



“Advanced Enzyme Technologies Limited Earnings Call Q2 FY21 & H1
FY21”

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MANAGEMENT: **MR. MUKUND KABRA – DIRECTOR, ADVANCED ENZYME
TECHNOLOGIES LIMITED**

**MR. B. P. RAUKA – GROUP CFO, ADVANCED ENZYME
TECHNOLOGIES LIMITED**

MODERATOR: **MR. NITIN TIWARI – ANALYST, ANTIQUE STOCK BROKING
LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Advanced Enzymes Technologies Limited Earnings Conference Call Q2 FY21 & H1 FY21. 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. Nitin Tiwari from Antique Stock Broking. Thank you, and over to you, sir.

Nitin Tiwari: Thank you, Aisha. Good evening, ladies and gentlemen. Thank you for joining us on the Advanced Enzyme Technologies Limited second quarter and first half FY21 earnings call. Today, we have with us the senior management team of the company led by Mr. Mukund Kabra – Director and Mr. B. P. Rauka – Group CFO. We will begin the call with opening remarks from the management, which shall be followed by a Q&A session. I will now hand over the floor to the management for their opening comments. Thank you and over to you, sir.

Mukund Kabra: Good evening, everyone. I am Mukund Kubra. It is my pleasure to convey our quarter 2 results of the financial year 2020-21. Firstly, we hope and pray that you and your families are in good health and spirit during this turbulent time.

In the first part of this call, as Nitin said, we will take you through the earning and the business highlights followed by

the question and answer session. To commence with, I would talk about the nutraceutical industry as it is projected to grow substantially in coming years. The factor behind this growth would be rising awareness regarding calorie reduction and weight loss in countries like U.S. and India is expected to promote the application of nutraceutical. Use of nutraceutical is gaining attraction as preventive healthcare due to no side effects of enzymes and probiotics and the increasing popularity of enzymes across various industries like food, non-food and nonfood process industries. The constant innovation in research and development activity to improve enzyme specificity as well as stability is further expected to propel the growth.

Now, I would like to give some color on operational aspects. Despite of COVID pandemic situation, we are able to maintain our healthy export levels. Even the margins have improved further comparing with past quarters. As we mentioned in our last earnings call that broken supply chain and logistical issues are hampering the export business, but now they are coming back to normalcy, except in Europe as a continent, which is again facing the second wave of lockdown. All over the manufacturing units are running efficiently and progressing well towards normalcy. We are following all the government guidelines in terms of keeping precautions and safety. Our R&D units are operational, and we are working as per government guidelines and progressing well on achieving normalcy at pre-COVID levels.

Talking about the business updates, our probiotics business is growing good and is expected to improve further in the coming quarters. Our animal feed business and industrial enzyme business has faced several challenges due to COVID in quarter 1, mainly quarter 2 witnessed improvement in sales, but still far from the normalcy. Moving ahead with the call, we proudly announced that we are positive on all the parameters and working relentlessly towards our goal for this financial year. As you are aware, we strongly believe in delivering long-term value to our stakeholder. I'm glad to announce that we have a decent growth in profitability because of our product mix. In past, we explained that our annual financial results are more relevant to derive our performance and also for comparative purpose. We are happy to say that our EBITDA stood at Rs. 110.2 crore, 48% of sales, increased by 9% from Rs. 100.8 crore, 45% of sales in financial year '20, and our PAT increased by 12% and stood at Rs. 73.4 crore, 32% as compared to Rs. 65.8 crore, which was 30% in last year.

The outlook for financial year '21 is positive with lower single-digit growth is what we can see right now. The rest, it depends upon how situations plan out because Europe has again fell in lockdown due to second wave of pandemic. We are still in pandemic situation with the Coronavirus pandemic still persisting and has an effect on the supply chain front. So we get more clarity going forward in quarter 3, and we will be able to say more precisely and with clarity how the year would

plan out, but we expect even in such a tough situation, we are here to defend and we are committed to growth without sacrificing our margins and maintain the stakeholders' value. Now, let me hand over this to Raukaji, who is our CFO, who will walk you through the company's financial. Raukaji?

B. P. Rauka: Thank you so much, and good evening, everyone. The financial highlights for 6 months as of 30th September, 2020, the revenue is increased by 91 million. This is about 4% increase from 2,218 million to 2,309 million. And our EBITDA has increased by 9% from 1,008 million to 1,102 million. PBT increased by 126 million, which is about 14% increase from 891 million to 1,017 million. And PAT is also increased about 12% from 658 million to 734 million. On Q-on-Q basis, our numbers are like growth is about 99 million in our topline, which is revenue. And this is about 9% growth from 1,105 million to 1,204 million. And EBITDA has increased by about 68 million, which is an increase of about 13% Q4, 585 million. PBT, profit before tax, is up by 4% by 21 million in absolute number from 498 million to 519 million, and PAT is increased by 38 million from 348 million to 386 million. Year-on-year, revenue is increased by about 8% from 1,114 million to 1,204 million, and EBITDA is increased by about 24% from 473 million to 585 million. Profit before tax is up by 25% on year-on-year basis from 416 million to 519 million. And PAT is increased by 21% from 318 million to 386 million.

And the couple of questions generally being asked is about evoxx. The evoxx, the topline for the 6 months is 111 million. And we are EBITDA positive in this company by 5 million. JC Biotech sale is about 214 million for 6 months, which is the procurement of serratiopeptidase from them by the parent company Advanced Enzyme. And the sale of serratiopeptidase for the 6 months is about 488 million. So this is from my side and I feel we can open the house for question-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: So as we are seeing that, I mean gradually we are inching up in the topline, and I think first time we have touched 120 crores on the quarterly run rate. So just wanted your thoughts going forward, when we can expect this run rate to touch somewhere 150 crore kind of figure. And where basically it would be coming from, from your human side or animal or bioprocessing side? Or it will be across the segment?

Mukund Kabra: Thank you, Rohit. As we were like already talking, like we plan to double our revenue in next 5 years. This is the COVID time, and it's a difficult time to really project when and when and how it will achieve. We still say that we have 3 horses or 3 divisions right, which will grow. One of them is pharma and nutraceutical. The second vertical is animal feeds and the third one is food one in this bioprocessing. Okay? And horizontal

is like we are providing. So the growth will come from this segment. It's difficult to say when the run rate will be 150. Right now what we expect is for this year we should have a positive growth maybe in some lower single digit. And as we move on, the clarity will emerge when and how we should really expect the growth to accelerate.

Rohit Sinha: Sir, secondly, on the margin side, in this quarter, we have seen lot of other chemical companies getting benefit out of that lower crude oil prices. And because of that, margins kind of to a normal level. For Advanced Enzyme, crude has nothing to connect rate, and despite that we have a significant margin expansion. So just wanted to know which are the factors playing for us in this quarter? And it is a product mix or raw material benefits? And going forward, how we should see this.

Mukund Kabra: So Rohit, there's couple of factors. The cost of the raw materials has gone up instead of going down on a price basis, like if you talk about per kg, raw material cost has gone up. But it's a product mix. At the same time, improvement in the efficiency in the production which has increased the margins. You rightly said, crude has no impact on us. It's a very minor amount which we use. So crude has no impact right now, it is just the efficiencies and the product mix.

Moderator: Thank you. The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I was wondering if you could help us with the pricing on the animal enzyme front because I think since meat consumption

etc. has gone down post-COVID, how is that shaping up for us? Are we seeing a decent amount of demand and improvement in pricing now or still not?

Mukund Kabra: So Shikha, we have seen some improvement when you compare it with quarter 1. But if you compare it on quarter-on-quarter, we are like I think 10% below the level.

Shikha Mehta: We're still 10% below pre-COVID level or below...

Mukund Kabra: Yes, below pre-COVID levels, we can say that.

Shikha Mehta: Okay. And sir, can you give how much sales you did from pharma this quarter and this half-year?

B. P. Rauka: So let me give you, for this quarter, the human nutrition, this includes nutraceutical also, the sale is about 885 million. And animal nutrition is about 132 million. Bioprocess, which is food, bioprocess non-food is about 123 million. Roughly 10% of our sales come from there. And nonfood bioprocess is about 5%, 63 million. 11% has come from animal nutrition, human nutrition is about 73% and bioprocess is 16%. This is the sales break up for the quarter vertical-wise or depending upon the product bifurcations which we carry out.

Shikha Mehta: Right. And sir, do we have anything on our radar about inorganic growth? Have we found any companies that were looking to acquire or is anything on the radar on that front?

B. P. Rauka: Yes. Of course we always work on that. And whenever we will find any suitable target, I think we'll be definitely looking for that.

Mukund Kabra: Yes. At the appropriate time we'll come back, Shikha.

Shikha Mehta: And sir, if you can give how much percentage of our revenue came from our top 10 clients this quarter?

B. P. Rauka: Yes, so 10 customers, we have about 38% to 40%, that is the range which generally we get the numbers.

Shikha Mehta: Right, sir. And if you could give how much R&D spend for the quarter and for the half year?

B. P. Rauka: R&D spend is about this quarter is 50 million. And total spending for the half-year is about 89 million as compared to 88 million last year for 6 months.

Moderator: Thank you. The next question is from the line of Ashwin Agarwal from Akash Ganga Investments Private Limited. Please go ahead.

Ashwin Agarwal: So presently, we are utilizing around 60% of our capacity. I know you had hinted this year you're unable to give further guidance more than single-digit growth. But by when do you feel you will be able to utilize around 90% of the capacity in the next 2 years, you will be able to reach that number?

Mukund Kabra: So Akash, 3 to 4 years, we should be able to there.

Ashwin Agarwal: Which year?

B. P. Rauka: 3 to 4 years.

Ashwin Agarwal: No, the capacity utilization is around 60% right now. By when will you touch the number 90% capacity utilization?

Mukund Kabra: So we think that we can double the revenue with this capacity, what is the existing capacity what we have. So we feel that in the next 5 years, we should be able to double the sales. That should give you somewhere at 3 to 4 years down the line probably we should reach to the 90% of capacity utilization.

Ashwin Agarwal: So one of our large U.S. customers, the revenue had halved and we had made up by domestic sales. So could you give us light whether those revenue or lost sales with the customer again will we be able to meet that demand?

B. P. Rauka: Yes, I just wanted to mention that so on the top customer, we have no sales in last 3 quarters. And when we really look at the U.S. numbers, U.S. numbers in the second quarter, we could see a growth of 9%. So if I exclude on YTD basis the sales number of that particular customer, where we had some sales during last 2 quarters of FY '20, but no sales in this 2 quarters. So U.S. business has really grown very well. It is more than 35% of growth in the U.S.

Ashwin Agarwal: So that business is a permanent loss, but in spite of that we have grown?

B. P. Rauka: Yes, you are right. On dollar terms, if I really look at my U.S. numbers, we had about 14.5 million sales in YTD of FY '20.

And this year again we are having about 13.8 million. So we already made up in that sense. So yes, slightly it is lower about 5% which I think we should be in a position to make up in this year.

Ashwin Agarwal: One of the promoters group who is inactive sold around 3% of their stake, and they still control 12%. So any such transaction, will it have an impact on our operation, any management change or anything such?

B. P. Rauka: No, they are not involved in the operation as such, No?

Ashwin Agarwal: So that will not have an impact? Those will be financial investors only?

B. P. Rauka: Absolutely.

Ashwin Agarwal: And any plans are there by then to sell the balance stake also, sir, any idea on that?

B. P. Rauka: We have no idea about it.

Ashwin Agarwal: Sir, lastly, what is the expected tax rate for this year and next year?

B. P. Rauka: You mean to say effective tax rate?

Ashwin Agarwal: Yes.

B. P. Rauka: So it is likely to be 28% this year as well as next year also.

Moderator: The next question is from the line of Kiran Kumar from Safal Capital. Please go ahead.

Kiran Kumar: I just wanted to understand at Advanced Enzyme, they cater to multiple sectors. Are we also planning to explore into new sectors in terms of applications of enzymes? Or how does it go?

Mukund Kabra: So we have 3 verticals, as I was explaining. So our focus is right now on these 3 verticals. One is human and nutraceutical. We further categorize this into core pharma, the nutraceutical, biocatalysts and probiotics. The second sector is animal nutrition. And the third one is bioprocessing where we again bifurcate into food and nonfood. So our focus is on the food area. So right now all the application development and other things, whatever we are doing is based on these 3 verticals. And the probiotics is the horizontal vertical which fits into all these segments.

Kiran Kumar: And we have significant amount of cash on books right now. So do we have any concrete plans to utilize how to spend this cash? Like give out dividends or maybe look at strategic acquisitions? What are the plans we have right now for the cash?

Mukund Kabra: So we always look for the cash is required for the company to grow. We are the growing company. So we believe that we need to have cash in hand for any right opportunity. Of course, we are always searching for the inorganic growth as well for the acquisition, and that is constantly going on.

Moderator: The next question is from the line of Amit Shah from HP Advisors. Please go ahead.

Amit Shah: First, I wanted to understand basically the margin profile of enzymes in India, vis-a-vis USA? So what margin do we get in India? And what we get in USA?

B. P. Rauka: Yes, margins are slightly better in U.S. because in U.S., we are into a business where we generally give kind of very customized solutions. So U.S. business is getting a slightly higher margin compared to India business.

Amit Shah: So going forward, would we want to focus a lot on U.S. rather than other markets? Or what is our strategy and also geography?

B. P. Rauka: So the focus will always be there whenever business is more and wherever the growth potential is more. But yes, I mean India is for us like the entire manufacturing activity, research and development activities, everything is happening in India. So India being, you can say the core manufacturing happens here. So we need to always work on one side of like how do we improve our productivity. And U.S. of course we get lot of understanding what exactly market is looking for and how the nutraceutical market is behaving, what kind of growth potential is available in U.S. as well as across the globe. So the focus as such will continue and the U.S., because we are already present, we have our own subsidiary companies in the U.S. So definitely that is the market where the focus will be more. But Europe, again, we are working on so many things to really expand our customer base in that particular market also.

Moderator: The next question is from the line of Neeraj Prakash from Nepean Capital. Please go ahead.

Neeraj Prakash: I just wanted to know a couple of things. One is just on a previous participant's question I wanted to follow up on the loss of a large U.S. customer. Can you just let me elaborate on what was the reason for the loss? And incrementally is there a risk of further losing other large customers?

Mukund Kabra: Neerajji, we had IP-related issues with the large customer. We don't want to share our formulation and other things with them. We decided to walk out with that business instead of giving it to him. So we don't expect any further sale with the large customer right now. Moving to your other question, can we lose further the customers, yes and no, because you can never predict whether you will lose or not. But right now, the concentration of a large customer is quite reduced compared with this customer, which was about at one point of time like he was like controlling 22% of our sales. So right now we are quite diversified in terms of the sales. But even though we say that our business is sticky, but you never know.

Neeraj Prakash: Sure. Just a second question on utilization. As you mentioned, you are at about 50%-60% utilization. But you still have very healthy EBITDA margins of 45%, 46%-plus. So as you mentioned in 3 to 5 years when you reach close to optimal utilization, what kind of margins do you foresee both on the EBITDA and the PAT front because you will definitely see

some operating leverage play out on both those margins, right?

Mukund Kabra: We always maintain that our EBITDA should be there between 40% to 48%. That is what we always project and always feel that. Yes, as we move on, some of the costs will also go on like the salary costs and some other fixed costs will also move on. Even like R&D cost will also go up. So we think that we should be able to maintain the range of the margins what we say rather than saying that we will improve or do this or do that because we still need to grow.

Moderator: Thank you. The next question is from the line of Rajdeep Singh from ASK Investment Managers. Please go ahead.

Rajdeep Singh: Kabraji, you alluded that with current capacities, you plan to double revenues in next 5 years, which is 15% kind of growth. Sir, just wanted to understand qualitatively, the enzyme market per se is growing at 7%, 8%, annual growth rate of 15%, what would be the driver for this growth? Would it be the existing client addition, getting more wallet share from there or new client addition or would it be volume? Or would it be price? Would it be new products? And how do you approach your clients? Do you approach them or the clients approach you? Just qualitative understanding. And within each of the 3 segments between animal, human and industrial, which would be the growth driver which would grow faster?

Mukund Kabra: So let me just break it out into the parts, right? So we believe that like all of the 3 segments should grow. You go into the

different, different areas and there are different, different challenges. One of the things is, if you compare it globally, we are still very small, still very tiny. So there is lot of potential to grow. And I think like that can answer you if the enzyme industry is growing at 7%-8%, how you can grow at 15%. Yes, we are growing, even like this quarter of the other quarters also we have grown more than 15%. But because of the top client, we can't see those numbers. If you just remove those numbers, you will see that the growth is more than 20%. So we don't have a doubt that we cannot grow. We feel that we will grow. The challenges are different in different industries. As I was saying, in the food industry, probably, you need to target more into the Europe and U.S. areas where lot of opportunity is there. We have certain excellent products. We think that we can play the second supplier role out there in the food industry because there is only one who is the leading one. And we feel our products are, even if not better, at least comparable in the baking industry, baking areas and the market are there. So probably, that's the other area where we can have growth. In the animal feed there are lot of players, but you need to have a lot of registrations, and it takes time. We are in the process. We are halfway of the mark. We have a lot of registrations done in the last few years in the Asian countries, and we are working in the U.S. and other areas right now. So we believe that growth should come from nutraceutical areas or pharma areas, we think that we will grow in these areas too. We have certain excellent combination of products which we think that will grow like

the immunity booster and other products, which have a lot of demand at this point of time in the market also. We are working lot in this area to the biocatalyst areas where we think we can change the manufacturing processes, for example, statin or other API drugs, which is through the enzymes, which is conventionally being done through the lot of solvents. And a lot of steps are involved. And economically it is not viable. So with the evocx, we are working heavily. We are spending lot of money on the R&Ds to convert and to develop these enzymes, which can convert all of these APIs through the enzymes. So that will be also the growth driver. So we are banking on lot of 3, 4 different horses. We believe that at least 1 or 2 horses should take us to the path. Which one, I think that time will tell us, but these are our areas to grow.

Rajdeep Singh: Sure, sir. That is helpful. Sir, what has been the client addition over last 2-3 years? And what has been our pricing growth over last 2, 3 years? Just wanted to understand that.

Mukund Kabra: Prices in premium market is more or less stable. They don't grow, they don't go down too drastically. We do get benefit in terms of like export market, which is again like 40%, 50% of the market overall, including like U.S. sale because of the dollar fluctuations or the rupee depreciation. On the client additions, we don't track the numbers. But Raukaji can tell more about it. Raukaji?

B. P. Rauka: So I think whatever growth we have in this 6 months, we have got a growth of about 4%. So roughly I think 1.5% has come from the new customer and balance 2.5% is from the existing customers.

Rajdeep Singh: And sir, what has been this number over last 2, 3 years? We have added clients?

B. P. Rauka: No, the number of customers, please don't go because we are in a segment where we also supply B2C, so where we have more than 10,000-15,000 customers. What I'm saying is, if the name is something new for us, that is how we track. So my growth on YTD is say 4% on the topline. So out of the 4%, 1.5% has come from the new customer and 2.5% has come from the existing customers.

Rajdeep Singh: And how do you see the geographical is changing in this 15% per annum growth trajectory? U.S. will still be the growth driver? Or it is the European market or the RoW market?

B. P. Rauka: So are you saying going forward?

Rajdeep Singh: Yes, going forward.

B. P. Rauka: So going forward, that's what I mean as Mukund has mentioned, we have presence in Europe through our subsidiary companies. We have presence in U.S. since I think 2011, then after the acquisition, earlier this company was set up somewhere in 1976. So these are the 3 markets where we have our own subsidiaries. So definitely our focus will be

there on these markets. And apart from that, other markets we are tapping from India. So we do export from India to African market and Russia. So our focus will always be there where we can really crack some customers. In terms of like food enzymes, Europe is a big market. We have registered dossiers which are the requirement of the European Food Safety Authority. And from this registered dossiers, we are going to get definitely a very good mileage because that will help us to expand our reach to other customers, the customers which we have, but we will be able to attract more customers because once the registration happened, it's like attraction in that sense that, yes, it is another company, this is offering the products which are equally competitive, equally efficient products. And there, like a couple of products as such where we are #2 in the sense, like if you really consider another big player, which is Novozymes. So there like we will play a very major role to expand our reach to the European markets and to expand our sales of that particular food enzyme basically. And yes, of course, U.S. will continue to be our focus market, and we are expanding our B2C business in U.S. And so far, we are doing like online sales, and we could see that there is a good growth in that particular business. And probably going forward, we do have plans that we can replicate the same strategy in India because now India, we could see that there is a lot of attraction in terms of like people are looking at the nutraceuticals, where immunity has become a big issue in last 8 to 9 months. So here we do have lot of opportunities which is untapped so far. So probably, that is the area where we will

definitely focus on that going forward. And animal feed supplement, as Mukund mentioned that we have been working for registration of several products across countries in Southeast Asia. And now we could see that some of the countries we have got the approvals, and some countries, approval process is on. So once the approvals are in place, it will definitely help us to supply our products on those particular countries where the market is really big for the animal feed supplements, which is our enzymes for particular industry.

Rajdeep Singh: Sir, this is helpful. And lastly, sir, what are the B2C revenues in U.S.? And on the PLI side, are you planning to see that opportunity on the fermentation side?

B. P. Rauka: I think the major manufacturing will continue to be happened in India. And B2B business, I think we have about...

Mukund Karba: This year it was around 5 million.

B. P. Rauka: Yes, B2C.

Rajdeep Singh: Sir, you said online business, B2C you have, just wanted...

B. P. Rauka: That is B2C. Online business is B2C.

Mukund Karba: This year, we expected to be about 5 million.

Rajdeep Singh: 5 million?

Mukund Karba: USD.

Moderator: Thank you. The next question is from the line of Ayaz Motiwala from Nivalis Partners. Please go ahead.

Ayaz Motiwala: And since you do this call once a quarter, I would request you if you could have a slightly better line because it's been very difficult to pick you some of the things that you mentioned. And so please pardon my repetition on the questions on the same. Sir, firstly, the question on capacity. You said you have a capacity utilization in the ballpark of 50%. Is that correct?

B. P. Rauka: Right.

Mukund Kabra: Yes, around 55%, yes.

Ayaz Motiwala: Yes. Sir, the question that I have on the capacity is how does the capacity get created? While we are confident that this will get utilized, and as you have said that on the next 3, 5 year basis, you think your numbers could probably go up by a factor of 2. This fermentation etc., can you explain how does this capacity get created and why this level is a good level still to make the margins that you make?

Mukund Kabra: I couldn't hear you exactly. But what I understood is how we calculate the capacity. So normally, we have a lot of products. We have more than 55 basic enzymes and probiotics what we manufacture. It's difficult to measure the capacity with each product because each product has a different cycle times. So we measure in terms of fermentation capacities what we have because mainly we are in the fermentation industry. So the fermentation capacity multiplied by the tails and the

utilization of the fermenters, that's what gives us the capacity. So it's always a rough number. So that is how we come out at somewhere around 55%, 60%.

Ayaz Motiwala: Yes, right. So this number of 55%, 60%, taking that at face value the way you put it, which is based on fermentation capacity. Sir, would you expect larger batch runs and batch product sizing going forward, which will give you this utilization because the basic nature of your business is not changing, which is you need that 60, 80 building blocks in the base enzyme, the way you described it, right? So how are you going to utilize this capacity from 55%, 60% to 100%, sir?

Mukund Kabra: No. We don't compromise on the margin. So we go with our product mix and targets, right, instead of just making it cheap and giving it cheap, right?

Ayaz Motiwala: No, sir, I didn't mention about margins at all. I meant to say that would you have larger batch runs on these products?

B. P. Rauka: Sir, that depends on what exactly is the requirement because we need to keep some stocks ready of the semi-finished goods. So when we run those, I mean when we need to manufacture particular products, then we run the batches in sequence, right? So we keep the stock ready.

Mukund Kabra: We run on a minimum inventory basis normally because our product cycle time is very high. So if you want to start the product and to end the product, probably you need more than a month's time. And again, if that slot is available.

Ayaz Motiwala: Sir, on the key customer, or the 20% customer which you talked about, and that's, again as I said, the audio was not very clear, and please pardon me. That customer has bought nothing in FY '21 for the first 2 quarters is what you said, right?

Mukund Kabra: Yes. No sale.

Ayaz Motiwala: For the last 3 quarters?

Mukund Kabra: Yes.

Ayaz Motiwala: Right. And sir, what is the customer doing? Are they sourcing indirectly from your suppliers or have they gone out of buying this product?

B. P. Rauka: Products, I think we are not supplying to them. And I think beyond that, we have no idea what exactly this people are doing.

Ayaz Motiwala: Yes. So sir, we see a presentation where you have a 5-year number after you've gone public in 2015, '16. And the revenue growth has been 8%-9%, whereas the profit growth has been pretty impressive even in this particular year, which is a very tough sort of COVID period. So what gives you the confidence? Have you done a lot of business development where you have lot of clients who are now going to scale up their business and operation, batch sizes, order sizes, where you think the business can double in 5 years, which you've not

done in the last 5, 7 years or if you look at your IPO perspectives even in the past?

B. P. Rauka: Yes, I think that is what was explained that a couple of verticals are there where we have some products. And where we have focused ourselves, earlier issues were different. So now the focus is kind of laser-sharp, and depending upon the market requirements, now we have realigned ourselves. And our focus is on those markets where we have the products, and those are kind of our strength. And so those products, whatever work was required to be done in past, we have done in couple of I think years. 2-3 years, we have spent lot on R&D on those areas. And we have improved. Now we could see that there is traction. And the traction is so much that the market will open up for us, particularly when we were talking about the food enzymes in European market, and nutraceutical segment, not only in the U.S., but India too. Animal feed business is another area where like if you really want to export some products, that challenges were there. You need to have your products registered, you need to give them lot of studies. So in the last 3 years, we have done lot of work and we worked on getting our products registered and then appointing the distributor. So based on all this work which we have done, we are confident that now the opportunities are available would be tapped, but earlier we used to spend our time and focus on the products there, the strength was not there, but yet we were working to develop those products. Now we said, okay, that is the one which we also will carry out, but focus should be

on the area where we are very strong. And that has really resulted us to give more clarity in this consolidation phase of last 2 years. And that gives us the confidence, yes, we can grow to doubling our sales in 5 years, although this year is gone without that kind of effect because of this COVID situation. So maybe from '21 onwards 5 years down the line, this will happen. Hope I have clarified your question.

Ayaz Motiwala: Yes. This is very helpful, sir.

Moderator: Thank you. The next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.

Rohit Sinha: Sir, as we were talking about the opportunities evolving after this COVID thing, so any color or any clarity we got that how it would be shaping up going forward? Or still it is on the early stage of talking angle only?

B. P. Rauka: I think, Rohit, this clarity, even nobody is able to give you in that sense because this pandemic now everywhere people are talking about the second wave of it. So I mean that is really difficult. But what I'm saying once the normalcy is there, probably we will get more clarity on growth.

Rohit Sinha: No. Obviously in the current whatever area we are working on there, obviously we are seeing some kind of growth. But any addition because of this COVID where the stocks are going on?

B. P. Rauka: No. Even in COVID, like I think our couple of products, which are like immune boosters, and those are the products which are picking up in the B2C market. And we could see some kind of work on some of our products, which we see that it is definitely working on immunity development. So those are the products. Definitely, over a period of time, we will position ourselves to create a more robust market for ourselves.

Rohit Sinha: And sir, as per my understanding, I think we have a good amount of product portfolio with us. I think we should be focusing more on the marketing side for these things. So are we hiring something on the marketing team or how we are expanding our marketing team there? And if this will lead to some kind of increase in employee costs as well?

B. P. Rauka: Yes, that is a consistent effort every I think entrepreneur has to do. So when you want to grow, you need to really grow your team as well as your resources and the spending. If there is a growth, I think the growth in terms of topline and the employee cost, it doesn't go in the same proportion. So that's the reason we always say that there may be some kind of extra cost, but the profitability is another aspect where we always work.

Mukund Kabra: So whatever, Rohit and whatever said and done, you need to improve your productivity all the time. We cannot say that we are at a level where we should only focus on the marketing. We need to focus on all the aspects. Just to give you some

brief, even if these quarters we improved lot of because of our productivity. So you will see that the raw material numbers have gone down. That has increased the productivity.

Rohit Sinha: Right. And sir last question, as you are also now indicating that it would be some acquisition angle also. So how big it could be? And which region or which segment you would be more focusing on?

Mukund Kabra: So these are the 3 segments like the verticals what we explained. So we will be focusing on these 3 areas and something like related to this. So the opportunities are there, some are small, some of them big. Let's see which materializes first. Okay?

Rohit Sinha: So I mean are we still also looking at the size of acquisition more than 50 - 60 crore, or it would be below 50 crores, I mean in the range of 30 - 40 crore kind of thing?

Mukund Kabra: We are open for everything, maybe 30 - 40 crores or max up to 500 crores.

Moderator: Thank you. The next question is from the line of Shubham Jain from Lucky Investment Managers. Please go ahead.

Shubham Jain: Just a question on the dossiers you mentioned you filed in the European equivalent of the FDA, right. You've been mentioning this for a while. And I want to understand, I know given the context it's going to take some time, but do we

expect that to give our revenue this year? Or will it come in only next year?

Mukund Kabra: So we registered in somewhere around like 2014, and we got it in somewhere around like 2019, '20. So that's a long process for registration. It takes more than 5 years for us to just get the approvals, and not for us, for everyone. We were among the first few ones who got it. After we explained this, this year for European markets you need to travel. And you need to make a lot of different customers. You need to do a lot of trials because this is application-based products. Now unfortunately this year is gone because of the pandemic. So there are all the travel restrictions. All the marketing people are still working from the home. Nobody is able to travel outside of India as of now for the marketing purposes and other purposes. So we don't expect lot of revenue to come this year. Probably as we move on, we expect revenues to get in. But this will be slow process.

Shubham Jain: Understood. Sir, most likely in I think this year, but next year we'll see as it goes.

Mukund Kabra: Yes, as we move on and as this COVID situation it clears.

Shubham Jain: Understood. The second question I had was on the B2C business, the online sales, which if I am not wrong we started only this year. And we're saying we should be doing around US \$5 million this year. So my question was what is the kind of growth you're seeing quarter-on-quarter? And what do you think can be the potential of this product or this application?

Mukund Kabra: So we haven't started recently. We started this business 2, 3 years, 4 years back. I'm not sure exact date right now.

B. P. Rauka: 2012.

Mukund Kabra: We started initially in the U.S. market. Last year, the revenue was about 3 million. I mean like from March '20, the revenue was about US \$3 million. This year we expect it to grow to 5 million. And in the next 2 to 3 years, we expect lot of growth to come from this even into the U.S. market. Probably, we believe that we can develop from here from this year in the next 2 years. So the growth drivers mainly are like our own products like the products like immunity boosters, weight loss, systematic enzymes, which we have created lot of formulations, even like some of the formulations we are taking lot of traffic on the COVID and other areas as well and which we have a lot of good success. These are the formulations, our end-to-end customers. And we believe that this area is going to grow. Did I answer your question or I missed something?

Shubham Jain: No. I think that was pretty helpful. Just one follow-up on that. What is the brand under which we sell the products? Is it direct to customer?

Mukund Kabra: So we have a company named AST Enzymes. All these products are sold under the AST Enzymes.

Shubham Jain: AST, that's correct, right?

Mukund Kabra: Yes, AST, yes.

Shubham Jain: And do we sell it through Amazon or do we sell it through our own website?

B. P. Rauka: Yes, it is through Amazon also.

Mukund Kabra: It's a combination of all.

B. P. Rauka: Yes.

Shubham Jain: Understood. And typically what brands or companies do we compete with on this? Like is there some local competition, or is there any global competition we get in these kind of products?

B. P. Rauka: There are several nutrition companies in that sense.

Shubham Jain: Typical nutrition companies only, right?

B. P. Rauka: Yes.

Mukund Kabra: Our USP is like we are an enzyme expert, right? So we know the enzymes better than anyone who is there in the market.

Shubham Jain: Okay. Understood. The other last question that I had was, like you had mentioned in one of our interactions that we were able to develop this whole baking line of products with a R&D that you were doing. Just to understand, are there any enzymes or processes that you are developing that you think are closer to execution or fruition?

Mukund Kabra: So there are a lot of molecules. We're always on 4, 5, molecules at least every year, right? So there are a lot of additions in our basket. The difficulty in our business is we don't get the revenues for the next 2, 3 years, even if you have added anything, and it takes time. So this is always a constant process. We always had 4, 5 different enzymes at least every year when you had different products in your portfolio as you move on. But to see them converting into the business, it takes time.

Moderator: Thank you. The next question is from the line of Bhavesh Jain from ITI Mutual Fund. Please go ahead.

Bhavesh Jain: Sir, the way you highlighted out of this 4% year-to-date revenue growth, 1.5% was from new customers. Can you highlight from the same number for new products, whatever you have launched 2 or 3 years back, the way you said you get revenue after 2-3 years after launching these molecules or enzyme, so how much growth out of this 4% that you have got from these new products?

B. P. Rauka: No, it's not so easy because most of the enzymes are sold in blended form, right? So it is really very difficult because we have several different enzymes which are supplied in bulk in a combination. So how much is coming from one product because when you give to the customer, you give it a combination. So it really becomes difficult to track in that sense.

Mukund Kabra: No, it's very difficult, but at the same time, I can see that some of the revenues which are coming right now into the biocatalyst area is like being developed 2-3 years back.

B. P. Rauka: Yes, biocatalysts, probiotics, in that sense we can say, yes. That is a growing business where we can see in that sense. But when probiotics is mixed with some other product, then it becomes really difficult to track that particular in the...

Bhavesh Jain: And sir, any outlook on this R&D spend? Because I guess from last 2, 3 years, it will be hovering at around 18 - 19 crore? Yes. Before that, it was at 11 crores. So any outlook, whether it will go up or it will remain at the similar amount for next couple of years?

B. P. Rauka: I think it will remain in the range of 4% to 5% because as the topline grows, then the R&D spend is also, if it is based on the topline, so the growth in terms of increase on the topline is growth in the R&D spending as well. But yes, there are some plans going forward. I think Mukund can highlight those plans. We already acquired the land in Nasik. So going forward, we will be spending some money on development of our R&D capabilities in the Nasik, where we have done land acquisition, we have acquired the land. So probably there will be a time period of about 3 years where we'll be spending about roughly I think 60 to 70 crores.

Bhavesh Jain: Any further scope to reduce net working capital tighter?

B. P. Rauka: Very difficult because basis several products, and we are increasing our portfolio again. So inventory level always we need to maintain. And the inventory, again, there are several inventory. You have the raw material, semi-finished. This is a major issue which constitutes a major portion of our inventory. And we have 3 different plants to manufacture the enzyme. One is like in Hyderabad, one in Sinnar and one in MP. And apart from that, couple of subsidiary companies. So everywhere, you maintain some kind of a stock. So inventory level is always higher in that sense. And now although the COVID situation is very bad, but yet our debtors level is kind of constant, but yet we also need to maintain the debtors level, which is about 60 to 65 days of the debtors. So we feel like about 105 to 115 number of days of the sales will continue to be our working capital investment.

Bhavesh Jain: And sir, final question. What will be our organic CAPEX apart from this inorganic acquisition which you have highlighted?

B. P. Rauka: I think it's about 12 crore.

Mukund Kabra: Normal CAPEX, 10 - 12 crores a year.

Bhavesh Jain: Okay. And this R&D which you have highlighted over next 3 years?

Mukund Kabra: Yes, 3 to 4 years.

Bhavesh Jain: Okay. That 60 - 70 crores?

Mukund Kabra: Yes, roughly.

Moderator: Thank you. The next question is from the line of Tapan Modi, an individual investor. Please go ahead.

Tapan Modi: So just one thing I wanted to understand as well. So basically as you have explained and spoken earlier wherein U.S. set of numbers are quite impressive with 35% growth as such.

B. P. Rauka: Yes.

Tapan Modi: So since we are in mid-November as such, so do you foresee the same level of growth in quarter 3 and 4 as well?

B. P. Rauka: I mean it is really in this pandemic situation, very, very difficult to let me tell you give any kind of estimate because the problem is now in some of the countries, again facing the COVID situation. So is it really very difficult to say about it, yes, that we are kind of going to have the same kind of a growth.

Tapan Modi: But for October and November, sales are little bit improving as compared to previous months or something?

B. P. Rauka: So we won't be able to comment on that.

Moderator: Thank you. The next question is from the line of Sumedh Pawse, an individual investor. Please go ahead.

Sumedh Pawse: Sir, my question is on Page 4 of investor presentation, you have said second-highest market share in India, and second is integrated enzyme here. So can you name the first one?

B. P. Rauka: Second-highest market share in India, that is what you are saying, right?

Sumedh Pawse: Yes. So the first one, name of the first one?

B. P. Rauka: First one is the multinational company which is I think Novozymes.

Sumedh Pawse: And second question is, since your general guidance of doubling the revenue in 5 years, so what was the CAPEX level? Will it be similar or a bit increase?

B. P. Rauka: I think we don't have to spend any substantial amount on expanding our capacity as of day. But once we reach to a level, at least we need to plan 2 years ahead of the time by which our capacity utilization is going to be, say, about 100% or so. So I think 3 years, our CAPEX will be in the range of about 12 crores or so other than R&D, which I just now spoke about it. And once we reach to a level where our capacity utilization is still around 90% or about 80% to 85%, that's where we will have to add some I think infrastructure in our existing plant, which has already been built up in such a way that all the utilities are in place. So by adding couple of fermenters, and we can double our capacity. So that will happen once we reach to that threshold of about 80% to 85% utilization.

Sumedh Pawse: And the last question. What is the geographical revenue split do you see 5 years down the line, the U.S., Europe and India percentages?

B. P. Rauka: Yes. It should be continue the same way because our focus is in India market, Europe market and U.S., 3 markets. And of course Asian markets now because of the registration of our products, particularly in animal feed business. So we will focus on all the aspects of our business to make sure that we have that kind of a consistency in that terms. And then that depends how actually it happens.

Sumedh Pawse: Because the European revenue share is quite low currently, about 5 to 7%?

B. P. Rauka: Agreed, yes.

Sumedh Pawse: So it's expected to remain the same level below 10%?

B. P. Rauka: Going forward, as we have mentioned, that the sale of couple of enzymes which are particularly for the food industry that will grow. So definitely, the likely trend will be there. But again, we need to...

Mukund Kabra: Those will be captured mostly from the India. It will not come directly under the Europe company. So it will come under the India company. So more or less it will remain the same on the percentage basis.

Moderator: Thank you. The last question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I just had one follow-up question. The R&D plan that we were talking about, which has been delayed by 6 to 8 months, is there any guidance on when that will commence now?

Mukund Kabra: So it will take some time, Shikha. Right now we are doing in land conversion related formalities the **(Inaudible) (70:42)** processing and other things. All the government agencies are really very slow at this point of time. So there is not too much of a clarity because of all of this COVID and other situation. So maybe like from the starting of the next year probably we should be able to start.

Shikha Mehta: Right. And how much would that increase our PAT by approx on an annualized figure?

Mukund Kabra: It is not like give you a direct number, so that...

Shikha Mehta: We were speaking of some amount of efficiencies, right, due to the R&D plant?

Mukund Kabra: No. So the R&Ds are always mirrored in our business. It's a very interesting business where we say that one plus one is not two, but we always say that one plus one is 11, okay? The reason for this is like we can increase the productivity to the multiple poles with the continuous R&D. But it requires time, Shikha. We can't expect the results to come out right away the moment you put the R&D plant and R&D equipment right away.

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

Mukund Kabra: Thank you, everyone, for your questions. We hope to deliver in the future as well. Thank you, everyone, and have a good happy Diwali.

B. P. Rauka: So wish you all a very happy Diwali and a happy new and prosperous year, and please stay safe and healthy and take care of yourself and all the family members. Thank you so much for your time and question. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.