



February 19, 2024

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 Scrip Code No: 542665	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 Company Symbol: NEOGEN
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Sub.: Q3FY24 - 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 Q3FY24 Earnings Conference Call held on February 12, 2024.

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

Kindly take the same on your record.

Thanking you,
Yours faithfully,
For Neogen Chemicals Limited

Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131

Encl: As above



Neogen Chemicals Limited

Q3 FY24 Earnings Conference Call Transcript

February 12, 2024

Moderator: Ladies and gentlemen, good day and welcome to Neogen Chemicals' Q3 FY '24 Earnings conference call.

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

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

Nishid Solanki: Thank you. Good afternoon, everyone and welcome to Neogen Chemicals' Q3 FY '24 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 the opening thoughts from the Management Team, post which we shall open the forum for Q&A, where the Management will be addressing queries of the participants.

Before we commence, I would like to share our standard disclaimer:

Certain statements made or discussed on today's conference call could be forward looking in nature. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q3 FY '24 Investor Presentation, which has been uploaded on the stock exchange.

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

Dr. Harin Kanani: Thank you, Nishid. Good afternoon, everyone and thank you for joining us on Neogen Chemicals' Q3 FY '24 Earnings Conference Call.

We released our Quarterly Results on Friday and subsequently distributed the earnings presentation. I trust you have had a chance to go through them. I will be



guiding you through the performance highlights, important developments and updates on expansion initiatives after which Mr. Ketan Vyas, our CFO, will walk you through the financial performance.

Our performance during the period under review was marked by a sustained weak demand environment, influenced by recessionary trends in few geographies. This, along with persistent inventory, destocking, ongoing conflicts in the Middle East and Red Sea crisis, collectively hindered the momentum, leading to a sharp correction in the prices of the raw materials.

Both our key end-user industries, agro and pharma, continued to be under pressure, barring select products that remained stable. In the light of this situation, I believe we have performed satisfactorily while preserving our base volumes and then managing at least a small volume increase.

This achievement was aided by the resilience of our business models coupled with active engagement with customers and partners. We are beginning to observe a gradual demand recovery in the pharma sector and select pockets in agro and anticipate this trend to gain momentum in the future.

On consolidated basis, our performance appears weak, primarily due to two factors. Initial expenses CAPEX linked to our battery materials arm Neogen Ionics, where contribution is yet to come, and one-time impact on BuLi Chem and a little bit on Neogen due to liquidation of high-cost inventories in lithium, in addition to subdued demand for products linked to agrochemicals and pharma.

Our standalone performance on the other hand exhibited slight improvement as we navigated through the sector uncertainties. For Q3 FY '24, our revenue stood at Rs. 167 crore, while EBIDTA came in at Rs. 26 crore and PAT at Rs. 6 crore. Mr. Ketan Vyas will provide a detailed overview of our financial performance.

Moving to our Segmental Performance:

In Q3 FY '24, Organic Chemicals revenue reported a decline of 5% mainly on account of a year-on-year drop in bromine and other RM prices, which, when adjusted, would have increased our revenue by Rs. 12 crore.

Likewise, Inorganic Chemicals revenue declined by 30% year-on-year due to steep fall in the prices of lithium raw material which otherwise would have been higher by Rs. 23 crore if we compare to the same period last year.

Let me now share an important development:

Neogen Ionics Limited, a 100% subsidiary of Neogen Chemicals, recently completed land acquisition totalling approximately 2,64,285 m² in Pakhajan, Dahej PCPIR, Gujarat to establish a world class state-of-the-art battery material facility.

This greenfield site will be our largest facility dedicated solely for battery materials and new future business opportunities. Here we will set up electrolyte plant using manufacturing technology license from MUIS, Japan and electrolyte salts and additives plant based on Neogen's indigenous technology.

The MUIS team has completed the design of the plant and accordingly now we are preparing ourselves to start construction of the plant. We expect permissions to be



received by March and by March or April we expect to start construction of the 30 KTA Electrolyte plant. This plant is expected to be operational in the second half of FY '26.

Coming to our Existing Expansion Initiatives:

Our battery material project is progressing well and is adhering to the schedule and advancing with the plant design using MUIS, Japan technology. Construction is also expected to begin shortly thereafter.

Let me provide you with some more specific updates:

In our existing business, brownfield expansion of Specialty Organic Chemicals by 60 m³, out of which 31 m³ was already commissioned till Q4 FY '23 and remaining 29 m³ will be commissioned during FY '25 depending on business needs.

In the Battery Material business:

In the new capacity of 400 metric tons per annum for lithium electrolyte salt and additives, trial productions have already commenced stage wise and final check and tests are currently ongoing. We expect customers' approvals to start coming through by the end of Q4 FY '24 and start revenue by the end of Q4 FY '24 - early Q1 FY '25. The 2,000 metric ton electrolyte manufacturing facility at Dahej using our indigenous technology is also scheduled for commissioning by the end of Q4 FY '24.

Furthermore, we propose to expand our lithium electrolyte salts and additive capacity at Dahej SEZ to 2,500 metric tons in phases, which will be operational during FY '25 to cater to immediate demand of electrolyte salts and additives in the international market.

At our new greenfield site at Pakhajan, Dahej PCPIR, we will set up the 30 KTA plant using MUIS technology and 3,000 metric tons of electrolyte salts and additive plant using our indigenous technology. The aggregate CAPEX for all these capacities set to come online in FY '24 and beyond will be close to Rs. 1,500 crore and will translate into peak revenue potential ranging from Rs. 2,500 crore to Rs. 2,950 crore depending on lithium prices.

These investments will be done in a phased manner and funded through a mix of debt, internal accruals and recently raised equity. Once operational, these projects will drive us into a rapid growth trajectory in the sunrise sector of lithium-ion battery materials, leveraging our first-mover advantage over competitors.

Our aim is to become the most dependable player by maintaining consistent product quality and ensuring timely supply. This will establish Neogen Ionics as the market leader for electrolytes in India for EV applications. While this remains our effort to strengthen the existing business continue, we continue to make deep inroads in advanced intermediates and custom synthesis and manufacturing by leveraging our skill set and customer relationship.

This along with increased contribution from BuLi Chem will anchor our performance going ahead as now we are able to onboard new customers in India as well as in the international market on top of the existing customers of BuLi Chem, who after a brief period of six months of low demand are now starting to consume N-Butyl lithium on a regular basis.



I will conclude by saying that India remains an attractive destination for global majors with promising sectors, prospects in the medium to long term. Our sound understanding of market nuances, unique value proposition and unwavering commitment to innovate will set us apart, fostering our growth potential and delivering value to the shareholders.

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

Ketan Vyas:

Thank you, Dr. Harin. Good afternoon, everyone and welcome to Neogen Chemicals' Q3 FY '24 Earnings Call.

I shall now take you through the "Key Financial Highlights":

Please note that these are all on a consolidated basis and based on year-on-year comparison.

We reported revenue at Rs. 164.4 crore depicting a fall of 12% over last year. The quarter witnessed declining raw material costs and the resultant realizations albeit on steady volumes. BuLi Chemical revenues moderated on the back of slowdown in pharma and agrochemical. Organic Chemicals saw a revenue decline of 5% at Rs. 129 crore whereas Inorganic Chemicals noted a decline in revenues by 30% at Rs. 35 crore.

As stated by Dr. Harin, this was due to a significant fall in prices of both bromine and lithium, excluding which the overall revenues for Q3 would have been higher by Rs. 35 crore.

EBITDA was lower at Rs. 20.4 crore, reflecting the impact of higher employee costs and other expenses related to ongoing expansion initiatives around Neogen Ionics. This was in addition to liquidation costs of high-cost inventories in BuLi Chem. That said, the gross margins were largely maintained.

In line with the moderated operational performance, PAT came in lower at Rs. 1.1 crore. This includes the impact of higher finance costs and depreciation coupled with one-time tax charge incurred owing to transition to new tax regime. This means our effective tax rate from next year will be lower.

The domestic to export mix stood at 78% to 22%. On a standalone year-on-year basis, our Q3 revenue came in at Rs. 167.4 crore vs. Rs. 186.3 crore. EBITDA was at Rs. 25.8 crore vs. Rs. 30.1 crore and PAT was at Rs. 5.8 crore vs. 14.7 crore.

That concludes my initial remarks. I will now request the moderator to open the forum for Q&A 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 Manish Gupta from Solidarity Investment Advisors. Please go ahead.

Manish Gupta:

I just wanted to check a few numbers with you. Our gross block at the end of FY '23 was roughly Rs. 400 crore and the CAPEX that we are doing in FY '24, FY '25 and FY '26 is about Rs. 1,500 crore. So, barring any new projects we announced, roughly by the end of FY '26, will we have a gross block of approximately Rs. 1,900 crore? Is that approximately right?



Dr. Harin Kanani:

Yes.

Manish Gupta:

Now, sir, on our existing gross block of Rs. 400 crore you do help us by giving revenue numbers, but the challenge is that because these revenue numbers are so strongly linked to lithium prices and bromine prices that it becomes a bit complex for us to interpret. It would be useful if you could guide us with a range for what is the peak practical capacity utilization? Rs. 400 crore of gross block will roughly translate into how much EBITDA and at what practical peak capacity utilization?

Dr. Harin Kanani:

Sure. We always try to give you a range that with lithium prices variation, what is the fluctuation that you see, what is the range in the revenue which can happen and similarly EBITDA ranges.

But let's say if we take a case, so on a Rs. 400 crore, as we had guided earlier, we can have a revenue potential of around Rs. 950 to 1,000 crore, sorry, Rs. 1,050 crore and let's say with whatever is our understanding now of BuLi business, we feel with the same CAPEX or with slightly incremental CAPEX, we can get more revenues from BuLi.

So, we can say around Rs. 1,000 crore of revenue we can earn and till we reach the full utilization level, our target would be to achieve at least 18% (+/-1.5%) kind of a EBITDA range. So, let's say around Rs. 180 crore and let's say to consider the plus or minus range, that's somewhere between Rs. 170-200 crore EBITDA on the full utilization level in the base business.

Manish Gupta:

So, now if we say that, let's just work with a round number of about Rs. 180 crore. I do understand the range you are talking about. Would it be fair to assume that when we reach peak utilization on the Rs. 1,900 gross block, our pro-rata EBITDA for the company would be Rs. 1,900 crore divided by Rs. 400 crore multiplied by Rs. 180 crore - roughly in that range? Would that be broadly similar? Because bulk of the incremental CAPEX is actually happening in battery chemicals or do you think the EBITDA, there would on a pro-rata basis might be lower or slightly higher than the base business?

Dr. Harin Kanani:

Yes. So, as I have said earlier, in the battery business, basically we are looking more, from a ROCE concept. So, that business is going to be driven more with the lithium price and even other battery materials also will fluctuate depending on supply demand.

I mean, what we have seen is the prices of solvents and lithium what they were a year ago or year-and-a-half ago versus today have seen a lot of fluctuations. So, we look more from a ROE, ROCE point of view. Again, the EBITDA there was more like 15% to 18% depending on lithium price fluctuation.

So, broadly speaking yes, even if you take the revenue potential which we have given you of Rs. 2,500-2,950 crore. So, on Rs. 2,500 crore, you can assume about 18% - again plus or minus 1.5% - kind of an EBITDA. That will translate into a total EBITDA of about Rs. 450 crore plus....around Rs. 600-650 crore.

I have just done mental math here; but basically, you can take Rs. 1,000 crores at 18% and another Rs. 2,500 crores at 18%. So, beyond that it will be a pass-through and of course, as we reach full utilization levels in FY '26, our target would then be



to do better product selection in our base business and then try to improve our EBITDA margins in the base business.

Manish Gupta: My third question, sir, is that while the electrolyte is a new business for us basis discussion with your technology partner, what is the typical life of these electrolyte plant?

Dr. Harin Kanani: Life, so the battery, the electrolyte plant which was established in Japan I think two or three decades ago, that is still running. The plant which was set up in the U.S. eight, nine years ago is also still running. They keep making improvements as the customers' recipes become more complicated or need modifications, but generally the plant will run for a long period of time.

Manish Gupta: And sir, how do you propose to depreciate these?

Dr. Harin Kanani: I'm sorry, I don't have a very accurate answer on that. I mean, it would be on similar lines of what we have. But as of today, I don't have an accurate number. I don't know if, Ketan, in our models, if you have taken depreciation, if there is a percentage depreciation you are taking, if you can add. But I don't right now have an exact number or a decision on that currently.

Ketan Vyas: No, we don't do on a percentage basis. We do on the life of the asset, which we await to get confirmation from the technical team.

Dr. Harin Kanani: So, currently, are you using a particular number? Between 10 years, 15 years, 20 years?

Ketan Vyas: We do about 15 years, odd.

Manish Gupta: And the last question, if I may, sir. Right now, we haven't announced any CAPEX for the cathode, the LFP cathode.

Dr. Harin Kanani: Yes.

Manish Gupta: But I wanted to ask that- For a minute, if we assume that Neogen will not be participating in this opportunity, I wanted to understand that players who are getting into the LFP cathode, how will they source the lithium? Will they themselves start with lithium carbonate and refine it or will they be looking to source lithium salts needed for the LFP cathode from a player like yourself?

Dr. Harin Kanani: As we have said in the past also that Neogen has not announced any capacity in lithium cathode, but we have capabilities around lithium cathode, both our own developed technology as well as in partnership with international customers. So, let's say maybe not as reputed as MUIS because when it comes to cathode and LFP and some other cathode chemistries, very few companies have worked on this outside of China. But we do have this technology.

The main reason why we have not done is, because our customers are making several choices. Will they do NMC or will they do LFP? If they do LFP, would they want to import or would they want to make it in-house? And then some of them, because cathode is a very large contributor, they also consider when they want to make in India, whether they want to make it in-house or buy from a company like Neogen.



Because there is not enough demand clarity like we have with electrolyte and electrolyte salt, we have not moved up with the CAPEX or any plans around that. But we do have visibility and our only condition is that, for cathode we will move ahead only when we have a very firm, binding contract or a kind of joint development or a joint plan. Some such situation is only when we will basically venture into a cathode area. The way we have currently moved into electrolyte and electrolyte salt, we would not move into the cathode, again, just because there are multiple options. Whereas for electrolyte, there is a strong clarity that it has to be local, people want to buy from us and most of the companies are not going to make it themselves. So, this was just the clarification on your cathode comment about Neogen.

Basically, Manishji, to answer your question, Neogen has worked in battery materials, in the cathode material, but we will basically proceed in cathode material only when we have a strong business clarity and a very committed customer clarity. In electrolyte, we have that clarity now. We also have that strong need of localization. So, that's why we have proceeded further on electrolyte.

And just to answer specifically your question about where they will source the lithium from...so the lithium mining majors generally make lithium carbonate and lithium hydroxide battery grade. So, depending on the technology which you are using, in such a case, you would buy carbonate and hydroxide directly from them. At least in lithium, to the best of our understanding, most of the companies would do that.

Moderator:

Thank you. The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella:

Just on the inventory write down first, would it be possible to share a number regarding how much is actually being written down?

Dr. Harin Kanani:

I think in BuLi Chem, not a write down, but basically, what happened in BuLi Chem is that we acquired the company in May 23. And in June, there was a very strong demand both from pharma and agro sector. So, we imported the raw material which is lithium metal and other materials required for making n-Butyllithium.

This material came through by August or September. But that is when the specific customers with whom we were working, their demand had gone down significantly, or they had already entered into some contract. And last quarter, the lithium prices instead of being above stable lithium price, they actually went below stable lithium price. So, basically, we had to then sell this material at lower cost which is today's market cost.

Because of this timing mismatch - by the time we ordered, the material came, and we were able to sell (because of the startup related conditions, we were building that inventory) - there was a charge of around Rs. 4.5 crore to Rs. 5 crore is what in our estimate we lost. Just because of the price fluctuation on lithium. So, that was on the BuLi side.

And also, as I explained, lithium had gone to stable price. So, we were able to manage the journey of lithium from \$15 to all the way up to \$80 and then back to \$20-25 which is supposed to be the stable lithium carbonate price. But today those prices have become half of that.



On Neogen's side also, we had around Rs. 2.5 crore losses, which were because of the price dropping very fast. We had an option either to wait longer for prices to recover. But since we didn't see serious price recovery happening immediately, we decided to go ahead and sell at what is today's market price. So, there was a Rs. 2.5 crore hit on Neogen and around Rs. 4.5-5 crore hit on BuLi because of this lithium price fluctuation.

With the majority of high price inventory already factored in, there will be some bit of impact of this on Q4, but Q1 onwards, that is, the next financial year onwards, we should be back to normal and you will not see too much of further erosion or impact because of lithium price fluctuation.

In BuLi also, we have a regular set of customers who are getting established. It's not that we are building up inventory to support. It will be more a pass-through. So, whatever material comes, we think we will have better pass-through, and we will be able to better take care of this in the coming financial year.

Abhijit Akella:

No, that's really helpful. The other thing was on the CSM business. Will it be possible to share some update on how the business has been progressing? If it's possible to share a split between the three components of the base business, that would be helpful; and then, specifically on CSM, how are we progressing in terms of relationships and molecule development and that sort of thing?

Dr. Harin Kanani:

For us, the CSM business has done well. It's now already contributing almost like 14% to 15% of our revenue. Our goal was to move from 10% to 20%.

However, in the advanced intermediate segment, we see a little stronger competition from China on the pharma side. The advanced intermediate and CSM together are still at about 30% whereas we had targetted to reach up to 40%. This is the exact contribution.

Now in terms of the relationship, the positive news has been that more and more agrochemical companies have already now approved Neogen. We did the first trial campaigns for them, and we have now done more than 9 or 10 different molecules for different agrochemical companies. The demand for these molecules can be as low as Rs. 10 crore to Rs. 15 crore just to start the relationship to as high as Rs. 50 crore per annum kind of revenue potential. So, that's the good news.

The difficult news is that in the next year most of them don't have a very large demand. So, while the number of relationships have increased, the number of molecules have increased, but still we don't have a very good clarity at least in the first half of the next financial year. So, we are again hoping that beyond Q2, these existing relationships that we have built or the approvals that we have done will start contributing as the customers will start planning their 2025 calendar year demand in the second half and that is when if the agro recovers, then we have a good way to increase our revenue contribution from CSM business.

Further, as we had mentioned, we also now have several projects into flavours and fragrance segment. So, these are also now moving along as well as some non-agro, non-pharma, non-flavour specialty application kind of molecules. So, these are also now contributing. Whatever agro we were not able to get because of weaker demand, flavour and fragrance and other industries have to some extent supported.



When agro comes back, it will help us to make our CSM and advanced intermediate business stronger.

Finally, our goal was that once Dahej site gets commissioned, we will start talking to the large five agrochemical companies in Europe and U.S. Most of these discussions have been initiated. They have also started their evaluation work. Of course, there is a bit of a slow down because of lack of demand or lower demand from their side. But still they have recognized the capabilities that we have in bromination chemistry, Grignard chemistry and now that we have proven 7-8 different molecules of multi-stage synthesis as well as the synergies which come with this n-Butyllithium. In fact, those projects where there is n-Butyllithium use, we have seen maximum interest. So, I think all of these, once the agro demand will pick up will really benefit us.

Abhijit Akella:

And just one more point to clarify regarding our strategy in the CSM business. Do we intend to focus only on commercial scale molecules or like some other peers in this industry, we intend to get into the relationship right at the stage of, say molecule development early on during the R&D or early commercialization and ramp up the relationship from there? How would our thought process be?

Dr. Harin Kanani:

So far, all the work which we have done is more on the commercial manufacturing side - basically developing commercial business and focussing our R&D efforts on that. However, we are also in the process of expanding our R&D lab in Karakhadi. This capacity will come online sometime in the next financial year. Once we have this additional CAPEX, part of this especially in pharma, what we have seen is that sometimes it helps if you start this relationship really early on. So, we will also maybe offer a little bit of our R&D capabilities of that, but it will not be for revenue but more to start the relationship early so that we can have a better pipeline. So, that is the only difference. Otherwise, our focus still remains on more commercial. And in terms of revenue coming in, the revenue will largely be from the commercial manufacturing activity.

Abhijit Akella:

And one last thing from me. On the Battery Chemicals Business, there has been some sort of growing amount of news reports regarding somewhat of a slowdown in the adoption of electric vehicles. In that context, how do you see the industry progressing? Is it probably rolling along as per your original expectations or are things moving a little bit slower than you expected? And with regard to your projects commissioning timeline plus maybe what others have announced, how is the situation looking in terms of timelines in terms of demand?

Dr. Harin Kanani:

So far whatever we have seen, I mean, we still feel that the India demand continues to grow. See the fact in India is that there is already a demand which is not being met because today we are not manufacturing the cells. There is already a strong demand which would have existed today for battery materials if there was a cell manufacturing capacity. So, most of the cell manufacturing capacity in India as we had stated earlier remains on track.

In 2024, we will start to see some cell manufacturing happen like the 1 or 2 GW hour level projects will make that start and then they will basically ramp up in early 2025 and then a few more will come in the second half of 2025. So, if you go to 2026, my estimate is, we will at least have 4 or 5 projects, 4 to 5 plants which are basically



working at a GW hour levels and by 2026 I also see that the ones which will start in 2024, scaling up their operations.

From a timing perspective, our electrolyte plant starting now will take care of the initial GW hour plants which are coming up in India as well as some international and some non-EV customers and some electronic battery customer demand as well. So, we will start with that in 2024, which is basically FY'25 and then their initial ramp up also, we will take care of it from Dahej. Our target remains that in the second half of FY'25, some time around December 2025, one quarter before or after, is when we expect the 30 KTA plant to come. So, I think it will be a perfect time that in 2026, when the majority of these customers are ramping up and more new plants are coming online, we will be ready from the beginning to take care of them for their electrolyte needs.

Similarly, you would have observed in our opening remarks that the international battery material demand, non-China because of IRA and because of heavy dependence on China, alternate source to China, remains strong. So, there is a very strong interest in a non-Chinese electrolyte salt and additive demand, and this is why our original plan was to increase 400 metric tons to 1000 metric tons and then from 1000 metric tons directly go to 3000 metric tons. But we had to increase the capacity to 2500 metric tons to take care of the demand before our new plant comes up.

So, in fact the way we are seeing the demand for electrolyte salt and additive come in it's actually getting preponed as compared to what we had originally estimated. I think electrolyte demand remains on track. And I think overall, if we talk of just EV and energy storage, we feel there is a bit of slowdown mostly in China and of course there is a little bit of challenge which people have seen in the US, but still the EV numbers continue to grow in all the regions and I think the commitment of majority of the automakers also still remains and the non-EV, which is basically energy storage application is still picking up till the models get set around that. So, that is also still the demand as the world moves more and more towards renewables they will basically need more energy storage.

So, I think more or less we feel our electrolyte demand, the way we see it, remains on track. The electrolyte salts and additives we have actually preponed and added some more additional capacity. That has also been one of the reasons why the estimated CAPEX numbers are higher. That is based upon the final design that we received from Mitsubishi and there is the additional salt capacity which we needed to have because we see the electrolyte salt demand getting a little bit preponed in the international market.

Moderator: Thank you. The next question is from the line of Jason Soans from IDBI Capital. Please go ahead.

Jason Soans: Sir, first of all, just wanted to confirm - did you mention that, on a gross block of Rs. 400 crore, just considering stable lithium and bromine prices, we were able to do revenue of Rs. 1,000 crore with an EBITDA margin of 18% and then same thing you mentioned that for Battery Chemicals Business with an EBITDA of 18%, there is Rs. 3,000 crore revenue potential. Is that right? That is what you mentioned?

Dr. Harin Kanani: 18% on Rs. 2,500 crore, on the lower side.



Jason Soans: 18% on Rs. 2,500 crore and on the base business side Rs. 1,000 crore with an EBITDA of 18%, right?

Dr. Harin Kanani: Correct and (+/-1%) is what we take in that both.

Jason Soans: And sir, just wanted to know - we have spoken about this before - that in terms of, realizations, probably we are looking at a number for electrolytes, probably something in the range of \$5 to \$10 per kg. Just wanted to know in terms of electrolytes as well as lithium salts what are you taking as an average realization considering a stable or an average lithium price? I just wanted to know what the realizations are you taking in your calculations for both electrolytes as well as lithium salts?

Dr. Harin Kanani: The electrolyte realization is somewhere around \$10, and it will depend on the recipe, because each customer has a unique recipe, so it is very difficult to give one single price. Also, like I said, there is one price in China, there is one price in Japan, there is one price in US and all of these are varying quite a bit. So, what will be India's price depends on the volume. It will change as the volumes will increase; but again as we said, the electrolyte business is mainly going to be ROCE driven and at least we see ROCE of 20% plus. That is the basis of our assumption. So, actually EBITDA number is like a derived number, but ROCE is what we are targetting because as you keep increasing higher capacities, you can afford a lower price based on the ROCE that you are doing.

Jason Soans: So, \$10 per kg is what you are working with currently, of course and lithium salt, sir, in dollars per kg?

Dr. Harin Kanani: Again, there are multiple salts, and the range would be around \$27-\$28 to \$35.

Jason Soans: And sir, just in terms of electrolytes, lithium salts, how are the traction on the ground with customers like Ola, TVS, Panasonic, etc.? How are the negotiations with the customers? Could you give us some colour on ground, how is the traction going on?

Dr. Harin Kanani: We are having very good conversations with all of our customers. Of course, we have been giving a few kg samples to these customers for almost last now 15 months. Some of these have started a larger trial. They are also now buying, 100 kg - 200 kg of electrolyte volumes. Most of them, at least two or three of them are expected and actually are after us to ensure that our facility will be ready by the end of the current financial year. This is because they are expecting trials of their commercial plant to start in the first half of FY'25. We are on track basically to deliver that and our facility will be ready so that we can give them the initial trials. They have visited Neogen and whatever quality systems of Neogen they have seen or the quality of electrolytes they have seen, they are very happy with that. Also, now with MUIS we give them the option that if they want to try MUIS recipes, we can work with MUIS to suggest to them recipes which can improve the performance of their cells. So, this is also taken very positively and most of these customers remain engaged.

In fact, what we are seeing is that even more new OEMs in India who are planning in future, two-wheeler and four-wheeler vehicles, they are also engaging basically when they want to consider the option of making the cells in India. This is in the Indian market. Internationally, when we are talking of electrolyte salts, we are



working with several customers and they are visiting our sites and are taking our samples. Some of them have already approved our samples from either R&D or the early production samples from the trial production runs. So, we are also seeing a very positive feedback both on the salt in the international market as well as the future potential Indian electrolyte customers.

Jason Soans:

And, sir, if you could just explain electrolytes have of course to be sourced locally...what is the impediment or the hurdle to so that it cannot be exported? And lithium salts - those can be exported. Is my understanding correct? Could you explain?

Dr. Harin Kanani:

If you look at Mitsubishi, when they started in Japan and set up a plant there. Similarly, when their customers moved to US, Europe or China, they also set up a plant in US, Europe and China instead of just setting up more capacity in Japan and ship. The main reason in this is that electrolyte requires very low moisture content, very low acidity, very low impurities, and some of them have additives which require temperature below 10 degrees. So, if you think of tanks which are required for transporting this across the world, the cost of such a tank and the cost of transportation, and sending these tanks to the customer, bringing them back, and especially if you have multiple customers with multiple chemistries, making sure that you deliver on time whatever particular recipe they require. This is more complicated and that is why in terms of the performance and the quality of the electrolyte, it is always preferred that the electrolyte is made locally.

Now the volume of the salt that you are sending is usually between, if it is a salt, it is between 10% to 15%, and if it is an additive, it is between 2% to 5%. So, the quantum of salt that you need to shift as compared to the quantum of electrolyte reduces. The second thing in this is that this does not require low temperature and the shelf life is longer. It still requires moisture free conditions, so it requires a specialized packaging, but the volume of it is lower and the fact today also remains that 90%-95% of the salt is in China. So, people are actually used to buying from China and then making the electrolytes locally.

Therefore, when we offer a salt, the question that remains is that instead of importing from China, I have to import from India. That is why we are not making a very big change from what is already being done. That is the reason why salts are easier to export to the international market whereas electrolytes are usually made locally. Therefore, we are not targetting very large export markets in electrolytes as well as the fact that we are also not seeing most of the Indian customers relying on imports totally to get the electrolytes into India on a large scale on a sustainable basis.

Jason Soans:

We have seen specialty chemical companies, we have seen a weak underlying demand, which is driven by driving down raw material prices and hence realizations as well, especially with Chinese competition, especially with generics, etc., being very intense and they are driving down intermediate prices also. So just in your sense, do you think we have bottomed out? Probably we can see a gradual recovery from here on in the global markets. What is your sense on the entire pricing? Then of course with the falling prices, our absolute EBITDA definitely has gone down. That has been the story of this. I just wanted to understand in your sense, how is it? Do



you see that the prices, realizations having bottomed out and a gradual recovery from here on or is there more pain still left?

Dr. Harin Kanani:

What we have seen is that in pharma, there are some customers who are doing okay and there are some customers who have already recovered, and there are still some customers who are recovering. There are some categories like antiretrovirals or some specific large molecules, even related to heart related ailments, they are seeing that there are still inventory corrections happening and the demand is still coming up; whereas there are some segments, more in specialty, more in niche pharma that have already recovered.

On the agro side is where we have seen more of a challenge where people are still not getting visibility. Of course, our supply chain is in the international markets, especially in Japan and in India basically people who are working with innovators. So, most of these are guiding us that it will only be in the second-half of the calendar year when they will start looking at 2025 demand which is when agro will improve upon.

Also, in terms of raw material prices, we really feel that most of the people had predicted a stable lithium price, which is slightly higher than the previous 30-year-old average. The 30-year-old average is at around \$12 to \$15 of lithium carbonate and most of the people were predicting that \$20 to \$25 will be a long-term stable price of lithium. Unfortunately today the lithium prices have gone towards being historically low or historical low average of \$10 to \$12. We don't see further decrease because, if that happens, more and more new-age mining companies or the newer mining companies, certainly those based out of Australia, will not be able to sustain it for a long period of time (and would start) reducing the supply. Anyway, this is what is our belief that it should not go further down, if at all, maybe 10-15%, but not a very large decrease from today and because the prices have gone down so much. By 2025-26, when there is again revival, and more battery production will come in non-China market, that is when you might see another lithium price jump. This is anyway my estimate but let us see how the markets proceed.

I think our EBITDA is bearing this particular lithium factor and the fact that we have not yet reached full utilization the way we have targetted. We feel that, more or less, on our EBITDA margins we have still done a decent job of protecting them. It is just that this \$25 to \$12 was something which took us by surprise; our customers held back and especially the BuLi situation because we were just starting. It came at a little bit at a wrong time when we were not fully ready, but going forward we will be able to manage it better.

Moderator:

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

Yash Shah:

My first question is more of a clarification question. Last quarter we had revised our expansion for the electrolyte salt from 2000 metric tons to 4000 metric tons. I heard you saying basically 2500 metric tons something, I am really not sure about it. Can you please reiterate the same?

Dr. Harin Kanani:

Sure. The 4000 metric tons was broken down into 1000 metric tons in our Dahej facility and 3000 metric tons in the greenfield facility. Now because we see a stronger



demand of the salt that 1000 metric tons is being increased to 2500 metric tons and we are seeing 3000 metric tons still in the new greenfield facility, which remains constant. So, the total is now becoming 5500 metric tons. So, what we had increased from 2000 metric tons to 4000 metric tons, now stands increased to 5500 metric tons. The increase is basically coming in our Dahej facility because the customers are not able to wait till our new facility comes online. So, we are using the existing land available in Dahej to increase this capacity.

Yash Shah: So, basically, the rest of the 600 metric tons, it was expected to come by the end of the next quarter. Now since we have increased it to 2500 metric tons, when is that expected to come since you have increased the capacity on the brownfield side?

Dr. Harin Kanani: Our 400 metric tons, like I said, all the trials and everything have started. That is, the commissioning, we are having several phases. 1000 metric tons that maybe we will have 1500 metric tons and then ultimately 2500 metric tons. So, our target is at least 1000 metric tons and 1500 metric tons to come online in Q2 or Q3 and 2500 metric tons by the end of Q4. So, by the end of the next financial year, we would be at total 2500 metric tons and it will be in phases. So, 1000 metric tons will come first, then there is another particular plant getting added which will increase it to 1500 metric tons and then 2500 metric tons. All of that will be happening in the next financial year and then that will take care of the FY'26 requirements of our customers. And then another 3000 metric tons will get added in FY'26 that will basically take care partly of our own electrolyte requirement and partly take care of the additional requirements of our customers.

Yash Shah: Sir, my next question was on the base business. Now as we have mentioned before that we had a Rs. 36 crore impact on the current quarter, so now if you just look at the numbers which were there in the last year same quarter, we will ideally touch Rs. 200 crore and that will be ideally at the same amount of volume. So, just really wanted to understand, since agro makes about 60% to 65% of our base business, which end user industry did you see this demand from and also in which geography?

Dr. Harin Kanani: Just to clarify that Rs. 200 crore you have calculated is when the lithium prices were at its highest. So, again that was the peak volume and of course on a full utilization, we will cross that, but today we are not there. The plants are not fully utilized. The second clarification I wanted to make (is that) for us, pharma was always higher. It is 50-60% and agro was around 20-25%. So that 20% to 30% is a bit lower which has been right now made up by pharma and like some business which I told you - flavour and fragrance and some non-pharma non-agro. So basically, other industries. So, that has made it up.

Yash Shah: And any particular geography, like is it Europe or US, Japan, if you can?

Dr. Harin Kanani: No. So currently especially our agro business as you know, was mostly international and even in India it was linked to the international. So, that is where you have seen our exports have gone down significantly. Mainly driven by that as well as the fall in lithium prices. So, it is mostly, we have done more of pharma customers – we have done molecules which we were normally not doing, but we have done those molecules in this quarter to make up for the shortage in the demand. So, mostly it is pharma generic India.



- Yash Shah:** And sir, one last question, I just wanted to understand what is our current gross debt and with this expansion coming in, what do we target as gross debt to EBITDA ratio or the debt to EBITDA?
- Dr. Harin Kanani:** Our gross long-term debt today will be somewhere around Rs. 150 crore and working capital will be around Rs. 200-250 crore depending on which period of time you are basically looking at. I am sorry I don't have the number for long term and maybe in the next call we will prepare, and we will give you an update on that or you can send us an e-mail and if it is not non-public information, we will try to share it with you.
- Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Advisors. Please go ahead.
- Anirudh Shetty:** Sir, when we look at our Battery Chemical Business, the assumption of margin behind that ROCE of 20% upwards is actually 18%. Just want to understand that unlike our bromine business where we have a long-term history, the business model is more established, this is more of a recent business, economics still are evolving. So, I wanted to understand the basis behind our assumption of 18% and also there are two segments - electrolyte and salt - so if you could just give some colour on what is the implied margin for electrolyte and salt, respectively?
- Dr. Harin Kanani:** The basis for our assumption is that we are looking at, if we are doing an investment, we are taking the risk, if we are the first mover and to be able to justify the risk and the investment, this is the bare minimum that we need. Now when we put that bare minimum number and arrive at our selling price, because you put all your cost, your depreciation, interest, then you will put this number and arrive at a cost. And what we have seen is that when we put that cost, let us say when I am talking of salt we are expensive as compared to China, but we are cheaper as compared to Japan and Korea, which are the next two available options.
- So, then we are confident that look, this is something which if somebody says I want a non-China price or in fact if we are looking at more stable - because right now the China prices are very depressed because of overcapacity, but if I were to put the old lithium prices and if I were to look at stable salt prices in China, we are more or less tracking that. That is the reason why we feel confident enough that this is something which we will be able to use, we will be able to get.
- Similar situation in terms of electrolyte. When we put this number in our models, look at the electrolyte prices, what we feel is that when I am looking at the price, we are somewhere lower than the prices which are let us say prevailing in Japan or Korea and within the range of the lowest and the highest Chinese prices. So, we feel like if the remaining markets are also able to sustain that and this is what we have done. So, therefore, this is business. Again, there is no buyer, there is no seller of this in India today and this is a fragmented, more geographically concentrated market, the way we have seen it. So, therefore, right now this is the basis of our assumption.
- Anirudh Shetty:** And right now there is no local manufacturing, lot of it is being imported. Would it be fair to assume that a lot of imports are coming from China and at certain scale, would it be fair to assume that as a local supplier, there would be some PLI benefits as well? Would we be cost competitive versus China at a cell level or will there be requirements for some anti-dumping duties to bridge the gap?



Dr. Harin Kanani: You are saying at the cell level?

Anirudh Shetty: Yes.

Dr. Harin Kanani: I think this is a question you have to ask my customers - cell manufacturing. Most of them are confident enough that they should be able to; because what we have seen worldwide and I think if you see some international reports also, while the cell manufacturing cost has dropped in terms of dollars per kilo, whatever has been dropping, but what people are commenting is that majority of the scale benefits are already achieved. For example when somebody was making only 10 MW hour or 100 MW hour. From there, you went to 1 GW hour. So, the savings that you do when you move from 1000 to 1 Giga is substantial. Then from 1 GW hour people started going to 5 GW hour or 10 GW hour and then from 5 GW hour and 10 GW hour now. Today people talk of plants which are 20-30 gigawatt hour. So, as you start going to this scale, as long as you started designing your plant at 10 giga, 20 giga and multiples of those, what I have got the feedback is, beyond that the scale benefit is not that much. So, then you are basically driven simply by what is the material cost, what is the efficiency with which you are operating, which will make 10%, 15% kind of a difference. I personally believe, majority of the scale benefits that we needed to get, we have got. The Indian companies are also talking of, at least their initial plans are, all 10 giga, 20 giga and some of them are even considering an ultimate 50 or 100 giga kind of volumes. So, I am confident that they will be competitive against China in a fair competition.

Now, I personally feel the PLI benefit will help them get to that scale and after that, if the fight remains fair, then I think they will be able to manage well. If it is unfair, then you need something like anti-dumping duty protection if somebody decides to just dump like crazy and we have seen China do that. In China...even in pharma markets and in the other markets, that is where the Government would step in if it needs to help. I feel they are quite committed to protecting the Indian companies on that level.

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

Archit Joshi: I just have one question, Sir. Just building upon the previous discussion that you we're having with respect to the amount of GW hour capacity that is rather going to be built up over a period of time. But I am slightly looking at it from a myopic perspective. From let us say for CY'24 or CY'25. I think your anticipation was that we will have close to half a GW, maybe 1 GW, or a capacity in India in this year and then it will start doubling up exponentially over a period of time. In the current scheme of things, sir, in your discussion with your customers on the same account, especially in domestic battery manufacturing where we are mostly going to sell electrolytes, what is the progress there and how exactly do the sale get generated – is it that it goes into a testing phase wherein our pilot plant will be occupying more capacity towards that particular demand and then it takes maybe a year's time to ramp it up from 0 to 1 GW hour, so that time frame is essentially something that I am curious to understand if you can explain both these things?

Dr. Harin Kanani: Sure. The way this will work is that our principle has been, we have to be ready when the customer is ready because if they want electrolyte and if I don't have a plant to



make electrolyte, then basically we are forcing them (to import) even if they don't want to import, correct? So, if you look at what Neogen has done; so there were several customers in India who for last 15-18 months had developed the capability to test, make the cells in the lab like those few 100 cells, 200 cells. So, we were also ready with our facility. And even up to 10,000 cells etc., kind of a demand when they wanted, we were able to basically give them the few 100 litres of electrolyte. We were the only Indian company which was able to do that for the last let us say 18 months. Most of these customers have either bought the material to make their initial cells or send the material for evaluation to their international partners, who can evaluate.

Now, next what will happen is, as these people set up their giga plants, they will also need electrolyte to support the giga. And as I said, 1 GW hour depending on NMC or LFP is somewhere between 500 to 1500 metric ton. So, the 2000 metric ton capacity can support up to 4 GW hour of NMC cell production in India or 1.5 GW hour of LFP or on an average 2 GW hours of cell production can be supported by our existing facility. And this is the facility which we have from now till September or December 2025. So, will India at least make 2-3 GW hour of cells by December 2025? To me the answer is yes. With whatever is happening today, they will be at 2-3 GW hour per month if you are thinking of around 0.2 giga per month kind of a production which can be supported by my existing plant. In fact, if they really ramp up well, I might even have to increase this. I mean till the bigger plant comes up, I may have to increase this 2000 metric tons to 3000 metric tons or 4000 metric tons, but with the basic infrastructure in place that can happen relatively quickly. We will be ready for that if it is needed.

I think that will take care and I personally feel that once they start giga production in 2024, in 2025 they will start stabilizing and there will be more people who will come online in 2025. In 2026 is when the guys who will stabilize in 2025 would jump and make the 5x jump in 2026 and the guys who are stabilizing in let us say 2024, 2025 who are starting they will also have some initial requirement in 2026. So, 2026 is when we need that Mitsubishi plant to come online.

We will keep watching, how they are progressing and while the Mitsubishi plant - we already finished the design; they have already shared the final design numbers like estimation of what is it that we will need - so we have also completed that. We are in a very advanced stage of talks with some of the lenders who want to give us a very long term (finance). They also looked at this as a priority long term project finance mode. They are also giving us preferential terms so that we can manage our debt service coverage ratios and things like that. So, what I feel is that if we look at the 2030 number of 150,000 metric ton electrolyte demand, I personally feel that will happen by 2025. Will my 2000 metric tons run at full capacity? My guess is yes. So, if I am starting in, let us say, March 2024, and let us say 18 months or 21 months, if I am reaching full utilization levels, I will be very happy with that. The 30 KTPA plant, I still believe if it starts in end of 2025 which would be FY'26, full utilization of that might happen in FY'28 or FY'29.

Archit Joshi:

So, this year we are not expecting any battery capacity to come online, right?



Dr. Harin Kanani: No. The salt is coming online. Already, trials have started and if everything goes well before March, we will start at least making some trials sales. So, that is our internal target to at least start some battery sales before March 2024.

Archit Joshi: Sir, not ours, I was talking about the GW hour capacity in India for this year, any visibility on that?

Dr. Harin Kanani: When you say this year, in FY'24 or FY'25?

Archit Joshi: Let us say CY'24 - this calendar year

Dr. Harin Kanani: No. I still have, there are battery capacities which should come online in calendar year 2024. At least whatever I have seen so far, they will not be fully optimized, they will not be running at full capacity, but they will start manufacturing cells in the current financial year, I mean in the calendar year 2024.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity Investment Advisors. Please go ahead.

Manish Gupta: Sir, just wanted to ask for in this entire CAPEX programme, would you now need to raise any more equity?

Dr. Harin Kanani: As of now, we feel what we have raised is sufficient enough. The banks also, the financial institutions with which we are working with are also satisfied with the amount of equity that we have raised. So, it is not a necessary condition, but whether it is a desirable condition or not, and when, between let us say now till 2026. So, that is the question we will take a look at. That will depend on how fast and how aggressively the base business will recover, how BuLi will start contributing and how exactly we are phasing in the electrolyte salt and electrolyte capacity. So, we will keep a watch on that. Again, it is not a necessary condition, but if it is a desirable condition considering market conditions, we will take a view on that as the year progresses.

Manish Gupta: Just a follow up on this stuff that you have mentioned that you are comfortable with the debt to equity of 1.25, but if we were to look at a lot of our earnings are perhaps going to be more back ended, more FY'28 and FY'29, right? What is the debt to EBITDA number that you will be comfortable with say going into starting FY'27?

Dr. Harin Kanani: FY'27?

Manish Gupta: Yes, because that is when your Battery Chemical Business will really start contributing to that is the build-up phase, so if it is a Rs. 1,500 crore CAPEX programme and you are not going to raise anymore equity, the amount of debt in the business relative to the earnings or the EBITDA might really expand. So, what is the number you are comfortable with on debt to EBITDA?

Dr. Harin Kanani: Ideally, we want debt to EBITDA to be below 3, but like I said, for a certain period of time like as long as we have comfort in terms of the repayment schedule. So, like DSCR and those numbers also become more relevant. What is the interest you are going to cover etc.? So, I think, ideally we want it to be below 3. We know for a certain period of time it will be high. So, that is a call that we will have to take at that time. That is the reason why I told you that it is not that we are close to taking equity. We have the necessary equity. If we want a desirable equity, that is something we will keep evaluating.



Moderator: Thank you. Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to the management for closing comments.

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

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

The transcript has been edited for clarity. Although an effort has been made to ensure a high level of accuracy, the Company takes no responsibility for transcription errors, if any.