May 22, 2023

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

**Sub.: Q4 FY23 - 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 Q4 FY23 Earnings Conference Call held on May 15, 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: 2023.05.22 17:30:36 +05'30'

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

**Encl:** As above

# Neogen Chemicals Ltd.

## Transcript of Q4 & FY'23 Earnings Call

## May 15, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to the Neogen Chemicals Q4 & FY'23 Earnings Call.

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

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you and over to you, sir.

**Nishid Solanki:** Thank you. Good evening everyone and welcome to Neogen Chemicals Q4 FY'23 Earnings Conference Call for Analysts and Investors.

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 during which 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 will be forward-looking. The actual results may vary from the forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals Q4 FY'23 Earnings Presentation, which has been shared earlier.

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

**Dr. Harin Kanani:** Thank you, Nishid. A very good evening to everyone and thank you for taking time out to join us on Neogen Chemicals Q4 & FY'23 Earnings Conference Call. Hope everyone is keeping safe and is in good health.

We reported our financial performance on Saturday, 13th May, 2023 and subsequently, circulated the result documents. I hope you had a chance to glance through them.

I will take you through the performance highlights, updates on expansion initiatives and the several developments that occurred during the period under review.

FY'23 was a landmark year for us. Not only did we report a solid financial performance, but also relentlessly worked towards executing several critical opportunities that would lay a strong foundation for our ambitious growth plans. We entered the year on a challenging note, mainly influenced by the Russia and Ukraine conflict that disrupted the global supply chain and resulted in a steep inflation in RM cost, utilities and adverse movement in foreign exchange rates. I am glad that we stayed nimble and navigated through these pressures to report a healthy performance in a difficult operating environment. I would like to thank all our employees who displayed resilience and supported us in this endeavour.

Let me quickly summarise some of the key financial highlights for the year:

Revenues grew by 41% to Rs. 686 crore as guided earlier, while EBITDA came in at Rs. 112 crore, higher by 29%. Profit after tax stood at Rs. 50 crore, an increase of 12% year-on-year.

Performance was steered by incremental contributions from expanded activities and demand for strong lithium derivatives, favourable product mix change towards value-added products as well as lithium prices. We continued to witness sharp volatility in input and logistics costs, volatility in pharma demand and lithium prices, which we were able to pass on to our customers with some time lag, thereby protecting the absolute earnings.

For FY'23, we reported 28% increase in organic chemical revenue which was largely volume-driven, while inorganic chemical revenue grew by 90%, a large part of which was on account of significant increase in the prices of lithium raw materials and the balance was from contributions by new customers that we added during the year. Having said that, RM prices linked to lithium have cooled off post-Q4, the impact of which will be visible in the current year.

I will now share some crucial developments that occurred in this quarter, which will steer our performance momentum going ahead.

First, we acquired 100% stake in BuLi Chemicals India, which owns the technology to manufacture n-butyllithium and other organolithium products using lithium metal. This acquisition was completed on 3rd May 2023, pursuant to which BuLi Chemicals has become a wholly owned subsidiary of Neogen Chemicals. The acquisition is expected to significantly boost Neogen's portfolio by offering a lithiation reaction to existing as well as to new pharma and agrochemical customers.

In addition to this, we will further strengthen and be able to scale up the advanced intermediate and CSM manufacturing business.

Secondly, in a major development, we signed a landmark agreement with MU Ionic Solutions Corporation, Japan (MUIS), a Mitsubishi Chemical Group Company, to acquire technology licence for manufacturing electrolytes in India. This is a historical development for us as MUIS, a global leader in electrolyte manufacturing, has issued its first ever licence to anyone in the world, and they have chosen Neogen Chemicals. This will bolster our growth initiative in the battery chemicals space. It will ensure that our electrolyte plant meets the stringent global standards for quality, reliability, safety and efficiency, while helping greatly in reducing the approval time for lithium-ion battery makers.

Both these developments are a testament to our promise and commitment towards building a solid foundation for the future. I believe this will significantly strengthen our competitive position in the market as we expand our R&D prowess across several chemistries to offer deep value to our customers.

Moving to our expansion plan:

Our CAPEX initiatives are underway and well on track. We have increased our reactor capacity for specialty organic chemicals by 31 meter cube in Q3 and Q4-FY'23 and an additional 29 meter cube will be added by September '23 as per earlier plan.

Within inorganic chemicals, we completed the expansion of our lithium salt to install up to 2,400 metric ton, which is coming from 30-meter cube of reactor volume by March 2023, one quarter ahead of schedule.

For battery chemicals, the new capacity for 400 metric tons per annum for manufacturing specialty electrolyte salt and additives will be commissioned by June or July 2023 as per earlier guidance.

The manufacturing plant for 1,000 metric ton of electrolyte at Dahej is also expected to be ready by September 2023 as per our earlier guidance.

Further to this, we have started basic engineering work for the expansion project announced in the previous quarter and the same is being planned in a phased manner.

However, post our announcement with MUIS, some of these projections around battery chemicals, including the capacities and revenues will change and we will come back to you in a couple of quarters to share further details around that.

Our planned efforts to increase the contribution of advanced intermediates and custom synthesis and manufacturing is on the right track and we are witnessing higher contribution from value-added products that require multiple steps.

In line with this, we are strengthening our R&D competencies. During the year, we added 82 new customers, which contributed 7% to our revenue both within India and globally, taking our total customer tally to almost close to 1,550 customers. Currently, we have a total of 245 products in our portfolio and additionally working on 25 new products in our R&D which has a future demand potential of almost close to around Rs. 2,000 crore.

Let me conclude by saying that we are prepared to embark on the next phase of expansion, showcasing our proficiency in multiple intricate chemistries and manufacturing capabilities at a larger scale. The demand situation remains favourable and our goal is to sustain this profitable path of growth.

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 evening everyone, and welcome to our Q4 & FY'23 Earnings Call.

I will take you through the key financial highlights. Please note that these are on a standalone basis and based on year-on-year comparison. In Q4-FY'23, revenues grew by 30% year-on-year to Rs. 203.9 crore and FY'23 they grew by 41% year-on-year to Rs. 686.2 crore.

The Company achieved its highest-ever revenues, driven by higher contributions from expanded capacity, a consistent demand situation and a positive shift in the business mix towards value-added products.

Organic chemicals saw revenue growth of 39% year-on-year at Rs. 138 crore in Q4-FY'23, whereas inorganic chemicals revenue increased by 14% year-on-year at Rs. 66 crore.

In FY'23, organic chemicals saw a growth of 28% year-on-year at Rs. 463 crore, whereas inorganic chemicals grew by 80% year-on-year to Rs. 223 crore.

The domestic and export mix for Q4-FY'23 stood at 55% and 45%, respectively.

EBITDA increased by 22% year-on-year at Rs. 32.6 crore in Q4-FY'23 and 29% year-on-year at Rs. 111.6 crore in FY'23. The Company managed to achieve better EBITDA performance even though there were considerable fluctuations in input prices, utility costs and adverse forex movements. This can be attributed to a positive shift in the product mix. Although there was an increase in cost of components, it was broadly in line with expansion of revenue and when viewed as a percentage of overall revenue, the cost remained stable.

The PAT performance for Q4-FY'23 stood at Rs. 14.3 crore and in FY'23 increased by 12% year-on-year to Rs. 50.1 crore. The Company's PAT performance remained robust despite several challenges. The finance costs were higher due to ongoing expansion initiatives and higher interest rates compared to the base year. Moreover, the depreciation was high related to incremental reactors added during the year, which have not reached full utilisation yet.

Net debt after including current maturities of long-term debt stood at Rs. 265 crore in FY'23.

Premised on a strong performance during the year, the Board of Directors has recommended a final dividend of Rs. 3 per share for FY'23, subject to shareholders' approval.

Those were the key financial highlights. I will now request the moderator to open the forum for Q&A session.

**Moderator:** We will now begin the question-and-answer session. We have our first question from the line of Saurabh Kapadia from Sundaram Mutual Fund. Please go ahead.

**Saurabh Kapadia:** First question on the BuLi Chemical. Is there any seasonality in the business or would the revenues be equally distributed in the quarters?

**Dr. Harin Kanani:** Whatever we have seen so far, this should be more or less uniform because it goes to pharma customers. However, the BuLi Chem people were actually focussing only in the India market, whereas we have an opportunity to also sell this internationally in markets such as Japan, Korea and Europe. So, we are still not aware if there is seasonality or if the revenues in the international market would be a bit lump depending on our business development activity. At present we can estimate that, may be this quarter, we have just completed the acquisition and are now getting ready to start operations, importing the raw material and other things on our own. But from Q2, Q3, Q4, you should see more or less uniform revenues coming in.

**Saurabh Kapadia**: What is the utilisation level for that plant and what would be the peak revenue that you can achieve from this current capacity?

**Dr. Harin Kanani:** N-butyllithium is heavily dependent on lithium prices. So subject to lithium prices, it will be somewhere between Rs. 50 crore to Rs. 125 crore kind of revenue potential depending on how much lithium prices move forward. For the current year now that the lithium prices have cooled down a bit, I expect somewhere around Rs. 50 crore to Rs. 75 crore revenue contribution coming in additionally from this business.

**Saurabh Kapadia:** Coming to our business, what is the utilisation level for the organic capacity and by when should we reach the optimum level?

**Dr. Harin Kanani:** At our peak utilisation with our existing installed reactor capacity, it was somewhere around Rs. 150 crore per annum and we are at around Rs. 130 crore to Rs. 135 crore kind of revenues as you see from our results. In addition to that, our new reactor capacity is coming online. With this new capacity coming online, the total peak organic revenue potential would be Rs. 175 crore to Rs. 180 crore per quarter. However, I think our capacity is coming online by September and may be sometime in FY'25 we can reach this peak revenue potential of close to around one Rs. 175 crore to Rs. 180 crore.

**Saurabh Kapadia:** Lastly, on the working capital. If you look at the working capital, it has further deteriorated compared to last year. How should we look at improvement and by when will that improvement come through?

**Dr. Harin Kanani:** Basically as we have stated in our last two calls, we were going through a significant change along with an increase in our capacity, increase in product mix and due to that there was a higher working capital requirement especially when we were getting the capacity to full utilisation levels. So, if you see, for example, our inventory increased drastically - from almost Rs. 189 crore in March '22 to Rs. 282 crore by September 2022. In the first 6 months, we did a revenue of around Rs. 300-odd crore. Now in the second half, we increased it further from Rs. 300 crore to Rs. 400 crore, but the inventory has remained more or less stable. To sustain the current level of business we need somewhere around Rs. 280 crore to Rs. 300 crore kind of inventory but as our utilisation improves and as we reach our peak revenue potential, in terms of number of days, we would improve. If you look from even September to March, we have improved almost by 25 days and by FY'24, our target was to reach inventory levels of around 120 days on net sales. So, we will again target the same - that by FY'24 we will reach peak utilisation in our Dahej and other facilities and we hope to reach about 120 days to 125 days on the net sales basis inventory levels (which would be) more or less similar to what we had in FY'21.

**Moderator:** Thank you. We have the next question from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

**Nilesh Ghuge:** My question is on the tax rate. In our earlier conversations, you had guided that for FY'24 our tax rate will be in the range of +/-25% or +/-22%, but if I look at the FY'23 number, the tax rate is about +29%. So, can you guide us on how tax rate will be in coming years?

**Dr. Harin Kanani:** We have completed majority of our CAPEX in Dahej and when we do higher CAPEX, it creates that additional depreciation, etc., which does not give us a tax level significant profit which is basically contributing to a higher tax rate. Since we have now completed majority of the CAPEX in Dahej in Neogen Chemicals, we have only limited CAPEX remaining. With Dahej now reaching full utilisation levels, over the next 2 years we expect to first start with around 22% to 25% and then later on move to 20% to 22% tax rate over the next two financial years. This is our estimate based on our current projections for Dahej.

**Nilesh Ghuge:** On the top line guidance – I know that you are continuously guiding us on FY'24's top-line, but with the recent n-butyllithium 100% acquisition, can you guide us on the FY'24 and then FY'25 top line number?

**Dr. Harin Kanani:** Originally if you remember, our FY'23 guidance was around Rs. 600 crore and we have done Rs. 686 crore but that was mainly driven by the historically very high lithium prices, which we basically passed on to our customers. If I were to make a correction of that, we would be somewhere closer to Rs. 600 crore to Rs. 615 crore in that range. Now in the current year, we have seen that the prices have reduced drastically and have come down very close to what the original prices were, although they are still higher than the original prices. Previously we had given the FY'24 target of around Rs. 750-odd crore of revenue. With the acquisition of BuLi Chem, what we estimate is at least Rs. 800 crore to Rs. 825 crore kind of revenue coming in on the back of stable lithium prices and depending on how the lithium prices fluctuate, it might be somewhere closer to around Rs. 850 crore to Rs. 875 crore, or in that range. Basically, if we remove the lithium price correction, we are looking at a 25% to 30% growth in our regular business including the BuLi Chem business. Similarly on EBITDA also, we expect around 25% to 30% increase over our current year's EBITDA performance. The exact top-line will depend upon how much lithium fluctuates during the year.

**Nilesh Ghuge:** Absolutely. Correct me if I am wrong. As you mentioned in your initial comment that lithium prices corrected but are still at an elevated level. With that current lithium prices, you are guiding Rs. 850 crore to Rs. 860 crore for your base business for the ex-butyllithium.

**Dr. Harin Kanani:** Our base business was supposed to be around Rs. 750 crore on stable lithium prices. With BuLi Chem and with slightly elevated levels of lithium prices, it will be somewhere in the range of Rs. 800 crore to Rs. 825 crore. Again, if the lithium prices start moving up significantly, then it might reach somewhere around Rs. 850 crore to Rs. 875 crore - in that range.

Basically, on stable lithium prices, we would estimate a 25% to 30% increase on the base revenue of around Rs. 600 crore as well as 25% to 30% increase on our EBITDA levels. That is for FY'24. For FY'25 again as we reach full utilisation levels by FY'25-26 as we have given the guidance, depending on the prices of lithium, we should be somewhere between Rs. 900 crore to Rs. 1,050 crore and this is based on the CAPEX which we have committed till now for our regular business and BuLi Chem. Basically, we consider BuLi Chem a very similar to our existing business because the end-user industry is pharma, agro and similar to that.

**Nilesh Ghuge:** Just one clarification I needed. You mentioned that you will again revise your CAPEX for your electrolyte, may be after 2 quarters? Is it correct?

**Dr. Harin Kanani:** I think maximum within two quarters, we should have a clear idea on the CAPEX in terms of how we are going to phase to the 30,000 metric ton.

**Nilesh Ghuge:** Then after that you require minimum 18 to 24 months to put up the plant and get the facility up and running?

**Dr. Harin Kanani:** After that we would require somewhere around your 15 to 18 months.

**Moderator:** Thank you. We have our next question from the line of Sabyasachi Mukerji from Bajaj Finserv AMC. Please go ahead.

**Sabyasachi Mukerji:** Sir, my first question is on the gross margins. If I look at the gross margins for the current quarter, you have been doing 43% to 44% gross margins in Q1, Q2, Q3, but it dropped to 40% levels (in Q4). The inflated prices were there in Q1, Q2, and Q3 as well. I understand that math but what is the exact reason for this dip and how should we look at gross margins going ahead?

**Dr. Harin Kanani:** The main contributor for this is the peak lithium prices because lithium was at its peak price in December-January, which is the inventory that we consumed by March. So that was one of the factors driving that. Historically, as we have said, previously we used to always say our gross margin is 40%, +/-2% and in the last call, we had said that it is now more like 42%, +/-2%. So, it has moved 2%. So, depending on year-on-year or quarter-on-quarter; and again gross margin, the advance and the manufacturing cost goes hand-in-hand because depending on the product mix, some products have slightly better gross margins, but then the processing cost could be higher. So overall we have said there is a 2% shift on that and we maintain that. It will be 42%, +/-2%, in a normal case barring some large movements in lithium prices or other raw materials prices.

**Sabyasachi Mukerji**: There is a comment in the press release as well as in the presentation that you have seen a noticeable shift in the share of value-added products. If I just adjust the revenue of Rs. 686 crore to let us say Rs 600 crore or Rs. 615 crore that we have been saying, eliminating the inflated part because of the lithium prices, your gross profit of Rs. 298 crore on a base of Rs. 615 crore translates to a gross margin of 48% and EBITDA margin of again – Rs. 112 crore upon Rs. 615 crore is around 18%. On Rs. 615 crore this gross margin looks very elevated - the shift of value-added products and the CSM business…if you can guide whether this is sustainable. Would we be looking at 47% to 48% gross margins in the near term?

**Dr. Harin Kanani:** There are a few molecules which gave us that and ultimately, we will see. I feel the high lithium prices are going to be, may be for one or two years more. Then they will stabilise. But based on whatever I see now, my guidance would be gross margin of 42%, +/-2% that we should look at in the near term, till we have certainty on gross margins better than that. We will let you know.

**Sabyasachi Mukerji**: My next question is on lithium salt and electrolyte. Just wanted to know about the manufacturing process. I understand that we will start with the lithium carbonate that we will import but if I look at LiPF6, what are the other key raw materials and if fluorine is a raw material then how is your readiness in terms of having fluorine or HF plant? Are we thinking of getting an HF plant? What would be the thought process on that?

**Dr. Harin Kanani:** For the other raw materials also, they are domestically sourced and we work with some of the domestic producers, sometimes multiple of them, and we have a basic understanding in place for long term supply contracts or supply security with them. We can get into the final contract, just like we can do with lithium, once our customers start signing up long term contracts. But we have already reached an understanding with the suppliers of other raw materials of HF and phosphorus raw materials required for making LiPF6.

**Sabyasachi Mukerji:** Lastly, my question is on the BuLi Chemicals. If you can please explain the need of this lithiation reaction and LiPF6 because if it is one of the few plants just outside China and Neogen has now access to it. So why is the revenue so low, just Rs. 82 crore and that also I believe because of inflated lithium prices. What is the kind of revenue potential that you see in the next 2 to 3 years from this?

**Dr. Harin Kanani:** You have to basically remember that the existing plant was set up by Livent and Livent had its own plant in the US. They had a plant in the UK, and in China. This was their fourth plant. Originally, they set it up in India as a trial facility with the plan that they will expand it in future if the demand picks up in India. They basically kept it at that level. So, when it was Livent and they had multiple locations worldwide, which were taking care of the world demand and this was only based upon the India demand. When we start with this plant, with the existing capacity, as I said, depending on the price of the lithium the revenue potential can be somewhere between Rs. 50 to 125 crore. Now we are trying to do things to de-bottleneck, to get additional production permissions. We may also consider expansion in future if needed. But at present with the capacities which are in place, this is the revenue potential.

**Sabyasachi Mukerji:** What is your margin profile of this asset?

**Dr. Harin Kanani:** It goes more a little bit on absolute terms just because like I said price of lithium is one of the key contributors. So, lithium metal is even more expensive than lithium carbonate. From a percentage point of view, it varies quite a bit depending on the lithium prices. We should be able to get the existing EBITDA levels or even better in that. Also, as we operate this more we should be able to give you a better guidance on what is the future revenue potential. We are also exploring, as I said, the international markets and not just domestic markets. It is also a complex commodity to ship worldwide. So, let us do some more trials and understand, then we can give you further better guidance on that. However, the main interest that we also have is if we can use this for making more complex or more value-added advanced intermediates.

We also hope that the significant portion of this is consumed in house by our Dahej unit for the lithiation reaction and that will allow us to increase the contribution of either CSM or advanced intermediates and basically be the stepping stone on which or the foundation on which we can plan our future growth. Just as we have been using our expertise in bromination and Grignard, with this, we are becoming better in lithiation which will allow us to attract more projects related to lithiation and therefore have one more long-term growth area where we can base our future expansion and achieve growth in our regular pharma and agro business.

**Moderator:** Thank you. We have the next question from the line of Sudarshan Padmanabhan from JM Financial PMS. Please go ahead.

**Sudarshan**: Sir, my question is to understand a little bit more on the organic segment of the business. You talked about the supply demand scenario being a little challenging post China and Russia issues. On this side specifically, if you are going through sub segments at pharma/non-pharma, are we seeing any kind of weakness in terms of demand in the sub segments?

The second (question) is on the supply demand scenario. We have actually seen a fair amount of volatility in terms of end prices as well as the raw material prices. If I just take the kind of guidance of either Albemarle or ICL, I mean they have called out for near term weakness, it might not be an apple-to-apple comparison but believing that the near-term inventory that would be allayed from a longer term perspective, just wanted your thought process on the raw material prices as well as your main product.

**Dr. Harin Kanani:** We have seen lithium prices, as I mentioned, reach the peak in December and then even January they were a bit uncertain. But from February-March onwards we have seen a step-by-step decrease and we even saw at least the near term bottom in April and then we saw lithium prices and other prices again pick up. We do not know whether that will sustain and if it again goes back, because it is very difficult to predict. Mainly what we feel is that just as India worries a lot about all its imports and especially oil imports, lithium at those price levels and with the contribution, with the amount of business which happens for lithium-ion batteries in China, China's import bill was also going very high because of the high lithium prices and I think the country as a whole seems to have done collective inventory correction to put pressure on lithium miners and we believe that is what corrected the price. However, whether they can sustain that, because the demand for EV, the demand in the US for electrification, for energy storage continues to remain high. Ultimately, I feel, in the near-term, the prices should again move up for the next two years. Like I said the next two years are going to be volatile and after that it should stabilise and a long-term new lithium average price (should emerge). So, this is my view on lithium.

**Sudarshan**: I was referring more on the bromine side since you have already commented on this.

**Dr. Harin Kanani:** On the bromine side we have seen that the worldwide flame-retardant (FR) market especially in China has become weak. As we said earlier in our calls, 90% of the bromine gets used for bulk bromine. At least from what we can tell or what we have got as feedback is that the demand of flame-retardant has reduced significantly. Part of it is because ICL and Albemarle have increased their capacities and part of it is just a lower demand because less exports are happening in the international market with a weak climate worldwide. Because of this high FR inventories and low FR demand the bromine prices have corrected significantly. That has been the major reason, in my view, for the correction in the bromine prices.

**Sudarshan**: Would we be able to take advantage - lap it up - because if the inventory correction happens and the demand picks up it could go up, so I would assume a part of the working capital would be towards this as well?

**Dr. Harin Kanani:** Our aim always is to basically pass on the benefits as well as the pains to the customer. So, in this case also we have not looked at benefiting from it and historically also we have been able to pass it on. If we have some inventories, majority of this we are able to pass it on to the customer and make sure we average it out or something. Q1, Q2 you may see some fluctuation, but overall, when I look at the whole year we should be more or less okay.

**Sudarshan**: On the organic side given that again on the non-pharma side we are seeing some kind of mixed commentary that there could be lower prices and higher inventory, etc. How do we see the demand for pharma and non-pharma part for the year?

**Dr. Harin Kanani:** Overall, we do see there is a slight demand weakness. There is more Chinese competition. But this is what we have shared with you historically that at Neogen we always believe in having a visibility for a large number of businesses and then keep moving from one product to another. If we see slightly weaker demand in one product we move to another. Also we constantly have a pipeline of new products. So, even last year, almost 7% to 8% revenue came in from new customers. These are the customers with whom we did business for the first time and similarly completely new products also contributed more than 10% of the revenue. So, we ensure that we are not dependent on a single molecule; we have multiple products and we have a pipeline of more products and customer approvals. That basically ensures that we can protect our margins even when demand is a little bit weak or competition is a bit stronger.

**Moderator:** Thank you. We have the next question from the line of Rohit Nagraj from Centrum Broking. Please go ahead.

**Rohit Nagraj:** I am just taking the earlier question forward. You mentioned that for next couple of years we will be having 20% to 25% overall growth. What are the user segments that we are looking at from our growth perspective? For both, organic as well as inorganic business.

**Dr. Harin Kanani:** In the organic business, we continue to do pharma, agro and as mentioned earlier we are seeing also good traction from flavour and fragrance industry. So, we might have some contribution coming in from them also in the future. These are the three areas for organic segment.

In the inorganic segment, in our non-battery lithium application we have added several new applications of lithium salts related to ceramics, related to some specialty water treatment applications and others. Also, we sold more quantities internationally for the engineering or the vapour absorption industry. So, I think this international vapour absorption and the new industries that we added will continue to remain the growth drivers in non-battery lithium. Also battery materials we will keep adding as our plant for electrolyte salt and electrolyte will come online in the current year. These will be some small revenues and sales which we will be doing. But the larger increase will come from FY'26 onwards when the majority of the Indian chemicals are likely to start.

**Rohit Nagraj:** So, this 20% to 25% growth in legacy business is predominantly volume driven?

**Dr. Harin Kanani:** Yes. Actually I said 25% to 30% in the next year, in FY’24. But yes, that is from the legacy business.

**Rohit Nagraj:** The second question is on the Mitsubishi collaboration. Will we be having access to the recipes as well apart from the technology access?

**Dr. Harin Kanani:** Yes. It is an agreement with the MUIS Mitsubishi Chemical Group Company. So, currently the agreement is for manufacturing technology and we also have access to the recipes, but the recipe agreement will be combined because the customer has to choose it. So, it will be Neogen, Neogen’s customer and MUIS that will work together for that recipe which is beneficial for that particular customer’s design. If the customer chooses it, we can use the recipes in the new plant.

**Rohit Nagraj:** Just one clarification. So effectively in this case they will have some royalty payment?

**Dr. Harin Kanani:** When we use the recipe there will be a royalty payment.

**Moderator:** Thank you. We have the next question from the line of Aman Vij from Astute Investment Management. Please go ahead.

**Aman Vij:** My questions are on electrolyte business only. Where are we at this stage? Are we through the lab testing stage, are we through the validation stage or are we at the qualification stage? If you can also talk about what is the number of customers we have given the samples and all those things?

**Dr. Harin Kanani:** We currently have, like in the past also we have shared, we work with 15 to 20 potential cell producers who want to produce or who plan to manufacture cells in India. Many of them who have an ability to test the samples have taken our samples and have started approvals. Some customers have completed the first chemical evaluation and then moved on to electrochemical evaluation and now some customers have even initiated a small actual line trial. So, instead of just testing in the lab, they are actually going to make a few thousand cells with it and do the trials on that. So, that also is in actual terms the capacity of what cells they can make today. More or less our electrolyte production scale is happening to match as our customers get ready. We are ready before the customer demand exists. In fact, by September we are planning to start the 1,000 metric ton electrolyte plant. That can also support one gigawatt cell production 1-to-2-gigawatt hours of self-production. So, even that will be ready, and before the customer demo plant starts.

**Aman Vij**: I wanted to understand that part only. If you want to sell 10,000 tons or eventually 30,000 tons, it will require India production capacities of somewhere between 10 gigawatt to 30 gigawatt hours. Are you seeing these kind of capacities will be present in India in the next one or two years or maximum three years?

**Dr. Harin Kanani:** Yes. As I explained to you in our answer to the previous question that we already have a plan to reach up to 10,000 metric tons which was announced before MUIS agreement. Now with the licence that we have with MUIS, we can increase up to 30,000 metric tons. So, 1,000 metric tons was already put in motion. And we are not stopping that 1000 tons. We are going ahead and completing that and it is on track. But we have some time to decide or fine tune our 5,000, 10,000 and 30,000 metric tons and ultimately what we want to reach. So, we are currently fine tuning that. That is, when will the 10,000 metric tons happen; when will the 30,000 metric tons happen. We have said that we will share it in the next two quarters. As in the previous question, when I answered, it is two quarters for finalising the plan and then after that it is around 15 to 18 months maximum of build time. So, within the next two years, technically we can be ready even with 30,000 metric tons.

**Aman Vij:** On this agreement which we have with MUIS, I think you had mentioned clearly last time that there is some kind of restriction for us to export outside India or we have to take permissions. So just wanted to understand your thoughts because if you already had some kind of technology and my understanding is that there are export opportunities in the US and there is a lot of big opportunities coming which wants to look at China plus one. So, any reason why are we leaving out such a big opportunity by getting into this agreement? Domestic is obviously good and it will also grow, but why leave out a much bigger business outside India?

**Dr. Harin Kanani:** I think Neogen's strategy was very clear. Lithium salts was an international opportunity because that is an investment which we can do internationally anywhere. That is something which we are still looking at and we feel that once our trial facility starts there are many international companies with whom we have discussed, including MUIS, which are electrolyte producers and to whom we can basically supply electrolyte salts. Now electrolyte business Neogen always felt that we wanted to do it domestically because there is a good domestic opportunity and this business is, even historically, always localised because of the need for special tanks and logistical complexities. So, therefore, since our focus for electrolyte was only India and electrolyte salt was international and this agreement in any way did not stop us from both our focusses. So, that is why we are okay with that.

**Aman Vij:** Just the final question on this part sir. If pricing of this electrolyte has gone up a lot and then from \$50 to \$70 to almost \$15 to \$20 now and may be it is going up and down a lot. Are we thinking of entering into some long term contracts so that our margins get protected? Otherwise these kind of fluctuations might result in…I do not know how as a company we will manage all these things. So if you can talk about our thinking in terms of long term contract with our potential customers?

**Dr. Harin Kanani:** We have seen that historically most large volume users would basically do a long term contract or at least a long term kind of a price model. So, we also worked on similar, not similar I would say, a little bit less complex business on lithium bromide and which we have done for last 30 years with engineering companies which basically want to use this as say 10% of their cost contributor. Just as in the self-production electrolyte is also 10% cost contributor. So, in some sense it is very similar business and even that also worked basically on a cost-plus basis and with long term understanding where we did not insist on long term contracts, but we feel because here we have to put significant capacity. So as our customers get ready with their plans, we will enter one by one into long term contracts with these customers and most of them should be such that our ROEs and ROCs are basically protected.

**Moderator:** Thank you. We have the next question from the line of Yash Shah from Investec. Please go ahead.

**Yash Shah:** Sir, my first question was regarding our electrolyte capacity. Since we are already going to add 1,000 metric tons of capacity using our indigenous technology, will it be safe to assume that the rest 9,000 metric tons which we had formally announced or whatever the changes will be, the rest of the capacity will use the new technology that we have acquired, given that we have acquired a global technology, we have the licence for a global technology and will not really require the indigenous technology anymore? Just wanted to know your views on that.

**Dr. Harin Kanani:** Again, exactly how we are growing beyond 1,000 metric tons is something that has to be done based upon the timelines for implementing the international technology versus the timelines of my customer requirement and what solutions, if at all, the intermediate is required. So, how we will grow from 1000 to 30,000 metric tons is something that we will share a little bit more clearly over the next one or two quarters.

**Yash Shah:** Sir, my second question was regarding again regarding the same tie-up which we had with MUIS. This has given us a significant advantage as compared to our peers or the new entrants into this segment. What was the reason we did not enter into an exclusive contract with them? What were the bottlenecks on that front? The reason I am asking this is because may be the peers could also enter into a similar agreement with other players - not the same one but say with number 3 or number 4?

**Dr. Harin Kanani:** This is the first time ever when MUIS basically decided to open and share their technology with anybody outside of their group. So, convincing them for that itself was a very huge task. But as a Japanese company and from whatever we have seen, whenever we work with Japan, whenever they give technology, they are very reluctant to get into exclusive contract because there is always a fear that in case if there is non-execution on the side of the technology recipient, then they get bogged down. So this was something that was basically a Japanese wish - MUIS's wish - which we had to agree upon. Although, there is a strong understanding that they will always work in such a way that Neogen's interests are protected and their intention is that Neogen becomes successful and hopefully we together can convince our customers to use MUIS' recipes also and they can have a future revenue source coming in from that.

**Yash Shah:** Sir, another question which I had was on the salt front. Even though we have mentioned in our presentation that we do not really intend to basically sell the salt outside, but then it is one of the options which we have. Wanted to understand your views on how do we basically expect to compete with the Chinese and the Korean prices of the $LiPF_6$, LiPFSI salts?

**Dr. Harin Kanani:** In the presentation we never said we do not intend to sell the salt internationally. We just said that the capacities that we have planned are mostly keeping in mind our Indian internal requirement because we do not have a number yet on the international demand. But our efforts are always to try to sell the salt internationally because that is a bigger market in general.

With regard to competition with China and Korea, majority of this is really China. There is very limited capacity in Korea and there is very limited capacity in Japan and they are planning to expand very limited volumes which will not take care of the rest of the world's demand, especially in Europe and the US. So, therefore, there is going to be additional electrolyte salts required. Now some of that may come from new plants in Europe, new plant in the US although they will take longer than us because we have moved earlier and our demo plants are getting ready. So, we would have the early mover advantage as well as lower cost advantage as compared to, if at all, any plants are set up in Europe and the US.

Now as compared to China, historically what we have seen is that between China and Japan the price difference when lithium prices and everything else was stable was roughly around 20%. So, we feel, if a Japanese company also could make with a 20% higher cost as compared to China, may be with our cost advantages we should be somewhere around 10% or so costlier in worst-case scenario as compared to the Chinese at a comparable volumes and level. We are basically banking on that and we are also hoping that there is enough interest for a non-chinese source from a de-risking point of view to offset this 10% higher cost. If we are able to do some process improvement, (bring in) efficiency or give comfort on better quality, just as we do in our pharma and other intermediates, we can justify the higher cost or with the process improvement, reduce the cost and match the Chinese price.

This is the long term view. But again we have to start making the salt first. The first target would be to match the global expectations on quality and then we would try to meet the other target so that we can establish a good international demand for the electrolyte salts as well.

**Yash Shah:** The final question from my end. This was regarding our organic business. From the last two quarters we have been mentioning witnessing strong traction on the F&F front - of flavours and fragrances. Now with the return of China, have we been facing any kind of pressure on that front? Also we had mentioned that we had added five new customers in flavours and fragrances and agrochemicals and engineering segment. How many new customers have we added in F&F space throughout the year in FY'23 and how do you see the mix moving in the coming year? How much contribution do you expect from F&F?

**Dr. Harin Kanani:** We do not have a number for you yet. The only thing we have seen is a good number of projects and many are in the CSM space and many are in the advanced intermediate space - basically some places where they are transferring technology and some places where they are asking us to develop the molecule for them, with a keen interest to buy these molecules. All these projects are moving. So far we are at trial volumes like 500 kg, 1 ton level. But we feel in FY'24 it will move significantly. Although I would still say it will be clubbed in our other segment. I mean I am not expecting a 10%, 15% because regularly our top line is growing. But yes, we are building new partnerships and over the next two, three years whenever we do our next MPP plan or a major expansion in organic area, this is one more area which we can bank upon to provide further growth in revenues beyond FY'25-26.

**Moderator:** Thank you. We have the next question from the line of Omkar Kamtekar from Bonanza portfolio. Please go ahead.

**Omkar Kamtekar**: First, I needed some granularities on the results. In the revenue break up, we can see that 45% are exports and 55% are domestic. Can you give us a region wise breakup of how much of export is in which specific area?

**Dr. Harin Kanani:** We have not shared that I think since IPO day. But majority of our exports are to Japan, Europe, some to the USA and some is deemed export which is basically to SEZ and EOUs in India.

**Omkar Kamtekar**: In the revenue breakup of the inorganic/organic segment, could you give user wise breakup of how much is for pharma, how much for agri?

**Dr. Harin Kanani:** Usually pharma is between 50% to 60% - in that range. The agro business has been between 15% to 25% revenue contribution, the engineering around 10% to 15% and the remaining industries is about 5 to 10%.

**Omkar Kamtekar**: Next is sir I wanted to know what would be the approximate CAPEX that you would incur for the battery businesses. We have told in the previous announcements also that we are setting up a wholly owned subsidiary and we will be focussing on the battery business as one of the driving forces for the growth. So, approximately what would be the expenditure and over what timeline?

**Dr. Harin Kanani:** We had shared this in our investor presentation; you will get a little bit more detail from there. We had shared a CAPEX of approximately around Rs. 450 crore in our lithium-ion battery which we have already started and it will over a period of time, going up to say FY'26. So over next two years. But again, this is the number for 10,000 metric tons per annum capacity. We will again review this as we review our plans for 30,000 metric ton.

**Omkar Kamtekar**: My actual point was, I got the impression that may be that Rs. 450 crore was for the full 30,000 metric tons. So I wanted to clarify.

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

**Dr. Harin Kanani:** Thanks to 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, stay safe and we will look forward to connecting with all of you again in the next quarter.

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

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