advanced enzymes
Where ENZYME is Life

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May 18, 2023

To

BSE Limited
Department of Corporate Affairs
P. J. Towers, Dalal Street,
Mumbai- 400 001
Scrip ID-540025

National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai- 400 051
Scrip Code-ADVENZYMES

Dear Sir/Madam,

Sub: Transcript of Conference call held on May 15, 2023 for the audited Financial Results for the quarter and year ended March 31, 2023

In furtherance to our intimation letter dated May 12, 2023, please find enclosed the Transcript of the Conference call held on Monday, May 15, 2023 with Analysts and Investors for the audited Financial Results of the Company for the quarter and year ended March 31, 2023.

The aforesaid information is also being uploaded on the Company's website.

Kindly take same on your records.

Thanking you,
Yours Faithfully,

For Advanced Enzyme Technologies Limited

SANJAY PRAKASH BASANTANI
Digitally signed by SANJAY PRAKASH BASANTANI
Date: 2023.05.18 16:50:20 +05'30'

Sanjay Basantani
Company Secretary and Head - Legal

Encl.: As above

“Advanced Enzyme Technologies Limited

Q4 FY '23 Earnings Conference Call”

May 15, 2023

MANAGEMENT: **MR. MUKUND KABRA – WHOLE-TIME DIRECTOR – ADVANCED ENZYME TECHNOLOGIES LIMITED**
MR. BENI RAUKA – GROUP CHIEF FINANCIAL OFFICER – ADVANCED ENZYME TECHNOLOGIES LIMITED
MR. RONAK SARAF – MANAGER, INVESTOR RELATIONS – ADVANCED ENZYME TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of Advanced Enzyme Technologies 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ronak Saraf. Thank you, and over to you, sir.

Ronak Saraf: Good evening, everyone. Welcome to the Advanced Enzyme Technologies Q4 and FY '23 Earnings Conference Call. I am Ronak Saraf, the Manager of Investor Relations here at Advanced Enzymes. We hope you all have gone through our financials press release and the presentation, which has been posted in the Investor Relations section of our website.

We have with us Mr. Mukund Kabra, Whole-Time Director; and Mr. Beni Rauka, Group CFO. Today, the management will discuss the performance and business highlights, updates on strategies and respond to any questions that you may have. As is usual, for the ease of discussion, we will look at the consolidated financials.

Before we proceed, I would like to draw your attention to the forward-looking statements contained in the presentation. During our call, we may make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that may involve risks and uncertainty, our actual performance and results may differ materially from our forward-looking statements.

So without any further ado, we shall commence this call. Over to you, sir.

Mukund Kabra: Thank you, Ronak. Good evening, everyone. I really appreciate you all for taking out your valuable time, and I welcome you all to the conference call for the quarter and year-ended 31st March 2023.

Starting with a quick brief on global conditions. Global conditions scenario continues to remain uncertain with cues of recession resulting in layoffs and inflation remains elevated and the geographical political crisis remains fluctuant. But we see a pickup in continued demand and hopefully, it will further improve as we enter in the new financial year. The raw material prices are under control and the supply chain issues are also resolved to a great extent. We hope this scenario remains stable in the coming quarters.

Despite all the uncertainties, our quarter 4 financial results demonstrated an improved top line growth. The growth in the numbers are essentially driven by animal nutrition and bio-processing segment. Now as far as the quarterly performance, our top line stood at is ₹1,387 million, grew 5% on a year-on-year basis. And on a sequential basis, it has declined by around 2% in quarter 4. Our annual top line stood at ₹5,406 million. That is 2% growth.

Our EBITDA stood at ₹441 million, grew 9% on a year-on-year basis and 6% on a sequential basis, which saw a decline of 22% for financial year '23. We have experienced a significant growth of 27% in the bottom line on year-on-year basis. While on a sequential basis, it grew 15%. Our full year PAT declined by 16%.

On the margin side, EBITDA margin stood at 32% and PAT margin stood at 23% during the quarter 4. For financial year '23, these margins stood at 29% and 19%, respectively. This decline in our margins is due to fluctuate in input material prices and elevated fuel costs, which resulted in a higher operating cost for the company during the year.

Talking about the segment-wise performance. Human nutrition, the human nutrition segment remained the highest contributor as is usual at 63% in the revenue. It grew by 1% on a year-on-year basis while it declined by 6% on a sequential basis. For financial year '23, it has declined by 1%. Pharma API in domestic markets and nutrition in international markets primarily supported the numbers in human nutrition. There is softness in the probiotics business and demand remains subdued in the domestic as well as in the international markets.

Animal nutrition. Our animal nutrition business is performing really well and contributed 15% to the revenue in quarter 4. This segment has significantly and continuously improved during consecutive quarters. It grew by 36% on year-on-year basis and 17% on a sequential basis and 27% during financial year '23.

Bio-processing. During the quarter, bio-processing segment contributed 14% to the revenue. It grew by 2% on a year-on-year basis. It declined 15% on a sequential basis. For the full year, this segment grew by 19%. Food and non-food business grew by 15% and 31%, respectively, on a year-on-year basis. The specialized manufacturing segment contributed 8% and grew by 31% on a sequential basis while it remained flat on a year-on-year basis. For financial year '23, this segment declined by 26%.

A brief on key developments during the year. We invested with ₹60 million or 50% stake in Saiganesh Enzytech Solutions and this company has further acquired a firm engaged in a similar business on the company in the slump sum sale basis for a contribution of ₹9 million. We have also acquired an additional stake of 4.83% in our purchase with JC Biotech. Now our stake is 89.83%. Our 2 U.S., step-down subsidiaries, AST Enzymes and Dynamic Enzymes, got approval from the state of California and formed a single entity named AST Enzymes.

I would say we are in our constant endeavour to keep introducing newer and commercially viable products and molecules. We will continue to focus on our priorities of customer retention, strengthening R&D, foraying business operations in newer geographies, expand solutions and product offerings, register more products across global regulatory bodies and to look for strategic inorganic opportunities. We'll bring more resilience in our business to enhance customer value proposition and deliver long-term sustainable growth going ahead.

With this, I will now hand over hand over this call to Raukaji, he will take you through the financial and key subsidiary numbers. Over to you, Raukaji. Thank you.

Beni Rauka: Thank you very much, Mukund. Good evening, everyone. I hope you all are in a good health. FY '23 remains a roller-coaster ride for the company. Subdued consumer demand across the globe, elevated input costs, coupled with lower international sales, in particular in the U.S. market, affected our overall margin during FY '23.

On the company's consolidated financials for the fourth quarter and fiscal year 2023, let me give you year-on-year numbers. The revenue increased by ₹70 million, about 5%, from ₹1,317 million to ₹1,387 million. EBITDA increased by ₹38 million, 9%, from ₹403 million, which is about 31% of our top line, to ₹441 million, 32% of our revenue.

Profit before tax increased by ₹81 million, which is 24% of our revenue, from ₹340 million to ₹421 million. And it's about 30% of our revenue. PAT has increased by ₹68 million, about 27% of our revenue, from ₹253 million to ₹321 million, which is about 23% of our revenue.

On a quarter-on-quarter basis, the sequential basis, the revenue is decreased by 2% from ₹1,421 million to ₹1,387 million. EBITDA increased by ₹24 million from ₹417 million to ₹441 million, which constitutes about 32% of our top line. Profit before tax increased by about ₹17 million from ₹404 million to ₹421 million and it's about 30% of our top line. Profit after tax has increased by ₹42 million from ₹279 million to ₹321 million. So PAT is about 23% during this quarter.

Let me give you the financial year numbers -- annual number. So for FY '23 and FY '22, our revenue has increased by ₹112 million, 2% of growth in our revenue, from ₹5,294 million to ₹5,406 million. EBITDA has decreased during this year. So the decrease is of about ₹450 million from ₹2,014 million, which was about 38% of our revenue, to ₹1,564 million. So we have an EBITDA of 29% during this year.

Profit before tax decreased by ₹307 million from ₹1,711 million to ₹1,404 million. Profit after tax has decreased by ₹199 million from ₹1,238 million to ₹1,039 million. So our PAT margin is about 19% during this financial year as compared to 23% during last year.

Now the EBITDA is down mainly because of a couple of reasons, which I would like to give you some summary and some flavour on it. So during this FY '23, prices of various inputs have gone up substantially. So that has impacted our raw materials, power and fuel, stores & spares, consumables and, of course, other costs, where we're carrying out some repairs of machineries, buildings. So all these costs have gone up substantially during FY '23.

So this has resulted into lower gross contribution of about ₹108 million and other expenses comprising of stores, spares, power and fuel, repair and additional cost of about ₹234 million and in addition to that, the payroll cost has gone up mainly because of the annual increment given by the company and all its subsidiaries. And of course, there is another element of the FX fluctuation. Because rupee has depreciated by about 8% during this year. So that also includes an element of FX fluctuation in FY '23.

In addition to that, we have fair value loss of about ₹27 million in other expenses. This is mainly because of the valuation of mark-to-market valuation of investments of our U.S. subsidiary. And we do have some losses on account of some of the impairment of assets, which we have done during this year, so that is about ₹15 million. So these are the main reason during this FY '23, our profit after tax has gone down substantially as compared to FY '22.

Our B2C segment, overall basis, if I compare the revenue for FY '23 to FY '22 has gone down from ₹412 million to ₹383 million. Our top 10 customers contributed about 24% of our sales as compared to 28% during the corresponding financial year FY '22. JCB has reported a loss and it is negative profit after tax, a loss of about ₹10 million as against ₹20 million during the previous quarter. The top line remains same in case of JCB of about ₹107 million as compared to ₹112 million.

Evoxx is EBITDA positive. And also the PAT has also increased from ₹8 million to ₹11 million and for the financial year FY '23, revenue has increased by about 10% in Evoxx and EBITDA has increased by about 127% from ₹26 million to ₹59 million. The company has reported a positive profit after tax of ₹21 million as compared to a loss of about ₹16 million during FY '22.

And geography-wise, I mean, if I give the revenue of international sales and domestic sales, the domestic market is about 47% as compared to 44% last year. We have spent about 9% of our stand-alone numbers of India on our research and development activities. And on a consolidated basis, our research and development expenditures are about 6% in FY '23 as compared to 5% during FY '22.

This is all from my side. We open the floor for the question-and-answer session. Thank you.

Moderator: Thank you very much. The first question is from the line of Jatinder Agarwal, an individual investor. Please go ahead.

Jatinder Agarwal: I have one question. And that is related to Slide 23 of your presentation. If I look at those numbers from your March '22 presentation also. Yes, so I'm referring to Slide 23 of your current year's presentation, where you give the opportunity size and what is addressable by Advanced Enzymes.

And if I look at last year to this year, practically there is 0 improvement, except for animal nutrition. And even to that extent, whatever that has gone up by the rest have actually declined. And what is raised in the last year's presentation, which is the March '22 presentation, you've written that this is the target for the next 5 years.

Again, this year's presentation says that this is our target for the next 5 years. Is this a rolling target? Or is this something that ideally you should achieve and then report the progress as to what you have done within that segment during the current year? If you could give a sense out of that, I think that is more useful.

Mukund Kabra: Raukaji, do you have the Slide number 23? I don't have it right now.

Beni Rauka: Yes, I have that slide, what he's talking about is human nutrition. Last year numbers were about $41 million. That is what we have reported. And I think, Jatinder, this is exact number. In terms of the USD, we have $40.5 million during this year. So we have only 2% of growth.

Jatinder Agarwal: Exactly. So what I am trying to say is in the previous column, what you reported is that there is an addressable market which is something like $200 million, right?

Beni Rauka: Yes, right.

Jatinder Agarwal: Right? So what I want to know as an investor or as an outsider is out of this 200 million, how much was captured during the current year, if you can give some idea in each of those segments? Because the numbers seem to remain static on a year-on-year basis. So if I -- as an outsider, if I look at those numbers, to me, it seems that there is 0 progress in terms of moving towards your addressable market. So is my assessment right? Or is it that there is some disclosure that you would wish to give which will help me understand this better?

Beni Rauka: Yes, there are some components of the entire human nutrition business that you're speaking. So one has to look at the entire composition of that. And then one can really make out where we have grown and where are like a couple of things which need to be addressed in due course.

Jatinder Agarwal: So out of the $200 million which was last year how much has been mined or whatever I am probably using the wrong word but how much of it has been monetized or been able to crack during the current year if you could give that number?

Mukund Kabra: Jatinder ji, the numbers are not there at this point of time. But I can say that we -- these human nutrition numbers are comprising of Indian pharma market as well as the nutraceutical market from the US. And numbers that we are addressing more into the addressable market is on the bio-catalysis side. And this year, the number looks same because human nutrition business in the US, there is a lot of slowdown.

You see that the US business in terms of dollars is down by 15%, when the -- overall, when we look at it, it's just down by 1%. There is some impact. And even though some business here, we could gain from the biocatalyst areas. But this is not reflected because of the -- because of some business is under recession in the US. So if that can give you some idea probably, I think...

Jatinder Agarwal: I don't think that's exactly what my answer to my question is, sir.

Mukund Kabra: So I don't know the exact numbers but the biocatalyst area that's what I can say. Even though last year also, we said that the business will not come in the first two years or 1.5 years, we had certain breakthroughs in term of the biocatalyst area and some products are being there on the commercialized side. Like this year, clearly those numbers will be a little bit more effective.

Jatinder Agarwal: Okay. And I'm not sure if this is the right way to compare, but a lot of companies in that same industry seem to suggest that there is China Plus One, which is technically a real opportunity.

Are there any tailwinds that you are able to see because of that, or does that -- or is that question not relevant?

Mukund Kabra: The way I see is, we have worked basically on two components of the business. One component of the business is the USA, which is under really on the recession side. When we talk to the India side, clearly on the India side, we have grown almost about 14% this year. The tailwinds, what you're saying, you can see on the India side. So there is a lot of growth which is coming up, which was not there earlier and...

Jatinder Agarwal: Can you just repeat the last one, sorry, sir?

Mukund Kabra: So the way we see that is the India business, there is a lot of growth. And you see that the China Plus One statement, what we are talking about is working also at this point of time. US business, we see that this trend will continue for another one or two quarters. And then there should be improvement. Because we launched few of the products in the last quarter, in the last year, I guess.

And now we are in the mode of doing some long-term agreements in other business, but it will take another one or two quarters to really convert. So this recession will still continue for another one quarter or two quarters in the US business. In the China business, the China Plus One policy, you see that again in the second half of this year, we should have good business on the India side.

Jatinder Agarwal: Okay. That is helpful. Thank you sir.

Mukund Kabra: Thank you, Jatinder

Moderator: Thank you. The next question is from the line of Nikhil Mathur from HDFC Mutual Fund. Please go ahead.

Nikhil Mathur: Hi, good evening. Sir, I just wanted to understand something. So I believe in the opening remarks, you had mentioned that there was a lot of input cost pressure and other cost inflation issues that was faced in FY '22. So going forward, let's say, in FY '24 and FY '25, how do you see these costs rationalizing? And when your margins were sustainably above 40% prior to COVID, so when do you see that those 40% above margins can be reached? How soon and how far are we from that kind of a normalized environment?

Mukund Kabra: So Nikhil, the cost pressures and the fuel pressures, those were there in the last year. Currently we see that some of the commodities are coming back to the normal. Examples are, soya oil and soya flower are getting back to the normal. When we talk about the fuel, coal and other things, those are still on the higher side from what it used to be. It used to be around ₹5 currently. It's running at around ₹12 to ₹13. It went up to ₹17. So on the fuel side, yes, there is there. But the margins, I think the margins will come back once our US business starts growing or it will come to the, at least on par.

What is happening right now is all the fixed expenses are on the same side, on the fixed side. And when there is the de-growth of 15% kind of remaining US because of the inflation, that just impacts on the margins. So probably the way we look at it is maybe in the, as we move on after the second quarter of this year, we should start improving on the margin fronts.

Nikhil Mathur: Okay. So if I break down the cost, the different defining costs, input costs, your energy cost, your freight cost, so raw material cost is what we are seeing as kind of normal or so just getting normalized. The energy costs are still on the higher side, but freight costs will have normalized. Am I right in assuming these three things?

Mukund Kabra: So you are right. To a certain extent, yes, I can say that you are right, Nikhil.

Nikhil Mathur: Okay. Understood, but 40% and plus margins are doable again at some point in time?

Mukund Kabra: Yes. We are waiting for the US business to get normalized.

Nikhil Mathur: Okay, understood. Sir, my second question is slightly larger-picture question. If I look at the global enzyme's market, Novozymes is the global leader with, I think, 50% market share. And please correct if I'm wrong in reading this. So essentially, if Advanced Enzymes were to grow more than the industry, and I think industry grows at 6% to 7% at a global level, you essentially have to take other market share from a player like Novozymes.

When I look at their disclosures and your disclosures, there seems to be a pretty stark difference in how the R&D pipeline is for that company, which is obviously a global pioneer versus what for Advanced Enzyme, only from the disclosures. What I'm not able to read, I can't kind of assume that you don't have anything in the pipeline. So am I again right in assuming that in order to grow in double digits, 12%, 13% or 10%, whatever, you have to question -- or take away market from Novozymes?

Mukund Kabra: To a certain extent, yes, but there are a lot of gray areas which are still there, right? And what is happening is that Novozymes there is a cost pressure. Novozymes, if you really go through that, there is a lot of cost – they have pass on the cost to the consumers. So that is one area where you can do it. But we are not competing with Novozymes in all the areas.

The real competition with Novozymes is only in the food area. And that is the area where we are really competing with Novozymes. The rest of the areas, we do our own niche markets. I don't feel like you just need to take the Novozymes share to grow. We are very small compared to Novozymes. Novozymes' share is more than $1 billion, a couple of billion dollars. And we are selling in hardly $60 million-$70 million. So there is a lot of opportunity and a lot of gray areas are there which we can take.

Nikhil Mathur: Okay. Sir, but if I look up -- I have looked up the numbers of the company. The company's margins are fairly healthy for a Europe-focused business model. And even the return on capital for this company is more than 20%. So for a global company, despite in such an environment where they're able to do decent margins and the ROC is also pretty good, is it really the cost which can drive the market share movement towards your company?

It doesn't seem to be the case, right? I mean, those margins aren't reason -- those ROCs aren't reason enough for them to keep on operating and keep on going. So then what is it that you will bring to the table which will help you to gain market share?

Mukund Kabra: There are a lot of other factors which are there and which is right now is being slowed down. What has happened in this war area or whatever is happening in Ukraine or other areas, people are looking for other alternatives. There is only one supplier in the global area for most of the products like Novozymes, as you are mentioning and people were happy in the earlier stage. Now, Novozymes has suddenly increased their prices 10%, 20% in some of the products.

Because the energy costs in Europe has gone up. And this has pushed people to look for other alternatives, the sustainability. And we see a lot of traction which is coming out during the last quarter as well as this quarter which we'll face sales is some of the people started looking for the alternative supplier. And they want to go with the second supplier as well And this is where our features and this is where we can grab some of the market share from the Novozymes, the area where we are competing in.

Nikhil Mathur: Understood. Sir, given this is a B2B business model, now we have closed FY '23 with a 5% in 4Q and 2% in full year FY '23, I mean, it's very difficult for us to kind of build out aggressive growth numbers, given what has happened in FY '19, FY '20, FY '21, FY '22. Any guidance you might want to share for FY '24, FY '25?

Mukund Kabra: FY '24, FY '25, I mean, FY '23, FY '24, right?

Nikhil Mathur: Next year and the subsequent year, what kind of growth profile should we expect?

Mukund Kabra: Next year, we can see is a double-digit growth, mid-level of double-digit growth coming after like -- but most of the growth will come in the second half of this year.

Nikhil Mathur: You mean to say, the second half of FY '24?

Mukund Kabra: Yes.

Nikhil Mathur: And mid-level double-digit means somewhere around mid-teens, right, that you're alluding to?

Mukund Kabra: Somewhere around 15%-plus.

Nikhil Mathur: 15%-plus.

Mukund Kabra: Yes.

Nikhil Mathur: Okay. And sir, I mean, what's the visibility on this number? I mean, are there orders that you already have in the bag which have to be executed or you are expecting that given the activity has been so thin in the last few months, last few quarters that natural causes that this activity will come back?

Mukund Kabra: This is depending on whatever has been there in the pipeline, whatever sales positions what we have based on the customers, what we have been mapping what we have done for this year.

Nikhil Mathur: Okay. Understood. And sir, how many launches are planned for the next 12 months, next 24 months? Can you give some idea on that as well?

Mukund Kabra: I can't comment on that. But honestly speaking, there are more than 25 products, which are under the pipeline at this point in time.

Nikhil Mathur: Sorry, there are more than 25 products which is under the pipeline?

Mukund Kabra: Yes, those are under the pipeline. It always takes some time for the commercialization, right? There might be two, three, four enzymes might be under the commercialization at this point.

Nikhil Mathur: Got it. And sir, can you share the R&D number for FY '23? What do you classify the R&D? And what is that number for FY '23, FY '22, last two years?

Mukund Kabra: You mean the spending on the R&D?

Nikhil Mathur: Yes. I mean, what is the R&D spend?

Mukund Kabra: So Rauka ji has already mentioned it. I think that it's 9% of the AETL's number and 6% of the total revenue.

Beni Rauka: Yes, that is including the Evoxx

Nikhil Mathur: Understood. Okay. And what should this number look like going forward, R&D to sales?

Mukund Kabra: So, the numbers are going to be more or less same. Probably, we might spend 1% extra. We are developing our new R&D centres, right, as we mentioned last two, three times. So that is still under progress. Probably, the new building will be finished by next year, maybe April May of next year, so yes. But the number will remain the same range in that time.

Beni Rauka: Let me give one clarification regarding the research and development expenditure. So what expenditure we are talking about, 6% on consolidated numbers during FY '23 and 5% during FY '22. Evoxx, which is one of our subsidiaries, which is majorly into research and development, so whatever the receipts of this Evoxx is there from the research and development activities which they carry out. So when we plot our R&D expenditure, we include those expenditures as well. So that's how we are talking about the 6% and 5%.

Nikhil Mathur: Understood. Okay. And just one clarification then, so when we are talking on margin expansion going back to the 40%, that includes this 6%-plus 1% extra R&D spending?

Beni Rauka: Yes. Out of that, there are some kind of capital expenditures as well. So that, of course, depends upon every year how much capital expenditure are done that we need to definitely exclude from that overall, 9% or 6%, whatever we are saying. So capex keeps on spending. But recurring expenses, more or less, we see the growing trend.

Like last year, we have spent about ₹245 million on our recurring expenses as compared to ₹216 million on recurring expenditure during FY '22 and capex was about ₹50 million during this year as compared to about ₹16 million during the previous year. So those are kind of expenditures on stand-alone basis, which we have done from India.

Nikhil Mathur: Right. And sir, one final question, again going back to the larger picture, enzymes, I mean, when we read them theoretically, they tend to offer a lot of benefits, one of the key benefits being that in various applications, enzymes lead to better ESG compliance of your end customers.

But somehow this trend doesn't seem to be getting reflected in the growth numbers for your company. So is the industry really that attractive, or is it a steady industry, where 6% to 8% growth is what the broader growth is without much pricing power?

Mukund Kabra: Well, most of our focus areas are the food area, nutraceutical or the human nutraceutical area and the animal feed area. We are not really focusing on other industrial side of the where we can say that you go on an environmental benefits on those areas. Those areas are not our focus areas at this point of time.

Nikhil Mathur: Got it sir. Thank you sir. Thanks for taking my question.

Mukund Kabra: Thank you. Nikhil ji.

Moderator: Thank you. The next question is from the line of Girish Shetty from Banyan Tree Advisors. Please go ahead.

Girish Shetty: Sir, first question is on your subsidiaries. So if I see JC Biotech, your Netherlands subsidiary, and SciTech, while they've been contributing in terms of sales, the contribution to tax has been negligible at the net profit. So how do we look at these three subsidiaries of yours going forward over the next two, three years?

And the sales of these three subsidiaries, they have been kind of flat over the last three, four years. So has it been due to -- I mean, because these have been acquired just before prior to the COVID period, or what has been the issue with these subsidiaries in terms of sales growth as well as negligible PAT contribution? That is my first question.

Mukund Kabra: You talked about JC Biotech, SciTech. And which one is the third?

Girish Shetty: Sir, Netherlands subsidiary as in which includes evoxx as well.

Mukund Kabra: So JC Biotech is more like supplying all the materials to Advanced. So I think we have increased the capacity in JC Biotech. And this year, we will have more sales from JC Biotech Advance.

So there is not real sale which is going directly to the customer side. So you don't see too much of a difference in the JC Biotech's number.

Similarly, this Netherlands subsidiary is more like a research facility or research subsidiary, and we don't see the numbers are going to grow substantially. It gives us an added advantage on the research front and particularly on the protein protein engineering part.

The third one is this SciTech. We had a de-growth this year and quite a substantial degrowth about ₹13 crores we lost on the sales front this year. Going forward, next year, probably we see good growth not coming to the original level, but at least around ₹45 crores, from ₹35 crores, what is present level. And we see the business should grow. We also launched the B2C products this year in the Indian market. Our brand is WELLFA and we will see how we can take the SciTech sales with WELLFA as we move forward.

In SciTech, there was another one incident this quarter. And that was there was a fire in their R&D facility. And because of that, we had to book around ₹4 crores loss on our balance sheet. Because even though that money is recoverable from the insurance, but still we haven't gotten it later from the insurance company. So that's the overall picture, Girish.

Girish Shetty: Okay. Sir, one more thing you mentioned about kind of 14%, 15% kind of growth for the coming years. And you also mentioned that a lot of your costs have been fixed. And because you did not get that growth this year, the margins were impacted. So suppose in a scenario where we are able to do this 14%, 15% kind of a growth, how do we look at margin growth in your other expenses? And eventually, how will your margins improve in that case if you do that kind of a growth?

Mukund Kabra: The man power cost has to go up. The first target is go back to our original level so, that is our first target. Of course, on the fixed side of the cost, manpower costs will go up every year. But most of the other expenses will remain flat.

Girish Shetty: Okay, will remain flat. I think the other expenses that you, like 138 crores, it will be same range for the coming years as well?

Mukund Kabra: Raukaji, do you have anything on that, other expenses? Raukaji? Girish, the way I look at it, those numbers should remain flat. They will grow with some percentage but not to those levels.

Girish Shetty: Okay. And so like 15% growth. And in terms of margins, you're saying like we did around 28%, 29% EBITDA margin, right, this year? So your normal margins should be around 38%, 40%. That is a fair assumption for your EBITDA margin?

Mukund Kabra: Those are the first steps. As you know, on quarter-on-quarter, we want to go back to those years, meaning you can see where do you stand.

Girish Shetty: Okay. Understood. And sir, any update on the U.S. business, I wanted to know. So we were growing quite well. If I exclude the loss of the top customer you had, you were still -- excluding that, you were growing at a 14%, 15% rate, excluding the FY '23. So what should be the expected growth from this business? And we had this flat year, right? Like I can see 9% degrowth in the U.S. business. So how much can be attributed to currency fluctuations? And if I say like-for-like, how much has the business grown or degrown for FY '23?

Mukund Kabra: So I think as we already mentioned, we've degrown by 15% in terms of dollars and 9% in terms of rupees because of the currency we look at in the U.S. Going forward, this year, we see about 10% of growth in the -- because of the second half numbers, what is going to come on. The next 1 or 2 quarters will remain flat.

Girish Shetty: Okay. And this 15% decline has been the market rate of decline as well, as in overall market has declined at that rate, is it?

Mukund Kabra: I'm not tracking the overall market, Girishji. I can't comment on that. That is what we can see on the recession front.

Girish Shetty: Okay. And sir, your India business has done like 9% growth for the full year. So what has contributed to this growth as in the segment which has done well in India geography?

Mukund Kabra: So Indian geography, we had grown by 14% on a year-on-year basis, roughly. And all of the segments have contributed. Yes, I think all our segments have contributed. The major contribution is coming from the human side as well as food business and bio-processing business areas.

Moderator: The next question is from the line of Kunal Thanvi from Banyan Tree Advisors. Please go ahead.

Kunal Thanvi: So I had two questions. One was on as a business, when you see that Novozymes is there and we are also kind of, our product is very niche with a lot of customer stickiness. How does the pricing power plays in this industry. As you rightly mentioned that Novozymes took some 10%, 15% hike on all the products, what is our ability to take price hikes with our customers than in times when we are seeing significant volatility in the raw material, freight and other stuff that you mentioned? how does one look at pricing power for us?

Mukund Kabra: The way we look at it is this is the opportunity that Novozymes or other people goes on and increase their prices. What we need to give a message to our customers or the future customers that we are there. We are there to support you at this given time. And honestly, we haven't really gone to increase the prices. We kept the prices still.

Kunal Thanvi: And then does it mean that our margins would always be kind of cyclical depending upon our raw material prices?

Mukund Kabra: Honestly, the raw material prices really don't make too much of a difference in the margin. There's been a couple of percentage here or there. But you can always compensate that with the increase in the sale. That is what our philosophy is.

Kunal Thanvi: So it's like more of volume over value approach that we have?

Mukund Kabra: Yes, we need to increase the volume. I just want you to understand what we need to have is more business rather than really looking for the increasing the percentage of margins. And that is why you need to differentiate, give the message to the consumers that we have got.

Kunal Thanvi: Sure, makes sense. So now the second question is related to it. Then if I look at the U.S. business this year, that kind of came down. And you rightly mentioned about the currency. Sir, can you help me understand how the volumes have played out in the U.S. business? And what were the key reasons why we saw this kind of decline?

Like did we kind of lose traction in a particular product or a set of products? Because in your opening remarks, you had mentioned that you have launched two new products, which are expected to get executed in the second half of this year. So if you can give more color on the volume degrowth in the U.S. market, key reasons for it? And when you say like this year, we will see comeback of the U.S. market, what would be the levers for the same?

Mukund Kabra: As I mentioned that there is a recession and recessionary trends and there is a de-growth in the volume as well when we talk about the 15% de-growth in the U.S. market. What I said is we did launch two other segments in the U.S. market. And the few of the segments are in the weight area and the another area is in sugar management and weight loss area. And these two products, sugar management, weight loss products have really -- we see a lot of traction in this market. We are getting some long-term orders also and we see these new launch products should take us back on to the track that we want.

Kunal Thanvi: And when we say 15% growth that, of course, means the U.S. market will slightly grow at a faster rate. And with these new products contributing the growth in the U.S. market from the existing products also coming back would be higher. Like because -- then why should we not grow at a faster rate? Because the existing products should also at some point of time come back. And then these new products that you're talking about, how does one kind of...

Mukund Kabra: What we can map is just for a year or near future, right? We cannot map for a longer period. Longer period, there are always going to be variations. And at this point of time, what we can map is for a year. And that is the mapping that we are doing there. The sale at this point of time, the U.S. market should be 9% to 10% of the growth this year's number with last year's number. And taking those numbers forward will come up with about 15% of the growth this year.

Kunal Thanvi: Sure. And another question that I had was on human nutrition as a business. Like if you see that segment as a whole has been kind of flattish this year. So this is largely to do with the U.S. market slowdown or the Indian business also had some headwinds in this segment?

Mukund Kabra: So human business has gone up as I mentioned, all the areas have gone up, right? When we talk about a major portion of the human nutrition business is coming from the U.S. and 15% in terms of dollars or 9% in terms of rupees, even there, they're flattish number in the human nutrition are okay and that just contribute because of the Indian market.

Kunal Thanvi: Sure. Got it. And when we talk about a large number of products in the pipeline, you mentioned some 25 products, which are the segments that are -- we are trying to focus more? Is it the animal nutrition or human nutrition? And the recent growth that we are seeing in animal nutrition, is it driven by newer products or is this existing products that are getting more volumes?

Mukund Kabra: So the growth what we see with new products which we will launch, and even the human nutraceutical side, we are working on these two areas, in this area of sugar management and weight loss areas. We are also working the R&D for our new products, how do we improve our quality going forward? So currently, product number one, going forward, how do we make product plus? And going forward again, how do we make product plus-plus?

So those are the focus areas for us on the human nutraceutical side on the R&D. We are working on a lot of enzymes on the food area. Also we are working a lot of enzymes in the biocatalyst area and there are some different products and different ways how do we launch into the animal feed area. But major focus which is going on the new products side is on the human nutraceutical and food areas and Bio-catalysis.

Kunal Thanvi: Okay, got it. Sir, my final question was on the margins. Like while we have already touched upon margins a couple of times in this call, but just to clarify, you mentioned that this year, we should be doing around 13%, 15% kind of growth. And a large part of that would come in the second half of the year, given the product launches and the long-term contracts that you see. And you also mentioned that the margins would kind of -- we kind of want to go back to the historical number. So is it fair to assume that we aspire to close this year with 40% margin, operating margins?

Mukund Kabra: We cannot comment on it at this point in time, Kunal. That should be our target in the long term to go back to the -- those levels. But yes, we should see some improvements from where we are at this point of time.

Moderator: The next question is from the line of Shreyans Gathani from SG Securities. Please go ahead.

Shreyans Gathani: So I had one question, which was around WELLFA. So I see that the products are launched on Amazon and your own website, too. So I wanted to know what is the strategy in terms of growing sales around that? Because if I see certain competitors who are selling on Amazon and look at their financials, so like revenues are pretty high.

But since it's a B2C model, they're spending heavily on advertisements, probably loss-making on that. So I just wanted to know what is the strategy on that? And what kind of margins are we looking at because of ad spend. So how do you balance growth and margins? Just one question on that.

Mukund Kabra: So WELLFA, we did launch. But we are not taking up the revenue number when we're talking about overall projections what we have. We are conservative in terms of going into the B2C also. So we will be spending about ₹3 Crore this year on the WELLFA brand to develop and we will see what progress we make. Most of the strategy is based on the internet based marketing as well as some store marketing. But we are not going very aggressively on spending the money.

Shreyans Gathani: Okay. So because a lot of these competitors, like a lot of private equity-backed dry powder to just spend on, so just wanted to understand. It's very helpful.

Mukund Kabra: We will do this again as we get the sales and as we move on. So this is the initial number of what I was talking about this year. You will see every quarter, you will see that if there is no progress, we may reduce those numbers.

Moderator: The next question is from the line of Jana, an Individual Investor. Please go ahead.

Jana: I think my question, already someone asked and got the answer.

Moderator: The next question is from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Sir, first, two book keeping questions. What is the revenue share of top 10 clients in FY '23? And what is the contribution of top product in the overall sales in FY '23?

Mukund Kabra: So Raukaji can answer that. First question, Raukaji already said it's 24% for the last one.

Beni Prasad Rauka: So top 10 customers is about 24% in FY '23.

Gaurav Nigam: And top products, sir?

Beni Prasad Rauka: And that is also 24%.

Gaurav Nigam: Okay. And sir, just one more question. You alluded to India pharmacies in your statement. Could you please help, sir, understand how much was the India pharma sales in FY '23?

Beni Prasad Rauka: Yes, India pharma sales?

Gaurav Nigam: Yes.

Beni Prasad Rauka: So for financial year '23, you are asking, right?

Gaurav Nigam: Yes.

Beni Prasad Rauka: I mean, I'm giving you the complete breakup. So that will be very helpful when we talk about human nutrition, pharma is one of the areas. So it is ₹1,475 crores. This is about 27% of my top line as compared to 23% in FY '22.

Beni Prasad Rauka: So I think one question that was regarding our fixed expenses and variable expenses, which we grow, say, for 15%, then how our expenses are going to go up? So I mean, the fixed expenses are generally about 45% to 50% and variables are between 50% to 55%. So as we grow our top line, the variable expenses could be in that same kind of increase in expenses. But yes, the fixed expenses will not at all grow.

And there will be some components which may grow, as Mukund has already mentioned about it, which is the payroll costs, which may go up because that is generally every year, there's annual increment is given. So there could be an increase in overall expenses when we talk about the fixed expenses side. But other than that, I mean, we are kind of FY '23 at the highest level of expenses in that sense because all the limited cost has already been absorbed. And going forward, we don't see any -- this kind of unprecedented inflation and increase in the expenses.

Power and fuel is a kind of cost which is semi-variable. So some component is kind of fixed and there are some expenses which every year keeps on increasing irrespective of like Mukund has shared about, the coal cost. But now coal cost has kind of stabilized. But yes, the power tariff is most likely to be increased because of the impact of the prices of the fuel.

I hope I have answered that question with regarding the fixed expenses and variable expenses. So as we grow, if the increase in the sales number is, say, 1%, likely impact on our profits will be very positive. That's what I can say about it.

Moderator: We have the next question from Shreyans Gathani from SG Securities. Please go ahead.

Shreyans Gathani: Just one more question. So I wanted to understand what is the product differentiation that you have like in Europe and the Americas. So I see that -- witnessed a very different level of growth in Europe. And there's -- Americas has like a strong de-growth, whereas overall markets are pretty similar in terms of recessionary pressures. So just wanted to understand if the products are mutually exclusive. Or how are you selling in those two different markets?

Mukund Kabra: America is like more focused on the nutraceutical area, right? And it's more on the human area. While in Europe, we don't sell much of a product in the human nutraceutical area. Our major sales is coming from the food area. And as I mentioned, about the gas prices and other things and the cost impact that these people are facing and that is where they started looking for other alternatives. And that is where growth started coming in.

Shreyans Gathani: Okay. So are we looking at selling food-related products in the American market? Or are we going to stick to the same product profile that we currently have?

Mukund Kabra: We started working on it. We started building the team in the U.S. market at this point of time. But it will take some more time.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Ronak Saraf for closing comments.

Ronak Saraf: Thank you, everyone, for taking your valuable time for attending our earnings con call. We will keep you all posted for any further updates. I request you all to kindly send in your questions that may remain unanswered. An audio recording and the transcript of this call will be uploaded on our website in due course. Looking forward to host you all in the next quarter. Until then, stay healthy, stay safe.

Moderator: Thank you. On behalf of Advanced Enzyme Technologies Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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