NEOGEN CHEMICALS LTD.

August 14, 2023

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 **Scrip Code No: 542665**	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **Company Symbol: NEOGEN**

Sub.: Q1 FY24 - 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 Q1 FY24 Earnings Conference Call held on August 7, 2023.

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

Kindly take the same on your record.

Thanking you,
Yours faithfully,
For Neogen Chemicals Limited

UNNATI RAJESH KANANI

Digitally signed by UNNATI RAJESH KANANI
Date: 2023.08.14 17:12:00 +05'30'

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Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131

Encl: As above

Neogen Chemicals Limited

Q1-FY'24 Earnings Conference Call Transcript
August 07, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Neogen Chemicals Q1 FY '24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions when the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. 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 FY24 earnings conference call for investors and analysts.

Today, we are joined by senior members of the management team including 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, where the management will be addressing queries of the participants.

Before we commence, I would like to share our standard disclaimer. Certain statements made or discussed on the conference call today may be forward looking. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q1 FY'24 earnings presentation which has been shared earlier.

I would now like to invite Dr. Harin Kanani to share his perspectives. Thank you and over to you, sir.

Harin Kanani: Thank you. Good afternoon everyone and thank you for joining us on Neogen Chemicals' Q1 FY'24 Earnings Conference Call. We reported our first quarter financial results on Saturday, 5th Aug, 2023 and subsequently, circulated the result documents. I trust you have had an opportunity to glance through them. I will begin by taking you through the performance highlights, expansion initiatives and key updates, following which our CFO Mr. Ketan Vyas will share the financial performance.

I am glad that we have continued the momentum and entered the new financial year on a promising note especially on the backdrop of challenging global scenario aggravated by persistent inventory de-stocking, swift re-opening of China, continued pressure from Russia-Ukraine conflict as well as slowdown in several developed markets. All this has led to softening of raw material costs and resultant realisations, thereby impacting the volume off-take for the industry. Given the resilience of our business model and quality of product offerings, we were partly insulated by this impact, the credit for which also goes to our team who remained agile and traversed through these headwinds. Let me underline that the demand for our products continues to be robust and visibility going forward also remains positive.

Now, let me share a quick summary of our consolidated financial performance for Q1 FY'24.

Revenues grew by 11% to Rs. 165 crore, while EBITDA came in at Rs. 28 crore, higher by 14%. Profit after tax stood at Rs. 10 crore. Increase in the topline was in-line with incremental capacities added in Organic and Inorganic Chemicals through brownfield expansion. Growth in EBITDA was a combination of softening RM prices linked to lithium and favourable business mix.

In Q1 FY'24, we registered strong gains of 35% in Organic Chemical revenues led by both volumes and better realisation for select products over last year, whereas Inorganic Chemicals reported a de-growth of 25% largely on account of lower prices of Lithium raw material as compared to Q1 FY'23, while volumes remained intact.

In an important achievement:

- Neogen Ionics Limited (100% wholly owned subsidiary of Neogen Chemicals housing the battery chemicals business) made its first commercial sale of trial quantities of electrolyte. This is just the beginning of our ambitious foray in battery chemicals segment.
- Separately, during the quarter under review, BuLi Chem commenced commercial production and sales under Neogen Chemicals. While revenue was not very meaningful in Q1 FY'24, this is expected to significantly increase from Q2 FY'24 and in the second half, give full realisations.
- Our agreement with MUIS is taking concrete shape and we expect the design work of the new plant to be concluded before the end of this year, as planned.

Moving your attention to several others updates during Q1 FY'24:

- First, on electrolytes, we are in active discussion with 3-4 Indian cell manufacturers where commercial terms including discussion around memorandum of understanding (MOU) are being considered. We are hopeful of positive outcome from the ongoing discussions.
- Even for Lithium Electrolyte Salt supplies, we are engaged with more than 10 international potential customers thereby giving us the confidence and visibility for assured volume off-take.
- Based on demand projection and future visibility shared by our customers, we may consider setting up higher capacity for both, Electrolyte as well as lithium electrolyte salt, which will be communicated in due course.
- Considering the above developments, enabling resolutions have been proposed for Equity Raise.

Now, a quick update on our expansion plan.

Our CAPEX initiatives are progressing well.

- Brownfield expansion of specialty organic chemicals' by $29m^3$ will be commissioned by March 2024, while $31m^3$ was already commissioned in Q4 FY23 and has started contributing.
- Expansion of Inorganic chemicals capacity from $15m^3$ to $30m^3$ in existing inorganic MPP was commissioned in March 2023, the positive contribution of which will be visible from the current year and will receive full utilisation in the next two years' time.
- For battery chemicals, new capacity of 400 MTPA ($92m^3$) for manufacturing lithium electrolyte salts and additives is expected to be commissioned by September 2023, while plant for manufacturing 1,000 MT of electrolyte at Dahej facility is expected to be ready before December 2023. This is in-line with battery capacities coming up in the country.

Once commissioned, we expect our growth trajectory to accelerate in both, existing business and battery chemicals. Overall, we remain positive on the long-term prospects and maintain our revenue guidance of Rs. 900-1,050 crore by FY25/26 in existing business and Rs. 1,000-1,200 crore by FY27 in battery chemicals. Revenue projection for battery chemicals is being considered for revision post MUIS agreement, as highlighted previously and we will be in a better position to comment on this by the end of the year.

Let me conclude by saying that we are excited about the next phase of growth that lies ahead. Our CSM business especially, as we indicated, in flavours and fragrances is also progressing well and the first trial productions for several agro-chemical customers are also going as planned in the current quarter which will allow us to build the pipeline for the next quarter.

We are now poised to garner a significant share in battery chemicals given our domain expertise. Various initiatives undertaken in the past will bolster our offerings, strengthen our market position and relationships with our valued customers. Neogen will continue to leverage its expertise in complex chemistries and R&D to deliver sustained performance and enhance value for all the stakeholders.

That ends my opening thoughts. I would now request our CFO – Mr. Ketan Vyas to share financial highlights for the period under review.

Ketan Vyas: Thank you, Dr. Harin. Good afternoon everyone and welcome to the Q1 FY'24 earnings call. I will take you through the key financial highlights. Please note that these are on consolidated basis and based on Year-on-Year comparison.

In Q1 FY'24, revenues grew by 11% YoY to Rs. 164.9 crore, in line with incremental capacities added recently. This came against the backdrop of significant global headwinds like inventory de-stocking, re-opening of China and slowdown in EU and other markets.

Organic chemicals saw revenue growth of 35% YoY at Rs. 121 crore whereas inorganic chemicals noted a decline in revenues by 25% YoY at Rs. 44 crore. As highlighted by Dr. Harin, this captures the impact of lower prices of the lithium raw material as compared to the same quarter in the previous year.

The domestic and export mix stood at 65% and 35%, respectively.

EBITDA increased by 14% YoY at Rs. 28.1 crore driven by decline in raw material prices, especially of lithium and other input costs along with favourable business mix.

PAT declined by 12% YoY at Rs. 9.8 crore. This moderation was on account of higher finance costs and depreciation from the ongoing expansion initiatives. This was also impacted by initial costs associated with the re-starting of the BuLi Chem facility and administrative expenditures linked to Neogen Ionics Limited.

That concludes the financial highlights.

I will now request the moderator to open the forum for Q&A session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

Nilesh Ghuge: Hi, Harin. My first question is on the end user industry. Can you give us the end user industry-wise revenue mix for this particular quarter?

Harin Kanani: For this particular quarter, pharma was between 50% to 60% and agro and engineering was roughly between 15% to 20% and then around 4% to 5% were rest of the industries.

Nilesh Ghuge: And Harin, on the long-term contracts, earlier you always guided us that you have two long-term contracts. One in CSM business, another into bromine derivatives.

Harin Kanani: Yes.

Nilesh Ghuge: And you used to guide us that about Rs. 300 million to Rs. 400 million revenue on the lower side and about Rs. 700 million to Rs. 800 million on a higher side. Can you just tell us how much revenue we are currently getting on these long-term contracts? And where are we? At what stage?

Harin Kanani: Yes. On these long-term contracts, I will not be able to give you a specific number, but as we had said, the bromine derivative customer was a pharma customer and they were expecting a launch. We see year-on-year there was revenues increase.

In the agro, till last year, the revenues were increasing. This year we are yet to receive a PO, but we are expecting it to be a bit slower because there, we see a stronger Chinese competition. But together they will contribute, again, around Rs. 40 crore/Rs. 50 crore plus. So, Rs. 400 million/Rs. 500 million plus kind of a volume in this year based on whatever projections we have received so far. In fact, it might exceed that a little.

Nilesh Ghuge: And when you are guiding on in your base business and you are saying that Rs. 950 to Rs. 1,000 crore kind of a revenue. Is there any other addition in the long-term contracts or it is based excluding the long-term contract?

Harin Kanani: Yes. For the long-term contract as I mentioned earlier, we are in this year doing what we call as a first trial production for four to five agro customers in Japan and one or two flavour and fragrance companies. So, these might then lead to long-term contracts.

Again, it will depend; because what we have seen is, I mean, they might get into a long-term arrangement, but if the value is not more, they might still give us PO-to-PO. So, they will still add to our CSM business, but might not lead to a contract. But yes, if the value is higher, then we will get into a long-term contract with them.

But from a CSM point of view, for these four or five customers, currently, this year we are doing 1-ton, 5-ton kind of trial production. Then these will start contributing from next year onwards in a more meaningful way. But that will support our CSM business in addition to the existing contracts and the existing customers that we already have.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: I had a few questions. Sir, my first question is I see that the finance cost has gone up. Could you quantify what would our total debt be at this point in time? And how much would be the term loans? And how much would be working capital related debt? And also, if you could give the working capital days as it is today?

Harin Kanani: On the debt side, the increase has been because so far the capitalisation which we have done last year of all the term or the CAPEX which we have done, that have now started contributing, which was earlier getting capitalised. This is one of the criteria. And we will not be able to give you the exact number of days, but more or less they are in line with the numbers we had last September to December. They are a bit higher in terms of number of days as compared to March because the revenue is a little bit lower as compared to last quarter, but in terms of absolute numbers, they are more or less in line with whatever was there in earlier quarter; slightly higher as compared to March, in terms of days, in terms of absolute numbers.

Anirudh Shetty: And could you quantify the gross debt right now?

Harin Kanani: The total gross debt was somewhere around Rs. 450 crore to Rs. 500 crore in that range as at June end.

Anirudh Shetty: And you had mentioned that some assets got capitalised which could also explain why the depreciation went up. So, which assets are we talking about?

Harin Kanani: In the last year, in March, our organic capacity, 50% of that already came online and also the lithium capacity has already come online. That was capitalised in the month of March. Both of these are already contributing to the depreciation. In BuLi Chem, the land that we hold, is also basically leased land. But as per Ind-AS, the lease also has a depreciation component. That gets added to depreciation part.

Anirudh Shetty: Sir, my next question is on our battery chemical business. You know, in the last call we had mentioned that we are looking at about 18% kind of EBITDA margin. Just wanted to understand the basis for this number because when I look at some of the global companies like TINCI from China, they seem to be making a higher EBITDA margin. So, just wanted to understand the basis for the steady state margin that we are thinking about.

Harin Kanani: If you are talking of TINCI, I don't know if TINCI actually owns mines or they have something like that. If they have their own mine or they are backward integrated and they do some other raw materials also. So, what happens is in that case, your EBITDA is higher and your asset turns are lower, correct?

So, I think you should look at EBITDA and asset turns both together. As we have guided that we are doing lithium carbonate to electrolytes. So, lithium carbonate to first simple lithium salt, complex lithium salt and then finally the conversion and formulation to electrolyte.

So, when we are looking at this piece of portion, we look at the investment, we look at a 20% kind of a ROI. Then we are looking at EBITDA of around 18% is what we are saying.

Now, again, as I said this is first time this is happening in India. And electrolyte is something which is very fragmented. If you look at the market in China, it is a different condition; in US, it is a different condition, in Japan, it is a different condition. So, this is our assumption of what it will be in India and based on that we are guiding this 18% plus kind of an EBITDA.

We feel it is at least that much. I mean, we will try to always get better because we have to do a significant investment. So, the more we can get, we will be able to keep reinvesting in the battery material business.

Anirudh Shetty: And just one final question. The salts capacities that we have is, I think, in the last call we had mentioned, would be primarily for the export market. Does that approach still remain? China is very large in the salt market, but basis our discussions with the customers and people from the industry, are there issues around the quality of the salts that come from China?

Harin Kanani: No, we have got some more clarity and as we mentioned also, our interaction on the lithium salt in the international markets have also increased. We have got a fair sense of where we are as against China.

So, a couple of things that we have understood are that there are some…like we have the PLI scheme; in the US also, there is an Act called the IRA Act. As per this Act, there is a requirement for some of these companies to decouple from China. In fact, if you want, if any OEM makers who wants the Government subsidy on the final EV vehicles, they have to make sure that their supply chain of the critical minerals is decoupled from China.

On account of this, there is a lot of interest from these companies. We get this impression from whatever numbers we have seen. Also in China as in the US, on top of normal duty, there is also some additional duty if you are importing this from China.

Therefore, considering all of that, when we look at it, we are not very far off from the pricing point of view. The main question which we had even earlier is that can we be competitive? We see that we are there in the ball park. But again, once we have the new plant starting of the salt, that is when our customers will be able to test it.

Overall, the international testing period – initial some samples would be three months kind of a period – but for a longer test, it could be around six-month period by which time then the customers can commit for a longer-term contracts.

We have seen a lot of interest internationally for the salt capacity and we also see that a lot of international customers are interacting with us. Yes, if that happens, then the salt capacity that were planning as I have shared earlier, we have to put the salt capacity for the electrolyte as well for selling anything outside.

So, by December, once we complete the design with MUIS and by that time, we hopefully can also get better clarity on the MoUs, which we are discussing with our customer and get some volume commitments. Then based on that, once the capacity for electrolyte will get decided, based on that our capacity for the salt requirement in India will get decided. In parallel, we will also get clarity on what the international demand is looking like. With that, we will come up with our final CAPEX plan.

Anirudh Shetty: But sir, my question was on quality of the salts that come from China. Is, would you say, that puritywise it is on par with India? Also, are there instances that the quality could be poorer?

Harin Kanani: No, so honestly what happens is that, 95% of today's batteries are being made from LiPF6 made from China. Of course, in China, there are many, many different grades. There are good manufacturers and there are cheap manufacturers. So, sometimes the guys who are making it cheap, their quality is a challenge. But there are good manufacturers who are currently part of the supply chain. Honestly, it is Neogen's turn to actually prove that our quality is on par with some of the best in China, Japan and Korea. This is what is a challenge for us, but in China there are guys who are good. The main reason why people are considering options other than China is mostly because of the regulatory scenario and de-risking. So, these are the two main challenges.

Moderator: Thank you. The next question is from the line of Saurabh Kapadia from Sundaram Mutual Fund. Please go ahead.

Saurabh Kapadia: Sir, first, just on the revenue. Your standalone revenue is higher than the consolidated revenue. Can you throw light on that?

Harin Kanani: Basically in anticipation of BuLi Chem happening before the handover happened to us, we had imported some raw materials for that, partly, which were processed in Neogen and then transferred to BuLi Chem. But in BuLi Chem complete conversion had not happened. This was just one time thing to basically facilitate the transfer. That is the reason why because of that inter-unit transfer, the standalone revenues were a bit higher, but the consolidated revenue was a bit lower.

Saurabh Kapadia: What could be the quarterly fixed cost for the BuLi Chem going ahead?

Harin Kanani: It is difficult for me to give you the fixed cost, but as I said even there we will expect an 18%+ kind of an EBITDA because again, we see a very good demand. In the last three months, we have received inquiries from Korea, Japan, Europe and even US. We were originally targetting Pharma and Agro, but we even got some industries where we were not aware that there is demand. We are looking at it positively.

In fact, in the first few months, not only India's customers are slowly restarting purchase, because they already had some POs with others in the pipeline. Now they have started shifting back to us. We have even got some international POs and have started working internationally giving them the trial supplies for conversion.

Hopefully, in Q3/Q4, we expect that with the India demand and with the international demand, we should see a full utilisation and then depending on how this goes, we will take a call if we need to further increase our capacity for the next year.

Saurabh Kapadia: And sir, the last thing on the trial quantities of electrolyte which we have supplied. Is it through the three or four customers that you are in talks with or would this be through some other customer?

Harin Kanani: Yes, it is a mix. There are some customers who have not started the MoU discussion, but they wanted some initial quantity. It is a few lakhs. It is not a very large number but we have already made a start. We had one international customer as well as one domestic customer to whom we now have started giving small quantities for their trial plant; with one of them we are now also discussing a long-term MoU. For the other one, we are still having only their trial plant and their bigger plant is taking time. So, we will start.

But there are a few others who have already made progress. There are a few people who do not have a small facility. They are directly building a large facility. These customers have already started discussing with us for their requirements. If the requirements of these two people and a few others go as per what we are expecting then even in Q4, we will start seeing contribution of both, Neogen Ionics salt as well as electrolytes.

Moderator: Thank you. The next question is from the line of Archit Joshi from B&K Securities. Please go ahead.

Archit Joshi: Sir, if you can just add some supplementary things on this battery chemicals project. From what I heard of the previous participants was largely on the international markets wherein you see a very good traction. If you can share your learnings as to how we see this progress in the domestic market, which is where we are largely going to plan the sales of electrolytes? This is on the lines of what we had anticipated before the PLI benefits kicked in. There will be some amount of capacities for the gigawatt facilities that you are targetting. Are these on stream or there are any delays? And how would that change our revenues by FY '27, may be FY ’26/FY '27?

Harin Kanani: Thanks for the question. As what I have seen earlier, we still reaffirm that there is no change, that there are maybe some people who may start in 2024 and most of the other people will start in 2025. They will all start with about one, two to one gigawatt hour or one, two, three-gigawatt hour kind of initial capacity in 2024-2025 and then ’25. The ones who start in '24 will have a ramp up in '25 and the ones who start in '25 will have a ramp up in '26.

That first jump, will happen in '25 or '26. My expectation is by '26, all the people who are currently planning or who have shown their investment intentions would be operating at least between 5-to-10-gigawatt hour kind of capacities and then '27 and '28, they will all double their capacities at even a faster rate depending on the situation then.

Based on whatever we have said or whatever we have seen, that is the reason why we have maintained our guidance. In addition to that, and this is again still considering electrolyte demands of India and based on whatever we had estimated earlier, if we get a higher market share as we start doing these contracts, then we will see.

We see that some of the customers said that because of their technology partners requirement, that in the beginning, they might get some quantities from China or Japan, wherever the technology partner was when they want to prove that the cells and the plant are working well. However, they all said after initial quantity that it is not sustainable and have to localise. They have shown a keen interest for localising it and to work with Neogen.

Based on that now we have started working on more detailed contracts with these customers. MoU, they are happy to sign, but again, what kind of a minimum commitment they can give or these are the things which we are basically working on so that we have at least some better visibility on the demands.

The main challenge is for them that it is a new happening, therefore, that commitment is a challenge that what if the project gets delayed and the stuff like that. That is why we are working on how we can resolve it in a comfortable way and then proceed on that basis.

In the next three/four months, we will have better clarity from these customers and that is why by the time we get the design from Mitsubishi, we will be able to decide exactly on our capacity.

The 1,000 metric ton which we have said, our effort is that from 1,000 metric ton, we can directly go to the Mitsubishi plant. So, the first 1,000 metric ton which we are starting in December and that should take care of the people who are starting in 2024. For 2025 depending on the exact time, we might have to increase this 1,000 metric ton a little bit. Depends on the timelines of the plant which we are building with Mitsubishi's help.

So, this is something which we will keep reviewing, and hopefully, around October/ December - either our September call would be a good scenario or definitely by our December call, which will be in January, we should have a more concrete information on the capacity.

Archit Joshi: Thanks for this. I have a couple more questions. One, again, sir, on the international markets, especially in the supply chain. We hear about a lot of dumping that you also mentioned in the initial remarks. And given that, since you are seeing this localisation trend within the battery chemicals division. Would it be fair to assume that because China, as you said, 95% of the batteries are using the $LiPF_6$ or battery materials from China, would dumping also impact this particular chain that we are trying to target?

Harin Kanani: Dumping where?

Archit Joshi: Dumping, sir, in $LiPF_6$ globally. Are you seeing any effects of that? Or is it that because of a largely more B2B kind of a setup and the localisation trends that you are talking about, most of it will be insulated and you may not have China to pose a very serious problem despite having very high production capacity?

Harin Kanani: Sure. Actually I said anti-dumping duty, not dumping by China. In the US, they have identified some countries of risk, and if you are importing the critical battery material from there, you have to pay some additional 20%/25% cost. That is what I meant that while they have volume but because they have the duties therefore, if you are supplying from India, our product becomes more comparable to the landed cost of Chinese products. If you are importing from India, you just have a normal custom duty, you do not have this higher duty. That is what helps us compete against China in international market.

When it comes to India, we do not plan to make the salt. We basically want to make electrolyte and almost all the companies have said that they want to ensure that the electrolyte is bought locally.

Now within electrolyte, $LiPF_6$, if they want the value addition, the people who want PLI or maybe there will be future PLIs; so, for the future PLIs also, if the value addition becomes critical; or in India also, there are some customs duties so the $LiPF_6$ also has to be made in India because otherwise we will not meet the value addition criteria.

Also, from a supply security point of view, it makes sense that like we make directly from scratch, directly from lithium carbonate to electrolytes. This is something which is really appreciated by the customers and what we have seen is because $LiPF_6$ is only 10% of the cost. Because it is only 10% of the cost and so 10% to 15% by volume, not cost. Therefore, on an electrolyte level, the impact gets reduced, and the logistical advantage and the security of supply advantages that we have can be better managed at the electrolyte level when we are thinking of the India market.

Archit Joshi: That is quite elaborate. Sir, one last bit on our potential capital structure. I can see that along with the enabling resolution for fundraise, we have also proposed to the Board that you might want to extend our borrowing limit to Rs. 1,000 crore. What would our capital structure be? What is the debt to equity that we are looking at; not in the interim, obviously, given that we are expanding capacities, but any broad outlook on the capital structures? That would be helpful.

Harin Kanani: We still stand by the fact that we would like to maintain debt to equity below 1.25. That is our limit. Ideally, we like to be below 1. That is why along with the increase in the borrowing limits, we have also increased the intention to raise equity. Both of these are just enabling resolutions. They are all on the higher side, what we feel can be maximum required. We will keep checking on that and based on that, we will take a call and balance so that debt-equity remains below 1.25, as we plan our expansions.

We are also discussing with some customers on whether they can part-finance a plant. This is not domestically, but with international customers where there is an interest rate arbitrage also and it further reduces risk on our side. We will see how these go.

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

Yash Shah: Sir, my first question was regarding a development which happened in China. They have launched the first in the world lithium contract with global physical delivery. I would like to understand the impact on us. What are your views on that, sir?

Harin Kanani: I think what you mean is forward contract kind of a structure in the lithium markets, right?

Yash Shah: Yes.

Harin Kanani: I think so far, I mean for the majority of the industry, has still not yet caught on to that, and if at all it does come, it just helps you hedge your risk better.

However, what we have seen is that whenever we are talking of these large volumes, the lithium companies are anyways very happy to link them to a contract. Anyway, this, ultimately for us, is always going to be back-to-back. If my lithium mining party says that we can get into a five-year contract with a minimum volume kind of a commitment and you have to basically change the price every quarter, then my $LiPF_6$ customer or electrolyte customer is going to be able to do that. If my customer wants to do the hedging, then we will also do the hedging. It just gives or increases the options that we have to control our prices.

Yash Shah: Sir, my second question was regarding our current capacity expansions. I notice across all our three segments: organic, inorganic and the new business which is the battery chemicals. The completion timeline has been increased by a quarter or two. So, what is the primary reason there, sir? Is it because of the macro headwinds which we are facing? Can you elaborate on that, sir?

Harin Kanani: For us, it is just a couple of months actually. So, we had said our battery capacity was going to start sometime in June/July. Instead of that, it is starting - the salt capacity starting in August/September. So, basically, our Phase-1 is likely to start by August, and Phase-2 of that. So, there are two stages. Stage one will start in August and stage two is expected to start by September for the salt and for the electrolyte also. Earlier we had said September/October. Against that, we are now saying November/December. So, it is just…this is something new we are doing and (there is) just a couple of months delay.

As regards, specifically the organic where you see almost a two-quarter jump, there we were basically waiting for this project that we are currently executing to complete and then based on that take a call exactly which kind of reactors we want to offer.

The capacity which we have added last year and this year, is not just adding more glass line and stainless-steel reactor. You know, we are fine-tuning it to the different chemistries we want to do. So, if you want to do more organolithium, or if you want to do more fluorination, or if you want to do more pressure reaction, depending on how these projects move, is the reason why we took a call. The ones on which we already had clarity, we installed them. The ones which remain, we wanted the current trial runs to get over in this quarter and the next quarter. And then based on the visibility that we get from the customer that which customer is interested in larger volume, with those customers, we will basically try to add capacity in Q3 and Q4. So, that is why we delayed that a little bit.

Yash Shah: Sir, my next question was regarding bromine prices. If my understanding is correct, please correct me sir. So, that on the contrary to the price erosion which has been happening in the industry, bromine prices have, in fact, increased this quarter. Do we expect to see any kind of further benefit in absolute profitability going forward because of the bromine prices increasing?

Harin Kanani: Actually, first of all, bromine is our raw material. And like I said, we always get into annual contracts. So, from a bromine point of view this year has been a bit of a challenge for us. Because with the international ones, we usually get into contract in December and January, and with the local companies we get into contract in the month of April and May.

This time what has happened is, in December/January, the price was different, and in April and May the prices corrected very significantly. So, yes, this year is a little bit…If we average it out, most of the times the long-term bromines really help us, but this time it is going to be a bit of a challenge, but it is okay. I mean, it just gives us stability and most likely what we expect usually by around November/December. So, by Q3/Q4, our average price will be almost similar to…because again, as you rightly said, the bromine prices hit their bottom and now have slightly started going up.

But we feel, when we look at the whole year, our average will be similar to what the market average has been. So, we do not see any positives if the prices increase. We do not see a direct benefit of that immediately.

Yash Shah: One last, small question, sir, regarding tax rate. This quarter we had a tax rate of around 29%, and we had previously guided that we would have tax rate of between 22% to 25% for the whole year. So, do we maintain that guidance and will the taxes be lower for the rest of the three quarters then?

Harin Kanani: Our understanding is that it (tax rate) was around 27%, but we will have to just check that 29% may be at the consolidated level and there might be some difference. A little bit it was also because you have seen our exports are a bit reduced; from Dahej, the export sales were a bit lower. But we feel for the whole year, we should be in that range - between 22% to 25%.

Moderator: Thank you. The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv Asset Management. Please go ahead.

Sabyasachi Mukerji: My first question is, you mentioned these 10 international potential customers that we are in dialog with. Are these electrolyte makers or cell manufacturers? And which geographies are these customers in, if you can highlight?

Harin Kanani: Broadly, they are in Japan, Korea and the US; and some are in Europe. But mostly these three countries. They are a mix – they are electrolyte producers and cell producers who want to control their whole supply chain. They have somebody who will make their electrolyte internationally, but they still want to discuss directly as to who they will buy $LiPF_6$ from.

Sabyasachi Mukerji: Are they procuring from their respective geographies and then as a second source or a third source are they approaching us? Is it that way?

Harin Kanani: Mostly, many of them are dependent on China and some are a mix of China plus Japan or China plus Korea. Now they want to also add India. So that is because in Japan and Korea, the capacities are not increasing to the level which they need them since it is very difficult and very costly to increase the capacities there. They are increasing but not to the levels which they want.

There are more capacities also which are coming in the US. But it is going to take longer for them to come online; whereas we will be one of the first (country) outside these three countries (that will be) coming online. Also, cost-wise we seem to be competitive. This is why there is an interest from them to develop India (as a source).

Sabyasachi Mukerji: My second question is on BuLi Chemicals' revenue. I think, in the last call you mentioned that we are probably looking at somewhere around Rs. 50 crore to Rs. 75 crore in this current fiscal.

Harin Kanani: Yes.

Sabyasachi Mukerji: Do you want to change that number or is that looking upwards; some colour on that?

Harin Kanani: No. At least for now I will maintain that number, that we are looking at that number for the year. If things go really well, then we might be able to do a little bit more, but at least that much we should be able to do. And it will also depend on what is the lithium prices, you know. The current lithium prices are somewhere between Rs. 50 to Rs. 75. We are at about Rs. 60 odd crore or something like that. We will see where it goes. And also, whatever we have lost in Q1, we feel in Q2 will be better and in Q3/Q4, we will make up for that so that for the full year, we achieve that revenue potential.

Sabyasachi Mukerji: Lastly, on this a two-quarter delay in the balance capacity addition in the organic chemicals, the reactor. You clarified that you are just waiting for the current pilot project to (see) how it pans out and which probably which customer, which chemistry you are waiting for. My question is where do we see that will be running out of capacity in the organic chemicals post this expansion by March '24 and we will have to think of the next phase of CAPEX in our organic chemicals? And what would be that size approximately?

Harin Kanani: We were expecting our full capacity utilisation somewhere by '25 or '26. So, looking at the current global scenario and other challenges, we assume FY '26 as a full utilisation kind of a condition - sometime at the end of FY '25, early FY '26, because the next will be a brownfield expansion. So, sometime towards the end of ’25/early '26, we should be looking at further capacity addition.

Now we will have to see whether it is an incremental capacity or if we have some large projects. Then we have to go for a whole block. Now if the block is the same size as our existing one, then roughly, it is somewhere around Rs. 150 crore/Rs. 200 crore kind of investment, which basically gives us a revenue visibility of around Rs. 300 crore/Rs. 400 crore. So, that will be additional one; but again, we have to see at that time what the pipeline looks like and take a decision accordingly. If this situation remains the same or by that time, we can take a pause also, if required. So, we want to make sure that it should be optimised and we are fully utilising our facilities. Only once we have a very clear visibility of full utilisation, we will do a major further capacity expansion in organic.

Sabyasachi Mukerji: Last question for Ketan sir. What would be the inventory, absolute inventory number at June end?

Ketan Vyas: It is a similar level at what we had in March.

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

Rohit Nagraj: Congrats that we have started the sampling exercise. My first question is – you mentioned in the opening remarks that we will be ready with the designing part by the end of this year. Is it the calendar year '23? And an allied question to that - how much time will it take for us to put up the plant in terms of - I understand there would be some technical people coming from Japan during the erection phase - so, what is the timeline that we are looking at from the plant commissioning perspective?

Harin Kanani: Yes. That is the end of the calendar year, this year. As we had said sometime between October to December. I think I was more optimistic on October. We still keep pushing, but we feel by November/December, we will be having the final design ready from our technology partner – MUIS' side.

In terms of execution, we are expecting that from the time the design gets finalised, it will be 15 to 18 months by which the plant will be ready and we can start our trial production. So, we expect that sometime in '25, sometime in FY '26, the new capacity should come online.

Rohit Nagraj: Second question is from the R&D perspective. Now given that we have already started the sampling exercise, we probably will be getting the recipes from MUIS collaboration. How are you segregating the time in terms of or rather time and efforts in terms of from the R&D new product perspective on the legacy business and on the electrolyte and salts business? What is the plan that we are looking at in terms of further product basket expansion?

Harin Kanani: In terms of our R&D, we have a dedicated separate team which is taking care of the lithium and battery materials and a separate team which is taking care of the organic production. This entire battery material team was added in the last two to three years. So, there is no conflict. We are also expanding our R&D capabilities, the admin part (for which) is over, and before the end of this year, our R&D capacity will also be two and a half to three times of what is today's size.

Again, the main increase in the capacity, the way we are planning to use is that we feel by this time, we will start having some innovator CSM projects. So, we will have some teams dedicated to the larger innovators. Sorry, I meant the larger innovators with whom you started working. May be some will be additional CSM projects from these larger innovators. We are also going to increase our work in lithium and battery material space. And the third which we will also plan to consider is to expand our capabilities around the BuLi acquisition. The main thing that we have there is our lithium metal handling ability. So, how we can use this in other molecules and other applications that lithium metal gets used. That is going to be also something which we will keep working on going forward. But again, most of this will - the additional activities - will start in the next financial year as our R&D team expands and R&D space expands. This is what we are looking at, going forward.

Moderator: Thank you. We have the next question from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Sir, you had mentioned that the opportunity to de-risk from China is there with the IRA. You have done an interview with Bloomberg Quint where you had also mentioned that there are some challenges as India does not have FTA, but there was a Critical Missile Treaty in the USA. I just wanted to get more colour around this point.

Harin Kanani: There are two challenges for China. One is the additional duties, and the second is because of being countries of risk if you do not have that, if you are buying significant quantity from China, then you will not be able to get the benefits. So, when you buy from India, the negative part is not there; but there is no positive that you bought it. But the duty part still remains. The 25% duty still remains. So, that is basically the understanding. But at least India is not on the negative list. So, that is one good thing. If you are on that negative list, you will have to pay 25% extra duty. We do not have to pay that.

Anirudh Shetty: And is there any dumping duty on China in European countries as well or just USA right now?

Harin Kanani: As far as I know, in the US. I am not aware yet if there is a provision like this in Europe. Because, again, in Europe currently there were no batteries being made. So, Europe is in a similar situation as India. They are also starting. Only they are may be a year ahead because they could get capital and clarity and the Government action was a bit faster. So, as we said they are starting in '24/'25, and the majority of people will start in '25.

In Europe also, it is a similar situation. The plants are starting in '24/'25, but they are starting at a much larger capacity from the beginning. Europe is a little bit ahead.That is why the rules around that are not yet framed because there is no major electrolyte production anyways happening in Europe currently. But all of this will start in '24/'25.

So, this '24/'25/'26, the three years are going to be very critical the world over in all the geographies where the entire reshaping is happening because from the time after COVID, when the world decided okay, EVs are good and we want to go to EV. So that thought started in '21/'22, and any implementation project takes two to three years when you are starting from scratch.

So, that is why these '24/'25 years are critical. And I think by '26, we will have a major new kind of alignment say of the new supply chain all over the world. This is our estimate. So, these three years are very critical if you want to do something in battery supply chain.

Anirudh Shetty: And sir, my question is, there could be an inflection point where in the electrolyte demand could really pick up in India. So, if you all have to expand say from 1,000 metric tons to hypothetically, 5,000 metric tons, how long does it take to set up new capacities? And you know, the market opportunity is much bigger. You can grow even larger than 5,000 metric tons over time. So, how do you think about securing your lithium carbonate sourcing at a larger scale? Do you all have that kind of visibility right now or that will be something that you all will have to build as you go by?

Harin Kanani: Sorry, I got your question, but you said sourcing of what? How do you do sourcing of?

Anirudh Shetty: Raw material - lithium carbonate.

Harin Kanani: For lithium carbonate, the capacities exist. We have given various projections including cathode material that India requires, and we are fairly confident that we will not have a bottleneck on lithium because we have very good relationship with the top two/three producers. They have a lot of comfort in India.

In fact, even the lithium companies want India to develop because they are also currently very heavily dependent on China. Also, it is very difficult and very painful sometimes for them because China sometimes plays many, many games which they have to unfortunately live with because today, the majority of the demand is there. So, even they are quite keen of this new alignment because then the world can do business in a more stable way.

In China, you have extreme lows and extreme highs, whereas the rest of the world usually works on a lesser kind of deviation. So, as the supply chain gets distributed, so the lithium that they are selling also gets distributed, and their dependency to sell it in China, the way Chinese like to do business also reduces. So, they are very happy to support India or Neogen at least if I can say, and they are keen to work with us.

Of course, the only thing is, if we want commitment from them, we have to give them commitment. It is as simple as that. My customers have to decide that whether they want to remain open or if they want to secure; if they want to secure we can get that security. But ultimately, the customer will also have to give a commitment. So, the customer ultimately makes a choice between security and commitment, and once they make the choice, we can always source lithium for them. So, that is not going to be a challenge.

Anirudh Shetty: And sir, on the ramp up. We will have to ramp up 1,000 metric ton. How long does the gestation period typically take to get the next phase?

Harin Kanani: Usually, our expectation is, around 12 to 15 months. But again, this is in the beginning. I think in electrolyte, it will be a bit faster. In electrolyte salt, it will be a bit lower. I mean, sorry, it will be a bit longer. The main reason being that the number of equipments involved and when we prepare the site, we can always have some common infrastructure ready. Then we would have to do only the equipment order. We will take a view.

The first one is going to take a bit of time. Luckily, we have the time because Dahej can take care of the immediate requirements. I mean, for example, if somebody wants 2,000 metric ton or 4,000 metric ton more, in my Dahej site also, I can increase it. I mean, if it is international business, then in Dahej site also I can increase the capacity and take care of that in 12 to 15 months' time. But once we have the new greenfield, it will be planned in such a way that we can do faster increments in future.

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

Harin Kanani: Thank you, all the participants, for joining the call. I hope we were able to address your queries. If you have any further questions, please feel free to reach out to our Investor Relations team, and we will address them. Thank you once again, and we look forward to connecting with you in the next quarter.

Moderator: Thank you. On behalf of Neogen Chemicals Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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