

August 23, 2023

To

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

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

Dear Sir/Madam,

Sub: Transcript of Conference call held on August 16, 2023 for Un-audited Financial Results for the quarter ended June 30, 2023

In furtherance to our intimation letter dated August 07, 2023, please find enclosed the Transcript of the Conference call held on Wednesday, August 16, 2023 with Analysts and Investors for the un-audited Financial Results of the Company for the quarter ended June 30, 2023.

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

Kindly take same on your records.

Thanking you,
Yours Faithfully,

For Advanced Enzyme Technologies Limited

Sanjay Basantani
Company Secretary and Head - Legal

Encl.: As above



“Advanced Enzyme Technologies Limited
Q1 FY ‘24 Earnings Conference Call”

August 16, 2023



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

Moderator: Ladies and gentlemen, good day and welcome to Advanced Enzyme Technologies Limited Q1 FY'24 Earnings Conference Call. As a reminder, all participants are in a listen-only mode and there will be an opportunity for you to ask a question after the presentation concludes. Should you need assistance during the conference, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Ronak Saraf. Thank you, over to you, sir.

Ronak Saraf: Good evening, everyone. Welcome to Advanced Enzyme Technologies Limited Q1 FY'24 Earnings Conference Call. I am Ronak Saraf, the Manager, Investor Relations here at Advanced Enzymes. We hope you all have gone through our financial, press release and the presentation, which has been posted in the Investor Relations section of our website.

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

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

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

Mukund Kabra: Thank you, Ronak. Good evening, everyone. I really appreciate you all for taking out your valuable time, and I welcome you all to the conference call for the quarter ended 30 June 2023. It is a good start to financial year '24, although the global business environment and geographical situation remain sensitive.

The raw material prices are more or less stabilized, but we are still experiencing higher power and fuel cost. We hope this scenario to settle down in the coming quarters. The company's overall performance improved on a year-on-year basis. The growth in the numbers are essentially driven by human nutrition business and bio-processing business.

Now I will take you through the quarterly performances. Now as far as the quarterly performance, our top line stood at INR1,473 million, grew 22% on a year-on-year basis and 6% on a sequential basis in quarter 1. Our EBITDA stood at INR440 million, grew by 42% on a year-on-year basis, while it remained flat on a sequential basis. We have witnessed a significant growth of 67% in the bottom line on a year-on-year basis, while on a sequential basis, it has declined by 8%.

On the margin side, EBITDA margin stood at 30% and PAT margin stood at 20% during the quarter 1. Now I will just highlight the different segments. The human nutrition segment outperformed during the quarter and remains highest contributor in the revenue by at 67%. It

grew by 23% on year-on-year basis and 13% on a sequential basis. Pharma, API and biocatalyst in domestic markets and nutrition in the international markets primarily supported the numbers in human nutrition.

Our animal nutrition business contributed 11% to the revenue in quarter 1. It grew by 1% on a year-on-year basis, while it declined by 23% on a sequential basis. Bio-Processing business, during this quarter performed really well and contributed 15% to the revenue. It grew by 22% on a year-on-year basis and 17% on a sequential basis.

The specialized manufacturing segment contributed 7% and grew by 50% on a year-on-year basis while it declined by 14% on a sequential basis. We anticipate continued growth in coming times. We will continue our focus to enhance customer value proposition and deliver long-term sustainable growth going ahead.

With this, I will now hand over the call to Mr. Beni Prasad Rauka. He will walk you through the financials and key subsidiary numbers.

Beni Prasad Rauka:

Thank you very much, Mukund. Good evening, everyone. I hope you all are in good health. On the company's consolidated financials for the first quarter of fiscal year 2024 year-on-year basis, that is Q1 of FY'24 versus Q1 of FY'23, our revenue increased by INR262 million from INR1,211 million to INR1,473 million. This is 22% of increase.

Our EBITDA has increased by INR131 million from INR309 million to INR440 million, registered an increase of 42%. Profit before tax increased by INR177 million from INR237 million to INR414 million. Our profit after tax has increased by INR118 million from INR176 million to INR294 million which about 20% of our revenue.

On Q-on-Q basis, which is sequential basis Q1 of FY'24 and Q4 of FY'23, our top line has increased by INR86 million from INR1,387 million to INR1,473 million. The EBITDA is about INR440 million as compared to INR441 million. Profit before tax is down by INR7 million from INR421 million to INR414 million. Profit after tax is down by INR27 million from INR321 million to INR294 million. We'll explain the reasons of slightly downtrend if we compare on sequential basis. We'll give you some more perspective as we go forward.

Our subsidiary numbers are as follows: JC Biotech, where we have about 90% of holding. The top line was INR134 million, as compared to INR107 million in Q4 and INR146 million in Q1 of last year. So, we have Q-on-Q 25% increase, year-on-year, it is down by 8%.

EBITDA of JC Biotech stood at INR9 million in Q1 as compared to negative EBITDA of INR3 million in Q4 and INR19 million positive in Q1. PAT for this quarter was negative by INR1 million as compared to INR10 million of negative PAT in Q4 and INR7 million of positive PAT in Q1. So, JCB is showing positive trend in this quarter as compared to the previous quarter.

Evovx, the topline stood at INR64 million as compared to INR68 million in Q4 and INR69 million in Q1. EBITDA in this quarter is negative in Evovx INR7 million as compared to INR14

million in the previous quarter and INR18 million in the first quarter of previous year. Evoxx profit after tax is negative this quarter, INR13 million as compared to INR11 million of positive PAT in Q4 and INR8 million of profit after tax in Q1 of last year.

SciTech top line stood at INR97 million, and EBITDA is INR4 million, PAT is INR1 million as compared to INR117 million of revenue in quarter 4 and INR24 million of EBITDA in quarter 4 of last year and PAT was negative in quarter 4. Last year quarter 1 top line was INR66 million and EBITDA of INR2 million negative and PAT was negative of INR14 million. So, SciTech is also going in a positive direction in this particular quarter.

The sale of our largest product, anti-inflammatory enzyme stood at about 24% of our top line consolidated basis. This was 24% in Q4 of last year and 23% of quarter 1 of last year. The top 10 customers contributed 26% of our total revenue in quarter 1 of FY'24 as compared to 30% in quarter 1 of FY'23 and this was about 26% in quarter 4 and last year, for the full financial year, it was about 24% of our top line.

Now we'll give you some numbers on R&D. On standalone basis, R&D spend in Q1 was about INR62 million. This is about 4.2% of our consolidated revenue as compared to INR79 million of R&D expenditure, which is about 5.7% of our consolidated revenue. And in Q1 of FY'23, we spent about INR76 million on R&D, about 6.3% of our consolidated revenue. Now when we look at the R&D spend after eliminating the expenses we have incurred in our subsidiary company, Evoxx, the consolidated R&D spend was INR41 million, about 3% of our consolidated revenue as compared to INR61 million in Q4 of FY'23, about 4% of our top line. And in Q1, we spent around INR52 million, which is 4% of our top line. In FY'23, we spent about 4% on R&D on a consolidated basis as compared to 3% in FY '22.

So, this was from my side. Now we shall open the floor for question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Shreyans Gathani from SG Securities. Please proceed.

Shreyans Gathani: I have a couple questions. So, the first one is related to the animal nutrition business. It seems like a pretty sharp fall from the last year's trend. So, I'm wondering if there's like a loss of customer or because we've seen a secular rise in the business and the current revenue goes -- at to what we had over a year ago. So, I just wanted to get some color on the revenue drop in the animal health business?

Mukund Kabra: Shreyans, we don't think there is any loss of customer. But generally, it's a quarter-on-quarter, we cannot judge in the animal feed business or any other business. On the quarter-on-quarter basis, basically in animal feed, there are a lot of like export shipment also happens. And if the delivery is not there, then there are these sales reversals as well. So, it's very difficult to judge animal feed business on a quarter-on-quarter basis. We haven't lost any of the customers, and we still expect the growth in this year in the animal feed business.

Shreyans Gathani: Got it. Okay. Okay. And for the geographical segment, so is there any new geography that we've added, like I see there's a huge jump in the rest of the world revenues. So, are we targeting other geographies and if you could include that obviously from the rest of the world because it seems like a significant jump from last quarter.

Mukund Kabra: It's again quarter-on-quarter. So, in some of the geographies, at some point, you will see the higher sales in some of these geographies you will see the lower sales. So, the geographies remain the same, wherever our focus is, but it's an increase in the business overall, that is what we expect.

Shreyans Gathani: Got it. Got it. And regarding the margins, so as of now, if I see the margins, so there's from the peak margins. We've lost some of the margins due to the gross -- on a gross margin level and then there's like power and fuel, which you mentioned. Besides that, we also I see that in the annual report is like higher legal fees, which I don't know if we are -- if this going to continue because of the spend on the dossiers that you're filing or how do we look at that going forward?

Beni Prasad Rauka: So, gross margin is like it all depends on many times on product mix issue also. Of course, earlier in FY'22 and FY'23, in particular, the raw material prices and input cost has inflated. So, because of that, if you really look at the gross contribution, it was like slightly lower in FY'23 and that continues to be there, although we have seen some kind of softening of the input prices. So, that is not a big difference. Frankly speaking, it is about a 1% change in that sense from a gross margin of 76% to 75%, that is the kind of scenario.

So, not the big difference in that sense, but if you really compared with FY'22, FY'21, there is a lot of difference because of -- number one, it is inflationary impact on the input cost. Number two, it again depends on the sales mix.

Shreyans Gathani: Got it. Yes. So, I was mentioning like FY '21-'22. So basically, is it correct to assume that our U.S. business contributes to the highest margins and then the other ones are lower margin or margin diluted on the U.S. business?

Mukund Kabra: You're right. Like if you even look into this quarter, our U.S. business is more or less flat on the first quarter -- from the last quarter, I guess, so first quarter, right? We do expect -- and in the last call also we said that the first two quarters are going to be more or less flat, and we do expect the growth to come from the third, fourth quarter, somewhere. So, we still wait for the U.S. business to grow to really improve on the margins basically.

Shreyans Gathani: Got it. So, that just pretty much contribute to the current around 30% EBITDA margin is what slightly lower than the U.S. business is what I'm assuming?

Mukund Kabra: Yes. So, Indian business is more or less 30%, right?

Beni Prasad Rauka: Yes.

Mukund Kabra: Yes. So Indian business is around 30% on the EBITDA margin.

Shreyans Gathani: Got it. That's it from my end. Thank you.

Moderator: Thank you. Our next question is from the line of Lakshminarayanan with Tunga Investments. Please go ahead.

Lakshminarayanan: You mentioned the top product is 24% of the consolidated sales from this year, right -- for this quarter, right?

Mukund Kabra: That is right, Mr. Lakshminarayanan ji.

Lakshminarayanan: Okay. Second, in terms of the India pharma sales for us, can just give me the numbers of how much is that for FY'23 and also for the current quarter compared to the previous quarter of same -- of previous year -- I mean -- sorry, Q1 of FY'23 and Q1 of FY'24 of Indian pharma sales?

Mukund Kabra: One minute.

Beni Prasad Rauka: Yes. So, Lakshminarayanan ji Q1, it is INR539 million as compared to INR499 million in Q4 and INR378 million in Q1 of last year. And international sales is about INR456 million in Q1, INR378 million in Q4 and INR429 million in Q1.

Lakshminarayanan: Got it. This is with sales -- this is international sales?

Beni Prasad Rauka: Yes.

Lakshminarayanan: Got it. Got it. And what is U.S. nutraceutical sales?

Beni Prasad Rauka: It's about U.S. is INR404 million as compared to INR321 million and INR348 million.

Lakshminarayanan: And when you started the year in terms of your plans for the full year, so far, what has actually given you positive surprise and what is actually not going as per your plans?

Mukund Kabra: I think Lakshminarayanan more or less, there is no surprise. These were like all factored in at this point of time.

Beni Prasad Rauka: Overall, Lakshminarayanan we can say this particular quarter is operationally better than quarter 4 because when we compare some one-off items in quarter 4. And if I eliminate those one-offs, then we could see that the EBITDA margin, which appears to be lower in terms of percentage from 32% to 30%. This is at the same level number 1, rather it has increased by INR34 million in absolute term and 8% increase in EBITDA margin as compared to 6% growth in my top line.

And if I take the impact of all these one-offs on my profit before tax, so this is higher by about INR51 million in this quarter. So, there is an increase of about 18% in my profit before tax. And profit after tax also, there is a increase on overall basis after looking into the one-off items and taking out the tax thereof, so overall, I mean, the profitability is also increased by about INR22 million, so 8% of increase in my profit after tax. So, when we look at operationally how efficient we were in this quarter, this is much better than our previous quarter.

- Lakshminarayanan:** Got it. And how seasonal business or how you think it is going to be for this year, Q1, Q2, Q3, Q4?
- Beni Prasad Rauka:** I don't think it had any seasonal impact as such except what happens in animal feed business sometime in Q4, there's a little bit of push in sales, probably in domestic market.
- Mukund Kabra:** Lakshminarayanan since we are present in the most of the different, different areas, something balances the other, right? Although like the fourth quarter is generally the best in terms of -- because there is some push is always there in the fourth quarter.
- Lakshminarayanan:** Got it. Got it. Okay and sir, in terms of our -- we had some pricing pressure in our top product, right? And how is that -- has panned out -- as the competitive intensity in that segment has levered off or you still see that prices are on the check?
- Mukund Kabra:** We will continue our strategy. And if you really look at it, our sale has increased. I think the increase is significant, right? Even like if you compare with the last quarter, it's more than -- 26%, right? So, we'll continue with our strategy Mr. Lakshminarayanan.
- Beni Prasad Rauka:** On Q-on-Q, also, there's a 8% increase in the top product.
- Lakshminarayanan:** Okay. Okay. What is the comfortable band of margin or return on equity you'd like to operate in for the next couple of years, which is very comfortable to you in terms of the margin band or the return on equity, whichever way you look at it?
- Beni Prasad Rauka:** I mean our efforts are always to maximize our return. But then as you have also observed from the numbers that our equity has gone up substantially and of late, we have accumulated a lot of cash on the books. So, getting the same kind of profit from investment is a little bit challenging. So, we are looking for some other possibilities where we can earn more and maximize our return on equity and all our return ratios.
- Lakshminarayanan:** Got it. And what has been our people intake for the last financial year, what is the planned intake of scientists as a percentage of your base? And has it increased over the last year, number of new people you're actually boarding on?
- Mukund Kabra:** R&D strength you're talking about Mr. Lakshminarayanan.
- Lakshminarayanan:** Yes, yes, yes R&D, yes.
- Mukund Kabra:** So, the -- in terms of number of people last 1 year, we have increased the people almost 20%, 25%.
- Lakshminarayanan:** And how do you think in your attrition in the R&D space 20% is the gross number or the net number, sir?

- Mukund Kabra:** Gross number I'm talking about, 25% and there is an attrition also is there -- significant amount of attrition was also there in the last year. And this year, we really notice like we have come up with the ESOP plan as well in this quarter in this last Board meeting.
- Lakshminarayanan:** So, the net addition would be around 10% or it would be lower than that adjusting the attrition?
- Mukund Kabra:** It was on a higher side last year and this year it is on the lower side from what we are doing, and we expect somewhere around 10% this year.
- Lakshminarayanan:** Got it. Sir, and any client wins you have on an annual basis, how many new clients you actually had either in the U.S. or in Europe and how do you think it would happen for this year in terms of the absolute number of clients increase?
- Mukund Kabra:** We don't track the number of clients, honestly. It's very difficult for me to say how many clients we have added or not, right? I mean some of the like when we talk about animal feed business, some of the -- most of the business also happen through the distributors level. So, it's very difficult to talk about on the number of clients. We help distributors to get the client, but we don't track them.
- Lakshminarayanan:** All right. Thank you so much. I will get back in queue.
- Moderator:** Thank you. Our next question is from Abhishek Sinha with Bodh Capital. Please go ahead.
- Abhishek Sinha:** I just wanted to ask a broad question to really understand what has been happening in the industry over the last 4 years, 5 years. I mean in terms of competitive intensity, have you witnessed any significant competitors, gaining strength or market share, in any particular segment that you operate in, not specifically in the top product?
- Mukund Kabra:** So yes, you are right, Abhishek, we did replace some of the competitors, particularly into the food areas, in the animal feed areas. The biocatalyst is the area like where we are developing the solutions. So, I want say that it's a replacement, it's a market creation, a new market creation.
- Yes, we have replaced some of the competition in the -- even into the pharma segment, whichever is there. So, it's always there. So, intensity of the competitors defer geographically and segment-wise. So, there is no one single competitor. And I can't just map it exactly what is -- and I can't give it right away, what is happening in which segment because it's a big question, right?
- Abhishek Sinha:** Yes, sir. Sir, my question was particularly from a domestic point of view because in India, we don't see a lot of competitors gaining strength. So, is it that Novozymes and the other players DSM -- some of them are participating in the Indian market. I mean I wanted to understand what are their strategies and what are their growth trajectories as compared to us?
- Mukund Kabra:** So Novozymes like strategy is more into the detergent areas, more into the textile areas, more into the starch industry, more into the what I can say -- so these are the basic focus areas. Our focus areas are animal feed. We are getting into the food area, a different field -- I won't say that

we are replacing Novozymes here in India. We are developing a new applications out here. In the animal feed like it really like there are a lot of different competitions are there and different small, small players are also there. I won't say that we are replacing exactly the competitor. In the pharma sector, there were like some of the traders, which we replaced in this quarter also.

Abhishek Sinha: Okay. Got it, sir. And sir, how are things progressing on the food enzymes in Europe, we have already filed for some dossiers and got positive response?

Mukund Kabra: So, I think like this quarter was good, but I won't want to comment just because of one quarter because there are certain businesses which are like -- on some quarters, they make come quarters they won't. But overall, we expect good growth this year in the food business.

Abhishek Sinha: All right. And sir, in terms of India's consumption, especially food enzymes, how -- I know it's a very difficult question to answer, but I just want to get a sense of where India stands against the developed economies in terms of enzyme consumption is it going to be 5 years or 10 years trend that will -- India will take to catch up?

Mukund Kabra: I think India has a lot of potential, and our food enzymes consumption is on a really lower side. Honestly, like I feel there is a big potential as we grow, and the earning power of the people will grow and probably that will be the time when this market will really grow. If you ask me at this point of time, Indian market is very, very minimum, and it's growing, but not to that level.

Abhishek Sinha: Got it, sir. Okay, thank you sir.

Moderator: Thank you. Our next question is from the line of Punit Patni with CRED PMS. Please go ahead.

Punit Patni: Sir, how much revenue we would generate from the biocatalysis segment?

Mukund Kabra: For this quarter Punit ji?

Punit Patni: Yes, this quarter.

Beni Prasad Rauka: About 6% of our revenue has come from this particular.

Mukund Kabra: About INR8.6 crores, roughly.

Punit Patni: Okay. And what is your long-term strategy for this segment and how much growth do we expect in the long term?

Mukund Kabra: We expect a good growth in this area. As we already mentioning that a lot of our research is going into this area. We are developing a lot of good enzymes into these areas. Some of the enzymes are on a trial scale probably of the business may start into the end of this year, maybe about third or fourth quarter. Over a longer period, we feel this area should grow and a lot of research focuses into this area. That's what I can say.

- Punit Patni:** Okay. And my next question is regarding the proposed merging of Novozymes and Chr. Hansen. So, do you expect any impact of the merger? Any competitive intensity increasing because of the margin?
- Mukund Kabra:** We don't expect anything on us in real sense because -- and the changes what you're looking into Novozymes as well right now is, they are withdrawing from the most of the enzyme business and some of the enzyme business and they are focusing more on to the protein areas, fermentation protein basically maybe because of the cost structure and the other structures that is what we are looking at it, at this point of time, more picture will be clear as we move in maybe in the next two quarters, three quarters. So, it's interesting, but I don't feel like there is a much of an impact because of the merger.
- Punit Patni:** Okay. Just one last question if you permit. So, any competitive intensity from the Chinese players increasing or do you actually faced some competition from the Chinese players because there isn't much information about the Chinese enzyme market?
- Mukund Kabra:** So, some of the areas, China is strong in few of the enzymes and where they produce bulk, but most of those areas, we are not selling. So, we don't see a lot of competition into these areas. Some of the competition come in the API area, particularly into the biocatalyst area where they supply the finance API into the Indian market, and our enzymes has to be cost effective to really compete with their API prices. But on the enzymes front, we are not really directly competing with China.
- Punit Patni:** Okay that's from my side. Thank you.
- Mukund Kabra:** Thank you Punit ji.
- Moderator:** Thank you. Our next question is from the line of Shreyans Gathani from SG Securities. Please go ahead.
- Shreyans Gathani:** Thanks for the follow-up. Just a couple of questions. So just wanted to know what is the update on the R&D center that you are building in Nasik. It seems going on for a while. So, I just wanted to know when you would complete and start hiring for that -- for the R&D center?
- Mukund Kabra:** At this point of time, we're building a huge first building, which is about 100,000 square feet, which is a 5-floor building. At this point of time, we expect the first slab to go on the 15 September. We expect this building to complete by the next December, somewhere around that. So, it's quite a while to really -- to induct the people in the R&D center.
- Shreyans Gathani:** Got it. Okay. So, this would consolidate all the R&D -- like facilities or every R&D projects that will get under one roof for the company?
- Mukund Kabra:** I won't say that it will consolidate all the R&D into one roof, but most of the back-end R&D will happen out there.

- Shreyans Gathani:** Got it. Okay. Okay. And just 1 question on WELLFA. So, just if you give how that's progressing? What's the response on that and what's the strategy from here?
- Mukund Kabra:** So, WELLFA is as you know B2C business takes longer term. At this point of time, we don't expect any revenue this year as well, in the initial also we said that probably it will take couple of years to get into the revenue mode. At this point of time, we are focusing on Amazon and some other website selling, so we will see in the further times how does it pan out.
- Shreyans Gathani:** Got it. Okay. Just one thing like could you just give some color on what kind of product launches are you looking at for this year and like in the pipeline that you have right now in which areas specifically, I know you mentioned about the biocatalyst area, and if you could just give more detail I hereby would be helpful?
- Mukund Kabra:** So, I won't be able to give you exact APIs where we are targeting at this point of time because of the competitive nature, but yes a few products in those areas and few products in the nutraceuticals areas. Some of them are already there and some of them are under the trial.
- Shreyans Gathani:** Okay. Thank you.
- Moderator:** Thank you. Our next question is from Lakshminarayanan Tunga Investments. Please go ahead.
- Lakshminarayanan:** Couple of things, what is your outlook for the freight expenses as well as the raw material expenses for the year. And there are fluctuations on both the fronts in terms of transportation, freight expenses and raw material expenses earlier?
- Mukund Kabra:** Raw material is softening. Some of the raw material is softening, although they didn't come to the original level, but we think that more or less, it will stabilize. In terms of freight expenses, they also came down from the top. And still, they are on a little bit on a higher side, but still, it's okay kind of thing.
- Lakshminarayanan:** Got it. And given that we had gone through the big fluctuation in both the fronts, how have you thought through this from derisk view, you now contracted raw materials, how are you hedging risks these which may again emerged in the future or is it -- that it's always like this, it would be fluctuating and we don't -- we cannot hedge?
- Mukund Kabra:** No, we don't hedge it, Lakshminarayanji honestly, because a lot of raw materials are agriculture based, but when we really look at it in terms of the sale value to this. This is about 24%, 25%, and we just don't want to do all the hedging from the -- let's say, from the commodity exchanges basically. So, we don't hedge it, most of that time.
- Lakshminarayanan:** Honestly, the type of hedging you talked about, the other is to buy more and stock more, right? So, have you changed your procurement policies as well as freight booking policies?
- Mukund Kabra:** We don't import too much. Most of them comes from the domestic. So, the freight really affect when we sell, because many of the sales are CFS instead of procuring. And there is always a restrictions in the -- on how much material you can store basically and since it's most of them

are commodity based as well, like they also get, for example, so it will make it rancidity. So, you don't want to -- big inventory on those fronts. We don't have too many big godowns where you can really just store them. So, we don't really look into the hedging all of those kind of things. We can stock inventory for two months, three months but not beyond that.

Lakshminarayanan: Sorry!

Beni Prasad Rauka: So, two months to three months of inventory is okay, but not more than that, because that impacts again, your ultimately the finished goods because you need to use it for various purposes for fermentation and all that. If there is any issue with regard to that, then the impact is on overall profitability in that sense. So, how much we can keep is something like we have some kind of timelines that is what we stick to it. And of late, as already mentioned, now the raw material prices are softening and, I mean, now we don't see any kind of adverse impact provided the situation continues to be the way it is now.

And freight prices also, to a great extent, have stabilized. So, the issue where we used to pay 3x of what we have been paying earlier that time is also kind of gone. I mean many of the input costs now stabilized, except power and fuel cost, this is not -- this is something not in control of anyone. It's like market driven. Other than that, we see that most the costs are now kind of stabilizing.

Mukund Kabra: And even with the power cost in the longer runs, we're planning for some kind of alternate energies by that way we can cut down the power cost as we move on.

Lakshminarayanan: And in terms of probiotics, there was some kind of destocking that was taking place earlier. Now what is the -- what is our sales in the probiotics for the quarter and how does it compare sequentially compared to the Q1 of last year?

Beni Prasad Rauka: I think now the probiotics sale is still and not so much as compared to the sales, which we had in FY'22 or so.

Mukund Kabra: But probably this year, we might have a better sales, but we haven't really factored that as of now. But will be a positive surprise if that happens.

Lakshminarayanan: So annually, what is your probiotics sales?

Beni Prasad Rauka: I'll give you those numbers. Lakshminarayanan, any other question? I'll just give you those numbers.

Lakshminarayanan: Got it sir. And last question is that in -- we are generating sufficient amount of cash. And what is our plan in general? Do you intend to keep high cash reserves or do you intend to use it for any mergers and acquisitions. How are you thinking about the excess cash? What is the policy?

Mukund Kabra: We do intend to keep some cash, some threshold by which we can do the acquisitions. Unfortunately, we really didn't come up with a really good acquisition in the last -- I mean, I would say like we did acquire a company, but that was a very small one, a significant one. Excess

cash receivable also like we gave a dividend, which we thought should we be given, and we'll continue to do that.

Lakshminarayanan: Got it. Sir, and as we started this year and you clearly mentioned that all your cost item visibility is very high for you that both raw material and the freight expenses you can actually basically see that it is either softening or stabilizing. From a revenue point of view, what kind of visibility you have? Has our visibility increased when compared to last year for the forthcoming year?

Mukund Kabra: So, we -- in the last time, we said that we stick to those growth forecast, what we last time mentioned.

Lakshminarayanan: Got it. Okay. Okay.

Beni Prasad Rauka: And Lakshminarayanan last year in FY'23, the probiotics was about INR200 million as compared to INR240 million in FY'22 and for this quarter, it is about INR31 million.

Lakshminarayanan: Got it. And do you expect it to at least go -- do something like INR200 million for the year or do you expect there is an uptick there?

Beni Prasad Rauka: So, expectation is definitely higher.

Mukund Kabra: Expectation is there, but not factored too much of the number in this projection, whatever will come up will be the positive surprise.

Lakshminarayanan: Okay. And this is predominantly India. I mean is it also any export of probiotics?

Mukund Kabra: And we are not mentioning about the blends, which are going through the probiotics.

Lakshminarayanan: Sorry, sir, I didn't hear it.

Mukund Kabra: We are not talking about in these numbers the blends, which are -- which contains probiotics.

Lakshminarayanan: Okay. So, this is -- this INR200 million last year of probiotics, this is completely India sold, right, it's not exported?

Mukund Kabra: No, it is exported as well, but not in terms of blends. I think there are a lot of products which contains 3 probiotics, 5 probiotics plus your enzymes. So, it's very difficult to categorize them under probiotics.

Lakshminarayanan: Okay. This standalone probiotic...

Mukund Kabra: Most of them comes from the standalone.

Lakshminarayanan: Thank you so much sir. I will come back in queue.

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

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

Mukund Kabra: Thank you, everyone.

Beni Prasad Rauka: Thank you, everyone.

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

Disclaimer:

This is a transcription and may contain transcription errors. The transcript has been edited for clarity, readability, etc. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy.

Kindly Note, there could be unpublished price sensitive information that would have been shared /discussed during the call. Complying with the SEBI regulations, we have shared Audio Transcript to the Stock Exchanges and the Company website on August 16, 2023 for information of public at large.