



**NEOGEN**  
CHEMICALS LTD.

**August 16, 2022**

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 <b>Scrip Code No: 542665</b>	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 <b>Company Symbol: NEOGEN</b>
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**Sub.: Q1FY23 - Earnings Conference Call Transcript.**

Dear Sir/ Madam,

With reference to the captioned subject, please find enclosed herewith the Earnings Call Transcript of the Company's Q1FY23 Earnings Conference Call held on Monday, August 8, 2022.

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

Kindly take the same on your record.

Thanking you,  
Yours faithfully,  
**For Neogen Chemicals Limited**

**Unnati Kanani**  
**Company Secretary and Compliance Officer**  
**Membership No. A35131**



Encl.: As above



**Neogen Chemicals Limited**  
**Q1 FY'23 Earnings Conference Call**  
**August 8, 2022**

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- Moderator:** Good day ladies and gentlemen, and welcome to the Q1 FY'23 Earnings Conference Call of Neogen Chemicals Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you sir.
- Nishid Solanki:** Thank you. Good afternoon everyone and welcome to Neogen Chemicals' Q1 FY '23 Earnings Conference Call.
- Joining us today on the call are senior members of the management team - Dr. Harin Kanani, Managing Director; Mr. Anurag Surana, Director and Mr. Ketan Vyas, Chief Financial Officer.
- We will commence the call with opening thoughts from the management team, post which we shall open the forum for Q&A. The management will be glad to address your questions.
- Let me leave with a standard disclaimer here. Certain statements made or discussed on the conference call today may be forward-looking in nature. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals Q1 FY'23 Earnings PPT which has been circulated earlier.
- I would now like to invite Dr. Harin Kanani to share his perspectives. Thank you and over to you, sir.
- Dr. Harin Kanani:** Thank you, Nishid. Good afternoon everyone and welcome to our Q1 FY'23 Earnings Conference Call. We have shared our result documents and I hope you had an opportunity to go through them. I will begin by sharing the performance highlights and growth initiatives while Mr. Ketan Vyas, our CFO, will take us through the financial insights for the first quarter ended FY'23.
- We have commenced the year on a strong note despite unprecedented challenges witnessed in the past few months in the form of high input and utility costs, logistical disruptions as well as severe volatility in exchange rates.
- Just to share the key financial trends: Revenue increased by 75%, while EBITDA improved by 58% and profit after tax grew by 51%. This time again, we witnessed significant increase in the prices of raw materials linked to lithium, which the company was able to pass on to the customers. Resultantly protecting the absolute EBITDA. The EBITDA percentage margin decline is optical as it considers higher revenues and higher RM costs, with preserved absolute earnings.
- During the quarter under review, our organic chemicals segment revenue enhanced by 32% year-on-year, while growth in inorganic chemicals stood at 243%. This was in line with our internal expectations and was supported by incremental gains from the capacity expansion initiatives undertaken across both the business segments.



The demand profile of products that we manufacture remains upbeat and we are confident of maintaining this growth momentum going forward.

We have several CAPEX initiatives lined up this year and next year that will boost our performance trajectory in the existing as well as new business of lithium-ion battery chemicals space. These initiatives are getting executed as per our earlier stated timelines.

Let me share some updates here. Discussions with both domestic and global customers are advancing as expected and there is continued interest and robust demand. As a process, we have started submitting samples for technical approvals and evaluations are underway to approve Neogen as a vendor at our customer-end. Once we get some comfort on that, we will align our large CAPEX plans with lithium-ion battery chemicals space in H2 of the current financial year.

In the CSM and Advanced Intermediates business, we are excited with the current momentum as we have started witnessing traction from even other sectors that are non-agro and non-pharma, including the traditional pharma and agro segments. Our focus is to increase the revenue contribution from these segments, which is in line with our efforts to expand the portfolio of value-added products.

Separately, post our board approval last quarter, we have started initial work at the Dahej plant to deploy up to Rs.150 crore CAPEX in this financial year. This will be used for following initiatives - increasing the manufacturing capacity of specialty organic chemicals by 60,000-litre reactor capacity, expanding manufacturing capacity of inorganic salts from 1,200 MT to 2,400 MT, setting up new capacity in existing inorganic MPP for 400 MTPA for manufacturing, specialty lithium salts and additives for electrolyte used in lithium-ion battery advanced chemistry cells and overall site development at Dahej as well. All this expansion will come onstream by June 2023 and will help significantly elevate our revenue trajectory from the current levels.

Our FY'24 revenue guidance remains unchanged at Rs. 700 to Rs. 725 crore while by FY'25-26, we will be able to add another Rs. 250 to Rs. 300 crore at full utilisation level, resulting a revenue potential of approximately Rs.1,000 crore. Let me clarify that here the incremental revenues as well as the revenue guidance for FY'24 are estimated based on stable lithium prices.

The growth prospects for us are encouraging and we are very well poised to capitalise on the emerging opportunities unfolding in the Indian chemicals space. This along with India's growing position in global chemicals value chain, will drive incremental gains. Our focus will be to deliver sustained growth with healthy acceleration in profitability, thereby creating value for all stakeholders.

With that, I would now request our CFO Mr. Ketan Vyas, to share the Financial Highlights for the quarter under review.

**Ketan Vyas:**

Thank you Dr. Harin. Good afternoon and a warm welcome to everyone. Today, I will cover the financial performance of the company for the first quarter ended 30<sup>th</sup> June of 2022. Please note that all comparisons are on year-on-year basis and refer to standalone financial performance.

In Q1 FY'23, our revenue stood at Rs.147.9 crore, representing a robust growth of 75%, driven by incremental benefits accruing from the expanded capacity and guided by positive demand environment. The company has been able to leverage its expertise in process chemistries to focus on high value products with multi-stage processes.

We saw an EBITDA of Rs. 34.7 crore, growing by 58% in Q1 FY'23. EBITDA margin came in at 16.7% in Q1 FY'23. The EBITDA performance was supported by operating leverages gain on account of increased capacity available. Favourable product mix also steered the momentum. The improvement came in despite various



pressures seen in the form of higher input and utility costs with added exchange rate volatility.

During the quarter, we reported a strong double-digit growth in profit after tax at Rs. 11.1 crore, higher by 51% in Q1 FY23. This was bolstered by a strong operating performance. During Q1 FY23, our domestic to export mix stood at 56% and 44%, respectively.

That ends my opening remarks. I will now request the moderator to open the forum for the discussion with the participants. Thank you.

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Saurabh Kapadia from Asian Market Securities. Please go ahead.

**Saurabh Kapadia:** First question is on the organic chemicals. If I look at the revenue for organic chemicals from Q3 to Q4 to Q1, there has been decline over the last two quarters. So, this is because of seasonality or what is the reason behind this?

**Dr. Harin Kanani:** This is mostly driven by seasonality and slightly soft demand from pharma customers in some specific molecules or APIs, where there is basically inventory correction which is going on where some of the APIs there was large inventory worldwide and now the correction is happening. But I would say that it is more because of the seasonality that generally the Q1 demand is a bit lower.

**Saurabh Kapadia:** Is this APIs related to ARV segment?

**Dr. Harin Kanani:** No, these are some non-ARV API.

**Saurabh Kapadia:** Second is if you can provide some colour on the cash flow from operations or working capital situation at the end of Q1FY23?

**Dr. Harin Kanani:** Our working capital utilisation was slightly higher at the end of Q1FY23. This is because, again, we had planned for a higher production and there was a little bit of inventory build up, as our capacity utilisation was much higher, although the organic revenue was a bit lower. So, there is higher working capital utilisation, but more or less in line with what we are expecting for the business increase that we are targeting for this year.

**Saurabh Kapadia:** Continuing with this working capital, we are seeing the commodity price coming down. Should we expect some working capital release from Q2FY23 onwards?

**Dr. Harin Kanani:** We are constantly increasing and are trying to increase our utilisation levels. Our idea is to ensure higher utilisation of our facilities. So, by the end of this year, we would be at similar levels, i.e., at about net working capital in the range of around 120-130 days and by the next year, we are hoping that by FY'24 as we had earlier also guided, our target is that we are somewhere at around 100-110 days of the net working capital cycle based upon net sales number of days.

**Saurabh Kapadia:** In your commentary, you mentioned increase in traction from non-pharma, non-agro. Can you add a bit more in terms of end industry or the size of the molecules or the client or the base material? Is it a bromine or lithium?

**Dr. Harin Kanani:** Both these molecules which we are thinking of are on the organic side, and one of them is for flavours and fragrances segment. We actually have three or four molecules which are now in flavours and fragrances. And another is a very typical industry, which is basically specialty chemicals required for one of our customers in Japan.

**Moderator:** The next question is from the line of Manish Gupta from Solidarity Group. Please go ahead.

**Manish Gupta:** Dr. Harin, I have two questions. The first one is that of all the lithium that is being imported in India right now for processing, what percentage of that would Neogen Chemicals be importing?



**Dr. Harin Kanani:** All the lithium which is currently being imported, I would basically divide into two parts - one is lithium, which is used for making specialty intermediates like lithium bromide, lithium chloride, like the salts we make. Second big application is for meeting grease application - what is used for making grease which companies like Indian oil and others make - is a very large application and what I would consider as bulk. Most of this is in the form of lithium hydroxide and most of the intermediates that we make is in the form of lithium carbonate. We had checked this some time ago. I have not checked the most recent numbers. But when we had checked, we were importing close to around 60% to 75% of the lithium carbonate, which was getting imported into India for such specialty application.

**Manish Gupta:** My second question is that a lot of these chemistries, I would imagine, there is some process knowledge that only comes with experience. So, how much of a time advantage would we have over a company that starts deciding they want to pursue lithium salts today? And as they try and catch up, I guess our knowledge would have further expanded. So how do we think of the advantage we have in terms of time or experience or cost vis-à-vis somebody else who attempts to do this today?

**Dr. Harin Kanani:** I think there are three things which help support our lithium: One is, of course, the understanding. The second is the credibility because most of the customers in lithium are basically other than some application in pharma are non-chemical companies. So, they rely on Neogen Chemicals to not only provide the product as per the specification, but they want Neogen Chemicals as the reliability component is very high, because sometimes they are not even able to test the specifications fully or even the impurity profile; and from batch-to-batch, it has to be consistent. So, the years of experience with the credibility and the knowledge which you are providing them is also a critical factor here. Third is also the relationship with the lithium companies to be able to ensure that even in tough times, your lithium supply continues and you are not going dry. I would say that this is a combination of these three.

What we have seen so far in last 25-30 years are two areas – so, there are some non-critical or non-critical pharma applications where it is generic or non-regulated market application as well as non-OEM lithium requirements. It is not the people who are making machines, but the user of the machines. Suppose, if they have a repair and maintenance activity and want replacement of the material. This is where other than non-Neogen companies are able to cater. However, when it comes to OEM, when it comes to regulated pharma, that is where these three modes, which I told you earlier, we have been able to successfully manage and withstand. The main competition that we see are Chinese, Korean, Japanese and a European competitor, who have a similar track record as Neogen Chemicals who have been supplying to OEM for years. So that credibility, experience and the ability to source lithium. These are the main competitions in my view.

**Manish Gupta:** This is a follow up on that - for EV vehicles, the batteries have to be made locally. Have any of these foreign competitors set up shops in India so far?

**Dr. Harin Kanani:** No. In fact, even the specific competitors who have been making lithium salts, even in their own countries, have not moved to EV. There are some challenges... limitations that they have. But I know that at least the Japanese and Chinese competitors are still sticking to the traditional lithium application. The players in EV are completely different. We do have competition in EV mainly from China and a little bit from Japan and now, maybe from Korea where some new players are coming up. However, most of these are new players, they are not the existing players.

**Manish Gupta:** If you don't have players who will be able to supply this locally - does this mean that you have a chance to almost get 70-100% of the overall market?

**Dr. Harin Kanani:** I think some other Indian companies at least for electrolyte have already made some announcements. We don't know, I mean, we can target a high market share, but



when we are doing our models, we are being considerate and not expecting a very high market share. We do three models - 30%, 50% and 70%. This is generally the market share range that we look at whenever we look at worst case, best case and moderate case scenarios. But we will see where it lands. The other thing which can happen is that some of the materials for various reasons could be imported in the beginning. For example, some of the battery producers may decide to import a part of it and eventually, some of the players may set up a shop in India. So far, I have not heard of any announcement of international players setting up a shop in India either to make electrolyte salts or electrolytes.

**Moderator:** The next question is from the line of Yash Shah from Investec India. Please go ahead.

**Yash Shah:** My question was regarding lithium prices. From the global channel mix what we have done, lithium prices have started easing off. But as you mentioned in your commentary that the prices had increased. Is it similar to what you had mentioned in the previous quarter that there is some kind of a disconnect between the global lithium prices and domestic lithium prices, and there is a lag basically when it comes to India, so just wanted to understand that first.

**Dr. Harin Kanani:** Usually what happens is that mostly what gets reported is the Chinese spot market prices. We don't buy from the Chinese spot market. Therefore, most of the commentary that you get is around the Chinese spot market scenario. What generally happens is that when we have this long-term relationship with our South America-based suppliers, they will look at the Chinese spot market prices, and they will base the contract around that. It can be a bit higher, it can be a bit lower, depending on what is the forward outlook, etc. So, I do a contract in this quarter, then they take about a month, month and a half to start shipping and then it takes two months for it to arrive. Eventually, we have, let us say, one and a half to two quarters lag between what happens in the Chinese spot market and material when we receive here. We also try to work with our customers, and at least, once we get clarity on the prices, we start booking our next quarter volumes, etc. So that is how basically, we have been working on this.

From the India point of view from the material which is arriving, the prices are still on the increasing trend. So the Q1 prices of this quarter, i.e., what lithium carbonate we consume, were higher than what was in Q4 of last year and what we will be consuming in Q2 is even higher. The prices have moderated a little bit. It is not that they have gone down significantly, but they have stopped increasing and maybe correcting by a couple of dollars or something like that. Thus the impact of that will basically be in Q3. Internationally if we look, Q1 and Q2 was little bit stable at that peak price. What we expect for Neogen Chemicals is, Q2/Q3 will be more or less at that kind of peak prices, the visibility that we have so far.

**Yash Shah:** You also mentioned that you were able to pass on the prices. Till what extent have we been able to do that?

**Dr. Harin Kanani:** Up to Q2, we have looked at ourselves and we have been able to pass on whatever price increase we had on lithium that we had paid higher. To that extent, we have been able to do that.

Now, our real challenge is going to be Q2 and Q3 because this is where the peak price is going to hit us. So some of the challenge which my customers are facing is at that price, their final molecule is not viable. Some of the customers understand that they do not have an option as these are the global prices. Even if they buy globally, it is going to be the same price. Where it is used as a catalyst application, where there is not too much contribution in the final RMC, our customers are able to pass on a little bit more easily and we may still be able to pass on. But for some customers where a significant part of their final end-use, this will be the real test



whether how their end customers are responding to this kind of a price increase. So that is going to be the challenge in Q2 and Q3.

However, what is working for us is that we have found more such customers globally, for whom, the price is not so critical, but the supply is really important. So just even in last quarter, almost 25% of the revenue which we had was from completely new customers. That has been the trend for last two quarters. So we are actually adding new customers, new applications for which we have not worked in last 30 years, but now we are able to do that. So our hope is that there might be slightly lesser demand from our domestic customers, but on global demand, we are able to make up and still protect our volumes and be able to continue to pass on the prices. Again, whether we do that successfully, how well it works, we will know when how Q2/Q3 goes.

There is also view that, is this temporary or is this long-term. So there are many analysts internationally or the suppliers who think that this is going to be the new normal for at least couple of quarters. Then maybe some people feel that by 2023 or '24 is when there will be a more significant reduction in prices. So anyway, we keep watching this. There are too many factors that are determining this price – what is going to be the EV demand, how the new capacity expansions of the miners working. So it is a combination of all of that and we wait and watch.

**Yash Shah:**

But we maintain such higher level of inventories only to mitigate such volatility in the prices. Now, in this quarter also, we have seen pressure on the margins like we have had the lowest pressure since lowest margin since Q4 FY'19. As you mentioned that Q2 and Q3 is going to be further challenging. Do you think sir, we will be able to maintain the broad level guidance which we provided for our margins, which is between 17.5% to 19.5% till FY'24? Will we be able to maintain the same even for the current fiscal year?

**Dr. Harin Kanani:**

I am glad you asked this question. I can explain a little bit more. Let us say we have guided for Rs. 600 crore revenue and we have said that Rs. 600 crore revenue with about 18-18.5% kind of EBITDA, which basically comes to somewhere around Rs. 100-110 crore EBITDA number. We are fairly confident that we will be able to get this Rs.100-110 crore EBITDA number. However, because of the rising lithium prices, we will overshoot our Rs. 600 crore. So, instead of Rs. 600 crore, the way things are going now, looking at the lithium prices, we might be anywhere between Rs. 650 crore to Rs. 700 crore. So, we will be able to protect our absolute EBITDA numbers, which is like Rs.100 crore to Rs.110 crore, but on a percentage basis, whatever overshoot that happens in lithium, there we might not still be able to get that percentage. I mean, we will try to do as best as possible. I am quite confident that the top line will definitely be overshoot. So, that Rs. 600 crore will be Rs. 650 crore or Rs. 700 crore. That is the range which I am currently looking at. But, again, it depends on how lithium behaves for the remaining quarters.

Absolute EBITDA also should be in the range of Rs. 100-110 crore. But as a percentage, it will most likely not be 18.5% because of this very high lithium prices. Lithium prices in our Q2 are going to be four or five times of what is the stable lithium price. So, at this point in time if we not only pass on the benefit but expect customers to also give us a higher margin, which is on the absolute terms is five times, that is going to be very difficult for long-term customers point. So, even the numbers which you see in last quarter and this quarter, if this additional lithium prices when we correct, they fall in that same 18% to 19% range what we are doing.

**Yash Shah:**

Still will we not change our guidance for FY'24 in terms of revenue? Will we still maintain about Rs. 700 crore to Rs. 725 crore given that this year itself we are on the verge of going around Rs. 700 crore? So for FY'24 no changes in the guidance in terms of revenue?



- Dr. Harin Kanani:** So this Rs. 700 to 725 crore is the revenue guidance on a stable lithium price. So if by FY'24, lithium prices come back to stable lithium price, then that will be the guidance. If they remain high, then similar situation that we will basically overshoot that number. But again, I am sure that at EBITDA level, we are at 18-19% of Rs. 700 crore to Rs. 725 crore.
- Yash Shah:** One last book-keeping question which I had was our tax rate for this quarter has been significantly high, but for the whole year, we should be around 25-26%, right? That is all I wanted to confirm.
- Ketan Vyas:** On the tax rate, we should be about 26% plus because previously we had a higher depreciation and MAT, so this year we should be around 26% plus approximately.
- Yash Shah:** Last question which I had was, employee cost and other expenses have also increased. Is it primarily because of the ongoing CAPEX which we have undertaken for new projects, which with the increase in the revenue, will get operating leverage say in FY'25 onwards?
- Dr. Harin Kanani:** I think the revenue cost which you are seeing is just given to support for the full utilisation of Dahej, because we had also staggered our employee base coming that way. This does not take into account the additional people which will be required for Rs. 150 crore, and we have not started hiring them as yet. But yes, as we get to full utilisation level, as a percentage, these numbers will taper off.
- Moderator:** The next question is from the line of Archit Joshi from B&K Securities. Please go ahead.
- Archit Joshi:** Sir, my question was largely to understand the situation that we are seeing in Europe in both the businesses that we have - the organic or the inorganic side. So, being a larger proxy to the pharmaceuticals and agrochemicals market and picking up cues from what we saw during COVID that healthcare and food security was given the highest importance and that is why a lot of contract manufacturing players in India benefitted not just in agri, but in pharma also. Now, that European companies or the multinationals that we might be catering to. Would you in your organic business say that they might have confusion or dilemma with respect to making something on their own or outsourcing more because of the higher cost? This is largely on the organic side of the business. At the same time because the power and fuel costs have gone through the roof and on the inorganic side we are catering to the HVAC market and we are looking at a second half of FY'23 to be a stronger half in terms of revenue and growth. Do you see any ramification of this entire regime turning out to be negative for the European economy? And if you can bifurcate this for both our businesses? This is an opportunity for organic chemicals, organic bromines or the advance intermediates or the CSM business that we have and on the inorganic side as well?
- Dr. Harin Kanani:** For the organic chemicals, you ask specifically Europe, but what I have seen in general is not only Europe but in Japan as well as US customers. They are still trying to find reliable manufacturers in India and there is a strong interest to keep finding alternatives to China, as well as if there are some new molecules happening, sometime their preference is that right from the beginning let us work with a non-Chinese supplier. There is also a trend that they wanted to look in Europe. But the general feeling is that in Europe, there is under capacity. So Europe wanted to make a lot of things in-house, they still do not have any and it takes a very long time for European companies to set up CAPEX. So, I think still India and other non-Chinese companies remain the place where they want to go for. So, I believe the trend for interest in India as a manufacturing for advance intermediates for CSM continues. As I mentioned earlier that not only agro and pharma, but other specialty chemical companies also, more and more are approaching us if we can do molecules for them. That is on the organic side.





As I mentioned in lithium, more than this HVAC and energy prices, the bigger driver is the lithium availability. So companies which are able to get lithium, the prices of lithium and how they will impact supply and demand. So again, as I mentioned earlier in my call that we found more customers who help us make up for slightly reduced demand in India as they are able to buy at the higher prices. But next two quarters will tell us whether in absolute terms, we will be able to keep increasing our capacity with lithium prices. So in Q2 and Q3 there might be some time because some customers - the prices which we will have in Q3 are historically highest - they are three times or four times of what we had. Therefore we will have to check which customer can still continue to buy at this price. I think that is going to be a bigger driver as compared to energy prices and other factors, which you mentioned on the lithium side of it.

**Archit Joshi:** I was asking in this environment where European companies are facing problems on the energy side and the fact that we still have not got a clear indication as to how they are working their things around in terms of their own manufacturing capability. We know that the trend on China plus One story is pretty strong. But my question was largely to understand if this presents another leg of opportunities on the supply chain diversification perspective, that European companies already were grappling with higher costs on be it labour or power or environmental front. Now that things are snowballing on manufacturing things because of unavailability of gas and power cost going up. Does that present a significant opportunity for Indian companies or Neogen Chemicals also, because we have also ventured into contract manufacturing, per se. So that was a broader thing that I wanted to understand from you.

**Dr. Harin Kanani:** If you think hypothetically, then you can say that, yes, when they wanted alternative to China, they can either go to Europe or go to India - one of the two options, and since power cost and outlook, there is a bit vague or higher costs, maybe they would prefer India. So yes, if we talk hypothetically, it looks like that this can be an opportunity. But so far, I have not seen any customer making a call that because the energy cost in Europe is very high, I am going to shift this production to India. I have not actually seen any discussion around that. I think still Europe is basically figuring out that how they will ensure that enough fuel is available for most of their needs. I do not see, so far, a very strong trend at least in our business, where customers are shifting because of higher energy prices in Europe.

**Archit Joshi:** I think we were having some issues with respect to managing our inventory, and our production planning was also done in a way which was reflecting a higher working capital. And now we are talking about some of the new products we might get an approval into flavours and fragrances or specialty chemicals. Now does that become a part of an elevated pressure on our working capital given that some of the earlier molecules themselves have not scaled up enough from our multipurpose plants to garner volume, so that they can have a plant of their own, where the volumes could be significantly higher. So, just to understand from the product addition perspective, how would you look at the organic chemicals business going for us individually from the new products that we are adding and from the ones that we were doing business for some of our customers earlier?

**Dr. Harin Kanani:** Mr. Joshi, the dynamics of any new product is that while they are getting scaled up, there will be lower volumes and then eventually they will increase. But the main point, the improvement which we are expecting from FY'24 onwards is saying that Neogen Chemicals' average molecules are of a larger size. So, there are less changeovers, as well as going forward from FY'24 onwards, we will have more molecules which are on the dedicated as compared to what we had earlier, which is what should give us the improvement. Whether it is a pharma new molecule versus let us say a non-pharma new molecule, the dynamics remain more or less similar. But yes, overall, Neogen Chemicals' average molecule size will increase or more number of molecules will be dedicated, which we are hoping will start from FY'24 once all our



new molecules start stabilising, and then FY'24 onwards, we can start seeing benefits of that.

**Archit Joshi:** Sir, just one clarification. Something that I could not understand from one of the comments that you made earlier. We buy around 60-70% of India's total imported volumes of lithium carbonate. Sorry, if I heard that wrong. But just something that I was curious to know was, is it more economical or makes more viable sense to import lithium carbonate directly or is there any way wherein the crude lithium can be brought in India and then it can be processed into lithium carbonate by a converter? Is that also an option or it is just easy enough to buy the lithium carbonate from outside?

**Dr. Harin Kanani:** Even at that high percentage of imports, we are importing let us say between 500 to 1,000 MT of these lithium carbonate hydroxide molecules, whereas internationally, the plants which do this conversion from crude from the mine are usually of the capacity of 20,000 tonnes. So it would not make sense for us because the scale difference will be so huge. And also, most of the countries like Chile and Argentina, you can only ship finished products. So they do not want them to become just a mining place where things are mined, crude is sent out. Australia still has that option, where they just send concentrated ore let us say to China and China processes that or maybe in future US will also do that. But in India, maybe once the battery volumes pick up really large, maybe by 2026-27, by that time, it will make sense. But today's India's demand, it would not make sense to set up a processing plant for the immediate need. For the future you can consider.

**Moderator:** The next question is from the line of Mihir Damania from Ambit Asset Management. Please go ahead.

**Mihir Damania:** You have a revenue EBITDA target for FY'23 and FY'24. Do you also have cash flow from operation target for the company on EBITDA of around Rs.100 crore for FY'23 and Rs.130 crore for FY'24? Where do you see Neogen Chemicals generating cash flow from operation? What is the broad-based amount or any internal targets you have CFO to EBITDA conversion?

**Dr. Harin Kanani:** I mentioned the cash flow targets in terms of net working capital limits that we want to have. So for FY'23, as I mentioned, the target is to be between 120 to 130 days of net sales, and let us say to improve this closer to 110 days by FY'22. I have not done the math, but I think we can do the math and see what it translates into operating margins based on the numbers which I just mentioned.

**Mihir Damania:** Slightly on a long-term basis, let us say five years out, where do you see the net working capital? Do you see any material improvement to 110 days number for FY'24 which you mentioned or do you see that just because of its more or less structured that it will be very difficult to get incremental benefit from 110 days?

**Dr. Harin Kanani:** I think my understanding or let us say wish list whenever we have discussed five years down or where we should ultimately be in the most efficient sense, but again, it requires a lot of changes in business model, the way we deal with the customers, etc., I would say, maybe between 90 days to 100 days. But with a lot of dependency on imports, with so many multi-products and molecules which are very long, sometimes processes I see very difficult going below 90 days.

**Moderator:** The next question is from the line of Dhavan Shah from ICICI Securities Limited. Please go ahead.

**Dhavan Shah:** On the organic chemicals side - given that you mentioned that in Q3 concall that the phase-I and phase-II both will be optimally utilised by September '22. If I look at the last three quarters run rate, it is around Rs. 100-odd crore and I think we did somewhat Rs. 60 plus Rs. 55 which is roughly Rs. 115 crore CAPEX for both phase-I, phase-II and the peak revenue should be roughly Rs. 250-odd crore. So including this phase-I, phase-II organic chemicals should reach to roughly Rs.500-odd crore



which itself gives you Rs.120-130 crore quarterly run rate. So, my question is on that front. By when do you foresee that the organic chemicals run rate can inch up to around Rs.120 to 130-odd crore?

**Dr. Harin Kanani:** Let us say by Q3/Q4 we should be there. That is the only way we can achieve our next year's target. Because next year, we have to almost run at that full utilisation level throughout to be able to reach that Rs. 700-725 crore.

**Dhavan Shah:** You mentioned that because of some seasonal factor and some higher inventories for a particular molecule, there are some lower revenues. So, can you give some numbers? How much revenues is contributed by that particular molecule in the organic chemicals front? What do you foresee - maybe two to three quarters down the line? Is there a major concern in terms of the organic chemicals growth or not?

**Dr. Harin Kanani:** In pharma, these molecules going down for a while happens many times. This time it has been a bit longer. What happens is that when we see that this is going to be a more permanent trend, so our current reading of that this is just inventory buildup. Once we know and have better clarity on that, we start planning some other molecules in that place. We already have plans around that and it will not be a concern. We have plan-B that if this continues and if there is no correction, then, by Q3 or Q4, there will be some other molecules which will start replacing that.

**Dhavan Shah:** Given that this Rs.150-odd crore new CAPEX in Dahej will be completed by next year '23. So, after this CAPEX, how much excess land will be available at Dahej? When we acquired the Baroda plant, I think we had some approvals in place for few of the molecules. So, what are the plans at the Baroda plant?

**Dr. Harin Kanani:** On Dahej, we will still have space for two MPPs at least. So, two MPPs meaning, let us say a revenue of additional around Rs. 500-750 crore depending on the product mix, etc., is something that we can still get out of Dahej site. In addition to that in Karakhadi the idea is that right now since we have SEZ benefits, which is for 10-year period and many of the demands which we are having are related to deemed export or export region. So therefore, our focus of the investment will be in Dahej. When we have domestic business, that basically we will be focussing on using the Baroda land.

**Moderator:** The next question is from the line of Dheeresh Pathak from White Oak Capital. Please go ahead.

**Dheeresh Pathak:** On the lithium salt electrolyte and the retail, I just want to understand this 250 MT is operational by FY'23. This relates to the salt capacity or the electrolyte capacity or is it a combination? Can you just explain that? The balance 400 MT which you said, can you explain the capacity that you put up and how much have you spent in this capacity?

**Dr. Harin Kanani:** The 250 MTPA was basically the electrolyte formulation plan which we are going to make. This was a pilot facility which we want to do, with which we can start supplying to our customers. We have even a smaller facility which can produce a couple of MT, let us say less than 5-10 MTPA. So, that has already been made operational. And from that, we have started giving samples to our customers. And what we are targetting is that by FY'23, that 250 MT will happen. So, that will be more like an industrial scale to give our customers the higher confidence and also, the intention for us is to experience that okay, what we made at a 5-litre, 10-litre scale, how does it get made at a 1,000-litre scale. So, that is the main idea behind that 250 MTPA, more like a trial plan for us now.

**Dheeresh Pathak:** In that you are making the salt and the solvent you are making the additive?

**Dr. Harin Kanani:** When we said that 250 MTPA is the electrolyte, the formulation capacity. The 400 MTPA which we have mentioned is where we are going to make the salt which can be like LIF, like LIPF6, LIFSI or other salt additives, which we are planning to make. So, that is a salt additive capacity. Generally, 400 MT, this is where the salt will be made, and that can support a much larger electrolyte production as well.



- Dheeresh Pathak:** So, the ratio is 1:8, something like that, right? So you are reaching 400 tonnes –
- Dr. Harin Kanani:** It depends on each customer's formulation. A part of it is also intermediate. I would not like to put exactly how much it will support electrolyte. But this is basically salt and our intention here is to also use this to explore international markets for this. Because as we stated in our previous calls, international market exists for Neogen Chemicals for the salts. This is a market which is already existing and the current electrolyte producers or let us say even the salt producers would like Neogen Chemicals to support with basic lithium salt or an LIPF6 or other such electrolyte salts. That is what we are targetting. Yes, initial requirement of India also, internally we can support. But the main purpose of this is to test the international market and be ready for the initial India demand. Again the same logic as the 250 MTPA, there is a facility so that when we are setting up a much bigger facility, we are more confident on the design and we can further optimise it based on the experience we have here.
- Dheeresh Pathak:** What I really wanted to understand was the vertical integration. So my understanding, correct me if this is wrong, is that the Dahej is in really making the salt which is an LIPF6. In order to make LIPF6 how backward integrated are we like the TF-Gas? Are we going to make that also? Just trying to understand the level of vertical integration because when you say we make the electrolyte, my understanding is the Dahej is in making the salt because solvent we will probably buy from outside, and in making salt which let us say right now is an LIPF6, there could be other sorts later on, in that LIPF6, how vertically integrated would we be?
- Dr. Harin Kanani:** We will be only importing lithium carbonate which comes out of mine and then the remaining chemistry will be done by us.
- Dheeresh Pathak:** Solvent we will be buying from outside?
- Dr. Harin Kanani:** Yes. Solvent and non-lithium additives also we may buy from outside. So, there are some additives which are lithium-based and there are some non-lithium-based additives. So, these additives we will buy from outside, but the salt will be made in-house and that salt can be sold outside also or it can be used internally to make our own electrolyte also.
- Dheeresh Pathak:** Second question sir is that this market is LIPF6, prices are very cyclical. They were \$10 a Kg. Then they went up to \$40-60 and got corrected again is my understanding. And if you look at the other players, which seems to be heavily over-supplied in terms of capacity that has been coming up. So what is the confidence that LIPF6, will not be oversupplied and will make reasonable spreads?
- Dr. Harin Kanani:** It was oversupplied for a while and today if you ask, most of the people think it is undersupplied. One of the indications, for us also, was that when the lithium prices corrected or changed, LIPF6 corrected much higher than lithium prices. This is based on our understanding. The second thing is that the non-Chinese LIPF6 is definitely undersupplied, because 90-95% of LIPF6 is produced in China. For various reasons, I mean, in India, partly it is driven by the PLI scheme, but let us say where it is not driven by PLI scheme, countries are very worried as to the dependency which they have on China.
- Worldwide, the way the demand is expected to grow, when we look at that number, there is a lot of new capacity which needs to get added over next five to seven years. Most of the countries outside China are trying to make sure that capacity gets added outside of China. So, people are trying in Japan, in Korea, we are trying in India. Ultimately, what our feeling also is, that let us say, if we are able to make it efficiently, we can partake in the global business and supply lithium salts there. If the Chinese are still very competitive and we are not able to match that because the scale is much higher or if in China there is an over-capacity, we are quite confident that at least when it comes to India, it will be part of the overall package of our formulations and the lithium LIPF6 contribution into that will be relatively lower.



So the knowledge, the comfort, the benefit of local transport, the PLI scheme benefits will basically trump and at least at our electrolytes selling level, we will not have a challenge even if it is over-supplied in China. So, this is our understanding or reading of things. Also unless you make the electrolyte from scratch, starting from lithium carbonate, it will be very difficult to meet the PLI guidelines. I think that will also be one of the factors which will support production of LIPF6 locally.

**Moderator:** The next question is from the line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

**Sabyasachi Mukerji:** First, two clarifications. The Rs. 725 crore revenue guidance for FY'24 and the Rs.1,000 crore revenue guidance by FY'25-26 does not consider the incremental revenue that will flow from lithium salts and electrolytes, right?

**Dr. Harin Kanani:** Yes. So, it does consider the lithium salt because it is a part of the Rs. 150 crore CAPEX. We said that the journey from Rs. 725 crore to Rs. 1,000 crore is based upon the Rs. 150 crore CAPEX which we are doing and that Rs. 150 crore CAPEX has three parts: One is traditional lithium salts, second is a lithium salts for electrolyte and third is the organic. Therefore, whatever revenue we get out of that 400 MT is part of that Rs. 1,000 crore. But what is not part of it is the bigger electrolyte business which we are targeting in India. That is still being discussed and determined. That is independent of this.

**Sabyasachi Mukerji:** No, but this lithium salt CAPEX which is part of that Rs. 150 crore, that will get completed by June '23, right? So, some portion will flow in FY'24 as well.

**Dr. Harin Kanani:** But it would be limited. I am right now not confident enough to say that it starts in June '23, then how much revenue we will get in that. But yes, we have not revised (to include) the contribution of this. Technically everything will be ready by June '23, thus contributing to some extent, higher in FY'24. However, so far we have not accounted exactly how much additional we will get. Maybe by Q4 of this year, once we are closer to the completion of the timeline of the CAPEX and we start committing to our customers based on that capacity, we can give you more clarification on what will be FY'24's upward guidance that we have based on this Rs.150 crore investment.

**Sabyasachi Mukerji:** By probably Q3 or Q4, when you have a better clarity on the electrolyte CAPEX as well, you will be able to probably guide much better clarity on the FY'25 or FY'26 revenue as well, incremental ones?

**Dr. Harin Kanani:** Yes, you are right. The large electrolyte business in India as per the PLI guidelines, the Indian companies have to start in 2024. They have two years' time and maybe the Government can give them some extension. But if we think they stick to that, then in 2024 the production of battery cells has to happen. We will have to make the decision by the second half, set up the plant, so that the bigger plant becomes ready by 2024. So, they will start contributing in FY'25 a bit. Most of the customers are also going step-by-step. So, their first plant would be let us say 1 GWh, then they will increase it to 5 or 10 etc. So, FY'25 will be their initial trials for which we will start supplying. But they will be commercial level trials. And then FY'26 where the major ramp up will come from the India's electrolyte demand.

**Sabyasachi Mukerji:** Next question is on the volume growth in organic and inorganic. I understand that absolute EBITDA per tonne has been maintained and due to the high revenue base, the margins look optically lower. But what has been the volume growth in organic and inorganic, if you can just throw some light on that?

**Dr. Harin Kanani:** In case of organic, other than slight increase in bromine, there is no major price increase-driven factor, which has given us the increase. What you see basically is the higher utilisation levels. Like I said, we were also able to make a little bit more organic, which we have kept as inventory. But because of our customer demand being low, like I mentioned in pharma, and in Q1 and Q2, we generally always build



up inventory and in Q3 and Q4, unless new capacity comes online, we basically pare down that inventory. So that is the trend we have seen. So, utilisation levels have also improved in terms of volume and then I think Q3 and Q4, you will see closer to the Rs. 100-plus crore of quarterly run rate on the organic side. In case of lithium, if we are comparing with the same quarter which was Rs.17 crore versus what we did around this quarter, it was significantly higher, because like I said, there was this non-Indian demand also, which drove us which itself contributed to almost 25%, and the Indian demand also was significant. I am sorry, I do not have the exact number. But I would say, we see the difference between 51% or 58% is the EBITDA or PAT growth, and the revenue growth is around 75%. So, there is a difference between that 58% and 75%, which is basically largely coming from the lithium price.

- Sabyasachi Mukerji:** So, you have been doing this Rs. 58 crore for the last two quarters?
- Dr. Harin Kanani:** Last quarter Rs. 58 crore and this year Rs. 58 crore. So, between last Q4 and Q1 volumes are lower because the prices of lithium have increased. So, as compared to Q4 of last year, we have done lower volumes, but as compared to Q1 of last year, we have done significantly higher.
- Moderator:** Next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.
- Rohit Nagraj:** What is the scenario of our bromine in terms of availability and pricing currently?
- Dr. Harin Kanani:** I think there is no major change in the bromine availability scenario. I mean, there are seasonal factors that during monsoon season, sometimes the bromine availability goes down in India a little bit. But we always prepare for that and that is why we also import part of our bromine. If we are talking of a two-year or three-year trend, less and less bromine is available from China and India, Israel and Jordan are making up for it. That trend continues to remain and there is no major change from what we have seen in the last one or two years.
- Rohit Nagraj:** Second question is, any update on the pharma CRAMS segment that we are targetting, particularly from the Japanese market perspective?
- Dr. Harin Kanani:** CRAMS business or what we call CSM business, we are targetting both, pharma and agro and as we said, recently we also added some non-pharma, non-agro customers in that. We have some traditional pharma CSM business with Europe, which has been going for quite some time and that continues. Similarly, our other CRAMS business with traditional customers continues and they are ramping up also. Every quarter, some molecules move from pilot to first commercial and from first commercial to main commercial. That trend also continues. There is no major update on that except that maybe post-COVID some of the new customers that we were targetting from US, Japan and Europe were able to visit the site and they got a better understanding and now based on that, our discussions are going forward about which new molecules or projects which Neogen Chemicals can do.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for closing comments.
- Dr. Harin Kanani:** Thank you all the participants for joining the call. I hope we were able to respond to all your questions. If you have any further questions, please feel free to reach out to our investor relations team and we will address them. Thank you once again. Stay safe and we look forward to connecting with you again in the next quarter.
- Moderator:** On behalf of Neogen Chemicals Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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

