. Roughly around Rs. 40 odd crore is our long-term debt at present - Rs. 40-45 crore - and another Rs. 50 crore will get added. So somewhere around Rs. 90 odd crore will be our long-term debt. We will also start repayment of some of the earlier term loans that we had taken. So it will be somewhere close to around Rs. 85-90 crore which will be long term and another Rs. 90 to 100 crore will be the working capital loan. This was slightly higher in March because last 10-15 days we were not getting much of the collection, so while the limits are Rs. 130-135 crore, these are the sanctioned limits that we have. Against that the utilization was around Rs. 100 odd crore, so that is what the current levels are and going forward, we have estimated somewhere around Rs. 175 crore for the FY21 debt level.

Rishab Bothra: So what I wanted to understand is peak debt would not cross Rs. 200 crore debt level?

Dr. Harin Kanani: No, I think we will be below Rs. 200 crore. I don't foresee unless things change otherwise.

Moderator: Thank you. Next question is from the line of V. P. Rajesh from Banyan Capital. Please go ahead.

V. P. Rajesh: Could you talk about the reliance on Chinese supplier for our raw materials even though it may be indirect?

Dr. Harin Kanani: As I told you earlier in the call, we have bromine, we have lithium and then we have rest of the molecules individually to which we attach bromine or lithium. So out of that around two or three raw materials basically we buy from China and from these two or three, one or two also have alternates in India. So we can either buy from India or we buy from China. So the dependency is not very strong but Chinese are the bigger suppliers of that so they sometimes determine the market price and one raw material is such that we have supply only from China and that is unfortunately the case for that molecule worldwide. There is no other supplier in the world other than the Chinese so that one particular one we rely on China. But then it is the same thing for me as well as for my competition. So when it gets disrupted, it gets disrupted for all of us and otherwise all of us are able to source it. So this is the dependency we have had. Before this also in China there were safety related issues and plant closures in the last year. So there was a time when this was not available or the prices had gone very high. But it was the impact for everyone and whenever something like that happens, we just make another molecule and my customers are also API producers, so either they have inventories or they also switch to a different

APIs and then when this is available they make. So, a bit Chinese dependency is there but I think it is not something which overall has a bearing on our results.

V. P. Rajesh: And on the inorganic business side, could you share, if the gross margin is higher than the organic business and how do they fit together in one company?

Dr. Harin Kanani: So one of the biggest molecule there is lithium bromide which required bromine. So right from the beginning when we started this is the first molecule that we did, from the beginning and this was the biggest molecule for Neogen at one point in time. So how do they fit together? I think both businesses have, first of all what we like is that both have a common raw material, so it increases our raw material purchasing power; and the second is that it keeps one entire industry…so, for example, our majority of engineering business would be coming in from here. Whereas if let us say, we decide not to have inorganic business, then it would be just organic business and we would basically miss out on one whole industry. So having that extra industry gives us that comfort that like okay, sometimes when engineering industry is doing well and pharma is not doing well, so we can rely on that and also increase our share. Also I think you will agree that lithium as a whole, there are many opportunities going forward where any specialty that you have in lithium will be your value and we have done this for last 30-35 years, we made lithium based derivatives and we have these old relationship, so that is the reason why I think that business still make sense and that business still has value.

The other thing is in terms of margins. The margins actually depend upon how high the lithium prices are. Lithium comes out as lithium carbonate. So lithium carbonate prices have fluctuated from $6 to $7 all the way up to $28 and again now back at $6-$7. So when it is $28 the margin is different, when it is $6-$7, the margin is different because you basically pass on the price increase to the customer. What it has is, a very good asset turn. But usually as a rule what we have seen is the inorganic gross margins are a bit lower but they have very high asset turn in the sense that again it depends on the lithium price but it is much higher than organic and the reactions are much faster, so for given reactor capacity you can do much more out there. So we feel that we have these expertise, it doesn't make sense to give up, we still like the balance of having one more industry, one more chemistry and we have some time that the pharma also now requires lithium molecules, so we are able to serve more of our given customers' need.

V. P. Rajesh: And just a follow-up. When you were talking about your revenue growing more than Rs. 450 crore in fiscal year 2022, what will be the contribution of organic versus inorganic at that time?

Dr. Harin Kanani: What we have seen is, this 80-20 will more or less continue.

V. P. Rajesh: And just one clarifying question. When you were talking about debt, you were saying that the working capital debt could be up to Rs. 200 crore plus additional.

Dr. Harin Kanani: No, total. Sorry. This was FY21 question. So what current breakup is: around Rs. 100-102 crore is the working capital utilization and the long-term debt is around Rs. 40-45 crore in that range. The long term will increase significantly because of the CAPEX, so we are expecting an addition of around Rs. 50 odd crore minus some repayment that are planned. So somewhere around Rs. 80 to 90 crore will be our long-term debt and the working capital because I just said the turnover is only going to increase by 10-15% and this Rs. 100 crore was also already high, so that we again expect somewhere between Rs. 90 to 110 crore - in that range. So overall we are expecting around Rs. 175 crore plus/minus may be Rs. 5-10 crore for FY21.

V. P. Rajesh: Last question on just the asset turns right. You were talking that the asset turns are higher on the inorganic side but as you do this CAPEX, right what I am trying to understand is, is it very linear asset turn or there is a potential for asset turns also going higher depending on the molecules you are doing or some other combination?

Dr. Harin Kanani: I would say in terms of asset turns**,** there are three criteria - three broad businesses that we have, one is this lithium, then we have normal bromine derivatives which we have said roughly accounts for about 50% of our business and then we have this advanced intermediates which roughly account for 30% of our business where we have multi-step chemistry. So, when you do multi-step chemistry, what you generally expect is that you require more of the reactor time, so you require more fixed assets. So that is why the asset turn goes down. So, in terms of asset turn, the inorganic one has the best. Then the organic bromine derivatives business and then the advanced intermediates, more or less as a rule but when I tell you as a category, within that category there are a few molecules which have some peculiarities because of which it can be higher and lower but more or less as a thumb rule or logically this is how we see the three. And whether it will be linear or not, one of the way linear was, we said capacity for Rs. 300 crore and now doubling the capacity means simple, doubled capacity should be Rs. 600 crore but because we might be doing more of the advanced intermediates and things like that so we have said, please count it as minimum Rs. 500 crore capacity as we said up to the last year the existing capacity is minimum Rs. 300 crore, now we are saying Rs. 500 crore and not Rs. 600 crore in spite of doubling it.

V. P. Rajesh: And I am assuming that the margin therefore in the advanced chemistry is higher compared to the other two right? That would be sort of the offsetting factor?

Dr. Harin Kanani: The gross margins, yes, are usually higher. Again, molecule to molecule there can be variation. But what I have shared in some of my earlier calls is that where we have seen the margins are different is where we have done some innovation. Like either the innovation is that we are able to make a particular quality of material which my competitors are not making or we have come with a different route or we have found a good use of a byproduct or where we have done some engineering innovation. So honestly speaking margins are bigger driver, for me rather than go as a whole category. I have seen it is a bigger result of some innovation rather than category. So I have even inorganic where one particular customer requiring some specific quality is even higher as compared to my, let us say, advanced intermediates or things like that.

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

Anirudh Shetty: I just have one question. This, Rs. 175 crore of debt amount which you are looking at, is gross debt, right?

Dr. Harin Kanani: Yes.

Anirudh Shetty: And what was the net debt amount paid?

Dr. Harin Kanani: When we say net debt means net minus cash we have in hand?

Anirudh Shetty: Yes.

Dr. Harin Kanani: Usually we don't keep more than Rs. 1 crore kind of cash in hand because it doesn't make sense to pay interest on working capital and keep it in current accounts without interest. So there is no significant difference between net and gross unless if I do not understand your definition of net and gross correctly.

Anirudh Shetty: No, I meant gross debt minus cash and cash equivalent.

Dr. Harin Kanani: Cash and cash equivalent is generally only the FDs which we need to keep for little bit of LCs that we open and sometimes you release cheques and some cash (has to be) there in some current account because we have some controls, etc. And some cash which we keep. Otherwise we don't have a policy to keep Rs. 5 crore, Rs. 10 crore in some FD as a safety buffer. We would rather utilize less working capital and not pay interest on that.

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

Jason Soans: Just wanted to know sir whole anti-China sentiment going on, have you seen India was anyways looked at an alternative investment avenue, so just wanted to know in terms of this anti-China sentiment which is going on. Is it helping us on the ground in terms of additional enquiry?

Dr. Harin Kanani: For me, more than anti-China, I think of this as a de-risk strategy by very large corporates around the world who basically want to ensure that they are not dependent on a single supplier or basically they wanted to ensure that their supply chains don't get disrupted. Now, this has been working out for various reasons for last 3 to 4 years where people have been actively realizing the dependence on China. And especially when it comes to the chemical sector as you might know, after some large explosions happened and many units were getting closed without notice, without clarity at short notice and the impact which they had. So many international companies have been wanting to come to India as an alternate to China or some of them have even thought of having in Europe or in US to be extra safe. So I think that trend continues. I don't see specifically, of course, I mean the COVID disruption happened in the month of January and February in China. So this was a period when China was disrupted and yes we did see, for example, I told you we just on-boarded a new innovator customer and initially they were taking 60% from us and 40% from China but ultimately he decided 80-20 kind of a split.

I would say some examples like that but I just think it is one more thing and people wanting to de-risk is the theme which continues and I think while let us say, for things like textile or electronics, it is more prominent now. In chemicals because this was felt earlier, it has been ongoing trend to be honest. At the same time, it is not such that people do realize that China still has very large capacity, even if they wanted to come to India, do we have all the capacities in place and things like that. Those challenges do remain but yes I think just generally over last 2-3 years, I am increasingly seeing that they would first like to make sure that if they can get alternate in India that would be their preference and that trend continues.

Jason Soans: And in the CRAMS business, I would assume that say, it is low proportion to revenues as of now but what is our future plan or a future strategy on the CRAMS front? For example, companies like Navin Flourine or PI Industries have generated lot of revenues from the CRAMS segment, so just some color on the CRAMS segment. Would you want to be in that segment in the future? How do you look at it?

Dr. Harin Kanani: We are excited about CRAMS and I think the main reason behind that and again we call it more CSM where custom synthesis because we are not actually charging them for R&D. It is not that I have FD model that my 10 people will basically do R&D for you, we actually do R&D for our own process development but we are mainly custom synthesis and manufacturing. What we really like, as I answered in one of the earlier calls is that we really feel that we really want to innovate and that is when we add value for all. The true value for all will be when we also innovate where we also win and the customer also doesn't lose and he also gets the benefit.

Now, not just CRAMS but this advanced chemistry we like as a whole because when we have more multistep synthesis, the number of permutations and combinations increases and hence finding a particular combination which is more efficient than others is exciting. So, there are more opportunities or more potential for us to innovate. So this is the reason why we like advanced intermediates as a whole. Now within that CRAMS generally is done with innovators. When it is done with the innovators means they are launching new molecules many times. So again only limited work has been done as community as a whole on that molecule. So less permutations and combinations are explored, so a chance for innovation there is higher. So this is basically, as a chemical company what really we like how can we add value to the society and where we have more opportunities to innovate is what we like. So this is one of the reasons why we really enjoy working on some of these molecules because one, they are being made for the first time; and again, these are also molecules which make a difference. One of the molecules which we are currently working on is a molecule which is better for let us say treatment of a particular disease. So if you are part of the story which allowed making a better drug, you feel the satisfaction also of that from employees as a company and as a whole team. So, I think this is the reason why we like working on CRAMS.

Jason Soans: And, just lastly, the CAPEX number which you have mentioned for FY21 is around Rs. 80 to 90 crore, is that right?

Dr. Harin Kanani: Yes, around Rs. 80 crore, I would say.

Jason Soans: And have you envisaged anything for FY22 as of now?

Dr. Harin Kanani: For FY22 our expectation is that the entire MPP would be done. Normally as some new modifications, new equipment, there would be around Rs. 5 to 10 crore normal CAPEX which we would do across all the sites. That number may increase to Rs. 15 crore after we have this new site which is coming up, so we would have around normal CAPEX of Rs. 15 crore. Do we set up the next MPP? Now that would be the biggest decision. So that would be let us say, again Rs. 75-80 crore kind of a CAPEX. Do we do that? And that will depend upon the business scenario, so I think in earlier calls also what we have discussed is that once we are closer to completion, so somewhere around October to December 2020 when we are closer to completion or we have a clarity of the specific demand or contracts which we have for the existing capacity which is coming in, so at that point of time we will take a decision as to whether we do CAPEX for the next MPP or not.

Jason Soans: Yes, and especially after you have to take on the COVID scenario and that makes more sense and consequently the gross debt number also will be decided as for that right?

Dr. Harin Kanani: Yes, so again we will look at debt, we will look at everything and that holistic decision has to be taken but as I said it is going to be much later in this year, not yet.

Moderator: Thank you. Next question is from the line of Avishek Datta from Prabhudas Liladhar. Please go ahead.

Avishek Datta: Just wanted to know like there have been reports that China has been offering 13% export benefits. So have you seen any kind of increased competition in pricing from the Chinese because of that?

Dr. Harin Kanani: Thank you. I didn't know about this. I will definitely try to see if I can find out something. No, I have not yet seen any increased competition from China on that though I have seen some of the Chinese raw material prices, like I said we buy only 2 or 3, some of them have decreased. I don't know it is because of this or it is because the reason which at least I was given that because of COVID sometimes some of the pharma intermediates there is more capacity available in China than demand because they are fully running, so it was more given to me as a supply demand reason but if you think this benefits being offered, I need to investigate.

Avishek Datta: So, this was given in end of March - around 22nd March - when they came out with this 13% export benefit.

Dr. Harin Kanani: No, I am not aware. I will have to check.

Moderator: Thank you. We take the next question from the line of Krishna Parikh from Sameeksha Capital. Please go ahead.

Krishna Parikh: Can you tell us, what our current capacity is in Glass-lined liters?

Dr. Harin Kanani: Glass-lined liters, I think what we have shared in DRHP, is about 45,000 liters in our Mahape unit and in terms of our Vadodara unit it is around 85,000 liters.

Krishna Parikh: And with the CAPEX and the expansion, Dahej would be now how many?

Dr. Harin Kanani: In Dahej, we are planning 1,25,000 liters. So more or less it will double the total Glass-lined reactor capacity.

Krishna Parikh: And how much of the Dahej is done, capacity expansion?

Dr. Harin Kanani: We have started with the capacity expansion. Currently we have finished more or less the foundation and we are finishing the civil work and we have started construction of the plant, etc. The target is basically for it to come online between January to March 2021. Basically in Q4 of this financial year, it is likely to come online.

Krishna Parikh: And for the current capacities in Mahape and Vadodara what would you say is the maintenance CAPEX?

Dr. Harin Kanani: It is not just maintenance but some modifications and de-bottlenecking that we keep doing. So we are looking somewhere around, as I said, between Rs. 10 to 15 crore for that.

Krishna Parikh: One last question on the inventory. I understand there were only 7 days or 8 days, let us say because of the lockdown that you lost; but if you look at the inventory days they have gone up much more than the lockdown. I understand that some portion is probably because of increased raw material. Can you tell us what the other portion might be?

Dr. Harin Kanani: As we mentioned earlier in the call, we were attempting to at least sell Rs. 20 to 25 crore more by March 2020 end which we couldn't because of the COVID situation and at least Rs. 15-20 crore would have. So I think if you were to add this Rs. 20-25 crore on the sales side and reduce let us say on the equivalent inventory of that then the number of days come more or less close to 120 days and on the raw material side we were slightly higher by 8 or 9 days and this was by design and the remaining was just because we couldn't complete that sales.

Moderator: Thank you. We take the next question from the line of Rishab Bothra from Sharekhan. Please go ahead.

Rishab Bothra: In terms of CSM business, do we have contracts exceeding one year, two year, how is the structure there?

Dr. Harin Kanani: As of now, we don't have any multi-year contracts per say in the CSM business and one of the reasons to my sense is that even if you are doing with innovators, but if you are doing a business of Rs. 20 crore, Rs. 30 crore per annum, this is not big enough capacity kind of commitment for which you can insist or a customer would request a multi-year contract. So that is why this is mostly done on the year to year basis. It is only when it becomes like Rs. 50 crore, Rs. 70 crore or Rs. 100 crore per annum. That is when you know the party starts asking for a multi-year kind of a contract. So we have repeat business from customers but we so far don't have multi-year contract and as a company when we were Rs. 300 crore we were not doing Rs. 50-60 crore from one single customer. So I think once we have the new capacity coming online we can do that but as of now we don't have any multi-year contracts.

Rishab Bothra: And what is the likelihood that new customer additions have been happening in the CSM business going forward as well?

Dr. Harin Kanani: We have several customers which are in the pipeline and in CSM you have first initial R&D evaluation quality, then we have some pilot trials, then we have a first scaleup trial commercial order and that is when you basically think of multi-year or a very long term full commercial order. So, these are 4 or 5 basic stages in CSM and in the past also we have shared with 8 or 9 customers that number is now slightly higher with whom they are in these different stages of this 5. As I explained, some are already commercial, some are likely, some have placed the initial commercial orders and things like that; so that is progressing. How much business ultimately we are going to get? In my earlier calls I have shared that for our new capacity we have one thought that 100% of that will be utilized from completely new customers and we have one alternate where 100% will be utilized from my existing customers from my existing products. So, I think reality will be somewhere in between, so we also have made like 5 such different options and kept ourselves ready that keep the plant flexible enough to be able to work under any of these scenarios. As we get closer to it, somewhere in end of Q3 early Q4 of this financial year, we will have clarity on that what exactly is happening on that front.

Rishab Bothra: And, in the presentation you mentioned the advantage that more focus will be given on advanced specialty intermediates?

Dr. Harin Kanani: Yes.

Rishab Bothra: So what is the revenue contribution from this space currently?

Dr. Harin Kanani: More or less it is about 30%.

Rishab Bothra: And we want to scale it up to?

Dr. Harin Kanani: At present our target is, because we are already doubling our business, to at least maintain 30% when we are doubling our business and relatively this is the newer molecules or newer business because 3 years ago this number was only 10%. So when I was Rs. 100 crore, it was only Rs. 10 crore. Now, it is already close to Rs. 100 crore; business is coming out of it, so let us say when we are talking of Rs. 450 by FY22, we are seeing an addition of Rs. 50 crore at least. That is the minimum target. Then depending on as I told you five alternates, everything coming from new versus everything coming from old versus somewhere intermediates that number will change but it is not something which we have desire or target. It is just as I explained earlier, we like that because it gives us more chance for innovation and keeps my R&D excited.

Rishab Bothra: And lastly, what kind of amount you will be spending on the R&D side, say CAPEX on R&D or hiring scientist or technocrats?

Dr. Harin Kanani: Currently we have about 10% of our staff which is basically dedicated for R&D. As of now, the way the plants are more or less because our staff number strength is also increasing, so R&D also will be between that 10 to 15% - in that range. So, there will be incremental increase in terms of number of employees. As of now, we have not taken in terms of value wise in proportion to the turnover, it is about 0.7%-0.8% but this is mostly the salaries. We as a company have not yet started the practice to calculate all the common expenditures and assigning that to R&D and things like that to give you the number of what exactly it is that we are spending for R&D, so going forward we will do that exercise but my guess is, it will be somewhere around 1 to 2% range and that will continue.

Rishab Bothra: And lastly if I can pitch in, what has been the new product additions made during the last 3-5 years or what could be the tentative new product additions going forward?

Dr. Harin Kanani: First of all, whenever we develop a new product for CSM, we don't consider it as our product because technically this is specifically made for the specific customer. So when we say our products, these are really our own products which we have identified, the product made and things like that. So overall, I think what we have seen as a trend is that almost 8 to 10% of our business actually comes in from completely new products in just that year. So a business which we have done in that year for the first time that generally contributes to around 8 to 10%. Again, that can change a lot once we have Dahej, once we have this large chunk of additional capacity and depending on that, as I explained to you how the product mix may change that percentage will change. So, we will have a better idea when we are close to it.

Moderator: Thank you. We take the next question from the line of Nav Bhardwaj from Anand Rathi. Please go ahead.

Nav Bhardwaj: Just a quick question on the labor front. Are we facing any kind of issues in terms of social distancing and is it having any bearing on our ability to produce more and meet our demands currently?

Dr. Harin Kanani: Now, specifically the challenge was basically to get all the people and fortunately for us, majority of our people were based out of Gujarat many were based out of Vadodara and in case of Mahape also majority of the staff is from Mumbai. So getting the people part we have done. Because public transport is not open and with the social distancing rule, we have to have lot more vehicles than before to bring the people to site. This is one thing. On the site, per se there is fairly good distance just from a safety point of view between the reactors and also, we have taken lot of measures like fumigation, decontamination, then all the things which are coming in or passing through like the channel through which they get decontaminated. So, we have taken lot of measures. There is no specific challenge, still there is a bit of a challenge is that some people when the lockdown was announced like staying in neighboring district like Ratnagiri or somebody was from Vadodara had gone to Ratlam or Nandesari or something like that. So these guys who are in other districts getting them was like our second priority, so that we have just started working upon but I think more or less otherwise in operations front whatever changes we had to do like for example, in dining arrangements, in their change rooms and things like that. Those we have done and made sure and taken care of that.

Nav Bhardwaj: Not a major bearing on a cost for sure as these are minor expenses?

Dr. Harin Kanani: Yes, it has but not significant.

Moderator: Thank you. Ladies and gentlemen. That was the last question for today. I would now like to hand the conference back to the management for their closing comments.

Dr. Harin Kanani: Thank you once again for taking the 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 relation team, CDR India. We look forward to connecting with all of you again in the next quarter. Thank you once again.

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