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Ref: F.No.: 49

November 24, 2021

Corporate Relations
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001

Sir,

Ref.: Code No.: 506414

Subject: Transcript of Earnings conference call held on Wednesday, November 17, 2021 regarding the financial performance of the Company for the quarter and half year ended September 30, 2021 ['H1/Q2FY22']

We hereby enclose the Transcript of Earnings conference call held on Wednesday, November 17, 2021 regarding the financial performance of the Company for the quarter and half year ended September 30, 2021 ['H1/Q2FY22'].

The above Transcript shall also be uploaded on Company's website at www.fermentabiotech.com

This information is submitted to you pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements), Regulations, 2015.

Thanking you,

Yours faithfully,
for **FERMENTA BIOTECH LIMITED**
[FORMERLY KNOWN AS DIL LIMITED]

Srikant N Sharma
Company Secretary
CS Membership No: F3617
A-1501, Thane One, DIL Complex, Ghodbunder Road, Majiwade, Thane (W) 400610

Encl.: as above

“Fermenta Biotech Limited Q2 FY2022 Earnings Conference Call”

November 17, 2021

ANALYST: **MR. VIKRAM RAMALINGAM – MAYBANK KIM ENG**

MANAGEMENT: **MR. SATISH VARMA – EXECUTIVE DIRECTOR – FERMENTA BIOTECH LIMITED**
MR. PRASHANT NAGRE – MANAGING DIRECTOR – FERMENTA BIOTECH LIMITED
MR. SUMESH GANDHI – CHIEF FINANCIAL OFFICER – FERMENTA BIOTECH LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Fermenta Biotech Limited Q2 FY2022 Earnings Conference Call hosted by Maybank Kim Eng. 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 "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Vikram Ramalingam from Maybank Kim Eng. Thank you and over to you Sir!

Vikram Ramalingam: Thank you Stanford. Good afternoon ladies and gentlemen and thank you for joining us today. Maybank Kim Eng is pleased to host the conference call for Fermenta Biotech Limited to discuss the Q2 and first half FY2022 results ended in September 2021. From the management side we have Mr. Satish Varma, the Executive Director of the company, Mr. Prashant Nagre, the Managing Director, and Mr. Sumesh Gandhi the CFO of the company. Mr. Satish Varma will present the opening remarks after which we will have a Q&A session. Over to you Sir!

Satish Varma: Thank you, Vikram. Good evening everybody. It is a pleasure to welcome you all to the earnings conference call for the Q2 and first half of the financial year FY2022. I hope you are all keeping safe and well under the current circumstances. I am joined in this earnings call with our Managing Director, Mr. Prashant Nagre and our CFO, Mr. Sumesh Gandhi. On the non operational side, I am happy to inform you that the board of directors of the company have approved the composite scheme of amalgamation and arrangement along with DVK Investments Private Limited, which is the holding company of Fermenta Biotech and Aegean Properties Limited which is the wholly owned subsidiary of Fermenta Biotech Limited, to achieve various benefits including simplified group and shareholding structure, creation of larger asset base and also enhancing value for shareholders. Let me now ask Mr. Nagre and Mr. Gandhi to give the financial highlights. Thank you so much and over to you Prashant.

Prashant Nagre: Thank you Satish. Good evening everyone and welcome to the company's earning call for Q2 financial year FY2022. Let me give you some key highlights for this quarter.

In the Q2 the volumes for vitamin D3 human nutrition were higher by 13.4% on a year-on-year basis; however, they were lower by 17.2% on quarter on quarter basis. Volume for vitamin D3 animal nutrition continues to be under pressure while the price trend of the same continues to remain in the same trajectory as the past two quarters.

Our margins for the quarter under review were impacted due to change in the product mix in the vitamin D3 human nutrition. On the new products front, I am happy to state that the company has started the construction of its premix plant in Kullu, which is expected to be ready by the end of the calendar year 2022. The total cost of capex is expected to be approximately Rs.35 Crores. The same shall be funded by a mix of internal accruals and debt. Now I request Mr. Sumesh Gandhi our CFO to give the financial highlights. Over to you Sumesh!

Sumesh Gandhi: Thank you Prashant. Good evening everyone and thank you for joining this call today to give brief financial highlights for the quarter and half year ended September 30, 2022. On the consolidated basis in Q2 of FY2022 the revenue from operations for the quarter was Rs.99 Crores which was an increase of approximately 7% on a year-on-year basis and a decrease of 9% on a quarter on quarter basis.

Operating EBITDA reported was Rs.16 Crores which was a decrease of about 42% on a year-on-year basis and a decrease of 39% on a quarter on quarter basis. Operating EBITDA margins stood at 15.77%. Net profit after tax reported was about Rs.4.5 Crores which was a decrease of 69% on a year-on-year basis and a decrease of 60% quarter on quarter basis. The PAT margins stood at 4.5%.

For the first half of financial year FY2022 the revenue from operations was Rs.210 Crores which was an increase of approximately 11.6% year-on-year. Operating EBITDA reported was Rs.42 Crores which decreased by about 16% year-on-year. Operating EBITDA margins stood at 19.81%. Net profit after tax was about Rs.15.8 Crores which was a decrease by 44% on a year-on-year basis while the PAT margins stood at 7.5%. However I would also like to add here that the benefit of section 10AA under the income tax act for the SEZ unit seized to exist for the company from the financial year FY2022 and hence the PAT for the quarter and half year is not comparable against the previous year, which is also the reason why you are seeing a significant jump in the tax expenses. With this, we can now open the floor to the question and answer session. Over to you Stanford!

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Neerav Shah from Exemplar Investment. Please go ahead.

Neerav Shah: Thanks for the opportunity. Our total revenue for the Q2 from VD3 business seems to be around Rs.73 Crores so can you give me the breakup of human and animal VD3 business out of that?

Sumesh Gandhi: The breakup of vitamin D3 human and animal between both of them is in the ratio of 83% and 17% for the quarter of FY2022 so 83% is human and 17% is animal.

Neerav Shah: That is for Q2 FY2022 right?

Sumesh Gandhi: Yes for Q2 FY2022.

Neerav Shah: My second question was regarding our German subsidiary operations? Can you share some light on that if I can see from our FY2021 annual report it is a gross asset base of around Rs.34 Crores with a revenue of around Rs.4 Crores and at the same time we have trade receivables of around Rs.22 Crores from that subsidiary and expenses recoverable of around Rs.4 Crores so have we built our own production base via subsidiary because if my memory serves me right then we have said that they have built like asset light model there by engaging third part manufacturing there and if it is so what kind of approvals we were not able to obtain and what we have got now and what is the revenue potential there?

Satish Varma: I will take this question Neerav. Neerav you are right in remembering that we have not built a production base there. Most of the inventory receivables you see is because of us transferring the concentrate from here, where the animal powder is made there. We get it manufactured through a third part arrangement where we pay the toll manufacturing charges in Germany to a third party company. Most of the asset base you see there is inventory pile up. It took us some time to get permissions to release the material in the market. To a large extent our material started production in campaign basis that we have committed and COVID came together. As of last month, we received all the permissions to start marketing this material so we will start selling from this quarter onwards. Hopefully we will start seeing that in the coming month because we will be starting to sell the material. You have also asked the question in terms of the potential from there. Most of the powder form of animal feed that we sell, the animal feed we sell in oil form of different concentrations as well as powder form. Powder form is being the most volume wise most significant market for us as well as globally. We hope that most of our powder form will come from the German subsidiary through toll manufacturing so the potential will be more for our non oil animal feed business, the revenues will be generated from the German subsidiary not from India. India of course there will be a transfer of the concentrate to the German subsidiary so on a standalone basis you will sees those numbers but I think on consolidated that will get net off and you will see only the powder sales from this quarter or next quarter.

Neerav Shah: Any rough number which you expect?

Satish Varma: As we always mention that our share in the animal feed market is about 5% to 6% out of a market size of about 10,000 to 12,000 metric tonnes.

Neerav Shah: I'm talking about the German subsidiary?

Satish Varma: 60% to 70% of our animal feed business goes through in the powder form which will go from the German subsidiary. I will not be able to give a number on that because you are aware that the animal feed prices fluctuate and how they fluctuate so it will be difficult to give a number there, but if you can understand about the total 5% to 6% out of which 60% to 70% is powder form and that will go from Germany so you can come to an understanding from there.

Neerav Shah: Got it. Thank you. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Garvit Goyal from Anived Research. Please go ahead.

Garvit Goyal: Good evening Sir. Sir my first question is that the management is providing the guidance for lower CAGR of 15% in spite of the fact that the future growth plans are on high side and as the company has established a new plant at Sayakha that will be for the nutraceuticals and we are targeting the revenue share of 30% to 40% in future in the next three to four years and along with the recovery of the animal segment that is currently at 30% to 35% utilization if I am not wrong then why is the management is providing the guidance for such low CAGR, any update or any color on that?

Satish Varma: When we are giving the guidance Mr. Goyal it is over a period of five to six years so it is more averaged out. You will definitely see a spike as and when like for example when our premix plant comes into play at the end of next year, may be after initial market entry period you will see a significant jump, but it will average out over a period of five to six years that is a conservative estimate we would like to give.

Garvit Goyal: My second question is as the company is now going for the backward integration so for the cholesterol manufacturing there will be need of the wool grease and if I am not wrong the company is procuring that from a New Zealand supplier and there is a wool supply related issue because of the fact that the New Zealand supplier shall no longer accept the wool content so any problems related to that area in relation to supply of the wool grease to us and to our company?

Satish Varma: I would request Mr. Prashant Nagre to address this. I personally did not see any problem so far but Mr. Prashant Nagre will try to address this.

Prashant Nagre: Mr. Goyal thank you so much for asking. The company has a very long term arrangement, which runs into multiples of five years of time period on the wool grease. As you know that the wool grease is made by washing the wool and a very small component of this entire thing goes into the vitamin D3 space, lanolin being the major market and the cosmetic being a part of it. In addition to have very comfortable inventory built up on this particular material we get supply from two different locations of this manufacturer. Even in this month we have all our dispatches are scheduled as they would normally be so we are very confident of having no issues whatsoever and are in close consultation with the vendor on this front It does not impact us.

Garvit Goyal: Right Sir. Thank you Sir. I will get back into the queue.

Moderator: Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

Sunil Jain: Good evening Sir. Two questions Sir. You had spoken about the D3 stocking as lower demand was seen. Is the stock still there or is it overor is this continuing currently as well?

Satish Varma: Sunil ji we would avoid talking about the current quarter or the next quarter if you would appreciate that. We would restrict our discussions to the results already announced.

Sunil Jain: No, I was just asking about the environment and not asking for any guidance. how is the demand environment now?

Satish Varma: If you have noticed and have tracked our company over the past few years, quarter on quarter there are always ups and down so we would highly appreciate if we look at it in the long term rather than quarter on quarter basis. That is the reason we like to avoid discussing particular quarter especially which is ongoing or going forward. Because it is not a general trend that will emerge out of that so it will be wrong for us to make any assumption of a general trend.

Sunil Jain: Sir another question relating to fish oil cholesterol, was there any impact on the profitability of fish oil cholesterol as well as in this quarter or no?

Satish Varma: Fish oil cholesterol although on COGS basis it might not be as much as vitamin D3 especially on the human side, slightly lower it could be. But overall expenses on fish oil because it is a bulk orders and just couple of customers whereas D3 is more retail in nature. If you look at overall EBITDA level, I think we are getting close to similar margins. There has been no impact on the margins negatively in the last quarter also. In the beginning we had lower margins, but otherwise we are earning decent margins now.

Sunil Jain: Lastly about the wool grease which you procure, you said you got a long term tie up of five year, but how is it?

Satish Varma: It is for five years.

Sunil Jain: Then how is the pricing is decided? Is this also a long term?

Satish Varma: It is a formula based which is fair on both the parties. It is a formula based so we do not get hit by spot pricing so that formula is such that we do not get hit by spot fluctuations neither on the up side we get hit nor on the negative side, the vendor does not get hit.

Sunil Jain: Any outlook you see because it has been five to six quarters your animal vitamin D3 prices are continued to remain low, so any outlook you see in that?

Satish Varma: We do see a trend of them slightly going up, I would not say significantly increasing. The downward slide has stopped and slightly the upward movement hopefully is started. It is a wait and watch. As you know that it depends on China whether they wait for Chinese New Year's what they would like to do. As we always maintained that at the lower prices it is not a sustainable business for any company especially those companies, which are only focusing mainly on animal feed. For us with the human thing we get a fine balance. The prices have to go up. It is a matter of wait and watch when it will go up. We are all prepared for everything as you are aware that our Germany also has stocks so if all goes well then we should be able to catch the cycle.

Sunil Jain: Great Sir. Thank you very much.

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

Jigar Shah: Thank you. My question is whether there was any one off in the Q2?

Satish Varma: In terms of revenue or expenses.

Jigar Shah: Expenses?

Satish Varma: I do not think so. Sumesh is there any.

Sumesh Gandhi: There was no one off expenses.

Jigar Shah: My second question is that you have given a note regarding the German subsidiary and the losses over there and I believe the US subsidiary was also in loss at least last year, so how is the performance of all the international subsidiaries this year in the first half what is the amount of negative contribution coming from there and how much time it will take for those to turn around?

Satish Varma: The exact numbers Sumesh will give, but before that I would just like to make a comment. As far as Germany is concerned, we have just got all the approvals for making sales so the company was more building up inventory, contract manufacturing and of course spending on its incorporation expenses and the running expenses so you will see that losses on that front. Going forward it should change because now we have got our approvals and we have started selling the stock in the market. That is as far as the German subsidiary is concerned. Hopefully by next year I think everything should be smoothened out and we should have only the inventory cycle going on thats it; nothing more than that. We will be sending concentrate from here. They will be producing in campaign basis and liquidating in the market, so that is what will happen as far as Germany is concerned. If any there are expenses that cannot be recouped because of the first one and a half years of running expenses and incorporation expenses then a small portion of the loss that we will absorb or we must have already absorbed. Number two as far as the US subsidiary is concerned again US subsidiary main market is into animal feed. You know that the animal feed is still pretty suppressed in the market. It should turn around soon. Now the previous quarter we had a marginal profit in the US subsidiary but this quarter there was a loss. Sumesh if you can give the exact numbers.

Sumesh Gandhi: Yes, for the Germany the total loss for the first half is Rs.2.45 Crores and for the USA first half loss is Rs.66 lakhs.

Jigar Shah: Last year first half how much was this number?

Sumesh Gandhi: The last year first half we did not have the USA at all at that point in time and the Germany there has not been anything much over there at that time so US we acquired in December 2020.

Jigar Shah: Basically this Rs.3.2 Crores to Rs.3.3 Crores of loss has come in this year first half right?

Sumesh Gandhi: Yes.

Jigar Shah: This would repeat in the second half as well?

Sumesh Gandhi: I do not think so necessarily.

Satish Varma: Hopefully not if I may again Jigar add here hopefully not. As far as USA is concerned it depends on the market but we do not think we will see any significant losses there. Germany again it is already sitting on stock that they bought from Fermenta India as well as the overheads on the toll manufacturing. Depending on the animal feed prices we will see up or down there.

Jigar Shah: Great. Best wishes to you.

Moderator: Thank you. The next question is from the line of Neerav Shah from Exemplar Investment. Please go ahead.

Neerav Shah: Thanks for the followup. Regarding our premix plants when it is likely to get operational and what kind of asset turnover we expect out of that and what kind of margin profile this segment enjoys?

Satish Varma: We expect the premix plant to be completed by next calendar year end. We are investing about Rs.35 Crores. Asset turnover when it is fully operational and we get our market share based on the capacities it should be at least two times of the total capex.

Neerav Shah: Regarding margin profile?

Satish Varma: Margin profile may not be as sweet as the D3 human, but it will be decent so our average overall guidance say over the next five to six years average of 15% revenue growth while maintaining a 20% to 25% EBITDA we should be able to manage.

Neerav Shah: My second query was we are now fully backward integrated as far as VD3 business is concerned and logically this should benefit over margins considerably but still it is not reflecting in figures as far as our gross margins are concerned. In fact our gross margin if I see have actually reduced so why is it so? I can understand that pressure on animal VD3 prices is one of the reason for that, but that segment is now contributing only 17% to 20% whereas human segment is contributing around 80% where the prices are more or less stable so what is the reason for this?

Satish Varma: last quarter that we are talking about on the human side, there is a mix of key accounts coming in where the prices, the margins are a little lower because of long term relationships and number two we started participating in tender business in the US which is the new business for us so that did compensate and add to the volumes part of it, but on the margins they were lower. As far as backward integration and the margins to come in there are two things I would like to point out here. Number one is cholesterol prices are going up globally while we are able to produce our own and maintain it under check. However the full benefit of the backward integration of our own cholesterol manufacturing has still not come into place. I have mentioned this in my previous calls as well. It is because valorization of the side streams Only 10% to 12% is cholesteroland the rest all about 80% of, it which is into two side streams of Lanolin either in alcohol or fatty acids while lanolin fatty acids are low margin product, lanolin alcohol are slightly higher margin products. We have not yet been able to valorize those side streams and enter the market with them. We are working on it. COVID really did not help us on that front. Now that everything is coming back to normal we started working on it at our plant level, so hopefully as we move forward over the next few quarters we should start seeing that also revenue and the margins coming in from this which will make our overall margins better.

Neerav Shah: So are still using outside cholesterol and what is the portion we are using?

Satish Varma: Proportion I will not be able to say but I would say that most of it is in house.

Neerav Shah: Sir, most of it is in house?

Satish Varma: Most of it is in house.

Neerav Shah: Regarding the US business you talked that low margins that tender business and the other business so that is going to continue in further quarters or what kind of long term margin profile we can expect?

Satish Varma: Margins might be slightly lower but with all the increased capacities that we have taken up this is going to be an important portion of our revenue. This is additional business. The custom sales or the API sales will bounce back but this is again oil businesses which is other formats of vitamin D3 human form which is new business for us so with additional volumes irrespective of the margins, it is important for us to fully utilize our capacities that we have put in and increased so much over the last couple of years.

Neerav Shah: We will be able to maintain 20% plus margin profile?

Satish Varma: Over the long term that is our guidance that 15% on the revenue and while maintaining a 20% to 25% EBITDA margin.

Neerav Shah: Thank you very much. it helped a lot. Thank you.

Moderator: Thank you. The next question is from the line of Anil Thakkar: from Promore Advisors. Please go ahead.

Anil Thakkar: Just wanted to have color on this real estate monetization because we are seeing lot of reports that real estate is coming back in full swing in Mumbai and all those places, so any guidance on that?

Satish Varma: All I can say is we are in the market actively looking to monetize it. We also hope that it happens sooner than later. As and when we have anything concrete, I am sure we will make a disclosure.

Anil Thakkar: For the last quite few number of quarters this is work in progress and we have heard that real estate market was not doing that great for the last two three years at least but now it has really gone up?

Satish Varma: We are also seeing that there is more activity there in terms of the general market as well, so accordingly we are also talking to people. So as and when we have anything concrete we will definitely disclose this immediately.

Anil Thakkar: The second question would be Thane land and the Ceejay House property they are in the name of Fermenta Biotech or any other subsidiary?

Satish Varma: As far as Thane property is concerned it is in the name of Fermenta Biotech Limited. Ceejay House is in a subsidiary and the decision to amalgamate these three companies will bring the Ceejay House also directly under Fermenta name.

Anil Thakkar: Right and if I can squeeze in the third question? What has been the capacity utilization for us in human as well as animal D3?

Satish Varma: Animal as someone else also earlier mentioned it is close to about 35% odd. On the human side prior to this capacity expansion which has just come this quarter. We have made an announcement that we have taken a shutdown in October, prior to that we were at almost 100% utilization on the human side

Anil Thakkar: Right so once this maintenance shutdown is over do we think that enhanced capacity will be 100% again?

Satish Varma: Generally 90% should be good utilization because then you have that peak capacity left with you and there is a sudden surge in demand or something else happens in the global supplier side or something like that where you can play an active role so that is always important or something happens in one of your plants or something like that you should be able to match up. It has always been a race against that for us, so now at last we have put up these additional 25% capacities. Of course we all wish that it gets immediately utilized but we will have to wait and see.

Anil Thakkar: Right. That answers my question. Thank you.

Moderator: Thank you. The next question is from the line of Nikhil Shetty from BP Equities. Please go ahead.

Nikhil Shetty: Thanks for the opportunity. Sir any update on Sayakha capex?

Satish Varma: we have not yet taken any decision to start the capex.

Nikhil Shetty: Then what is the update on this vitamin D3 analog product? When do we see this product is getting communalized?

Satish Varma: Vitamin D3 analogs most probably will be linked to what we do in Sayakha.

Nikhil Shetty: So it will get delayed?

Satish Varma: The analogs will get delayed. We are more currently focusing on seeing whether we can get the Vegan D3 into the market faster, which we are going to do with vegetable oils so that is the first target.. Once that starts then we will get onto the analogs and as you are aware the K1 is also pending so as soon as possible we will get the K1 into the market. For this the plant has already been built and we are putting in money into the premix plant . So just a little cautious on how much we stretch ourselves in terms of our financial bandwidth.

Nikhil Shetty: How much capex we’re incurring for the mentioned projects?

Satish Varma: Premix plant we are going to put in about Rs.35 Crores, which the construction has already started.

Nikhil Shetty: When do we see the contribution from these products is coming into the numbers?

Satish Varma: The premix and K1 should start hopefully by next year. At least we should start seeing the beginning of it. As far as premix is concerned I think last quarter of 2022 or first quarter of 2023 calendar year We should see the contribution coming in.

Nikhil Shetty: On a vitamin D3 human side how much capacity we increase collectively in the last two phase increase?

Satish Varma: Collectively both the plants put together should be close to about 40%.

Nikhil Shetty: 40% right so during the first expansion you mentioned about this the current year itself so the second part how much time do you foresee to get absorbed?

Satish Varma: Capacity to be absorbed.

Nikhil Shetty: Yes the second expansion?

Satish Varma: It depends on the market conditions. Otherwise over the next two years it should be absorbed.

Nikhil Shetty: Next two years, so is there any change in the vitamin D3 human side demand because you were quite positive about it during the first expansion of 20% and now you are saying like it will take two years to get absorbed the additional?

Satish Varma: Let me clarify myself. I said within two years. It is not that we have lost any positivity on the D3. As and when we start the Sayakha project, we have plans to increase capacities there also to put in more capacities for vitamin D3. Vitamin D3 in general will continue to grow. When you keep one thing in mind that 70% to 80% of the global population is deficient. It is not that they were always deficient like that for 100 years of years. It is just the lifestyle changes have pushed this to this other extreme. We are quite positive on this molecule.

Nikhil Shetty: Sir lastly on a vitamin D3 human side prices, how are the trend in the last six months? Is there a contraction from the peak or it continues for us?

Satish Varma: Prices have been fairly stable if not a little better, absolutely no concern on the prices. There has not been any moderation. It is pretty stable.

Nikhil Shetty: Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Ashok Shah from LFC Securities. Please go ahead.

Ashok Shah: Thanks for taking my question. Sir we have expanded our capacity and what could be its highest level realization sales be achieved in the future years?

Satish Varma: It all depends as itis a combination of volumes and prices. You know that the until about a quarter before our 100% capacity utilization that was there after which needed about 25% capacity increase. As far as the animal is concerned you are aware that the price fluctuations the way it moves so it will be very difficult to put a number. On the D3 human side yes we have another 25% capacity increase. We can look at it, if the prices remain stable then it is a simple calculation.

Ashok Shah: Sir that is the common thing but what is it on the value wise realization or in rupee terms as per the current rate?

Satish Varma: Sure. Sumesh would you like to answer this.

Sumesh Gandhi: We will refrain from giving any kind of value forward-looking statement and everything which are in short term perspective.

Ashok Shah: I do not want any guidance if vitamin D we are selling at X price then 25% capacity X price multiplied by 25% so what could be your realizable value?

Satish Varma: It is the same thing. It is the 25% multiplied by the current thing by 25 is the human thing.

Sumesh Gandhi: My current revenues are given in call so you can take 25%.

Ashok Shah: Because we are getting utilization of 100% in human category and in animal category the utilization is very low, so if we utilize human category then can it increase by Rs.100 Crores?

Satish Varma: 25% will not give Rs.100 Crores increase. It is slightly lower.

Ashok Shah: Slightly lower. So it could be at Rs.75 Crores?

Satish Varma: Yes around Rs.70 Crores to Rs.75 Crores you can expect when it is fully utilized ?

Ashok Shah: Thank you Sir. That is all I wanted. Thank you Sir.

Moderator: Thank you. The next question is from the line of Madhav from Shastra Capital. Please go ahead.

Madhav: Good evening Sir and thanks for taking my question. Sir my question is on the US business so what is the contribution of US business in this quarter?

Satish Varma: Sumesh.

Sumesh Gandhi: So in this quarter the topline from the US business was Rs.5 Crores.

Madhav: Rs.5 Crores?

Sumesh Gandhi: Yes.

Madhav: Are we selling both human and animal portion at US?

Satish Varma: Yes.

Madhav: Sir when the company from US had around Rs.50 Crores of revenues if I am not wrong? If it is Rs.50 Crores actually why are we unable to get the same kind of revenue when it is being taken over by Fermenta.

Satish Varma: I will just answer this. Number one, we took majority stake. It is not that we have taken over and operations are being completely handled by us. We still have the US partner so there is no change in the way that the company was being run. Fermenta is more supportive role and the erstwhile 100% owner who are holding about 48%, are the Managing Directors and running the company so there has not been change either in the policies or the way the company is run absolutely no change since Fermenta has invested that is point number one Sir. Number two as earlier mentioned, the US company which we took majority control in significantly was doing animal feed sales. After we partnered we started increasing the human side business there while the animal side business as we have been continuously mentioning is pretty depressed or suppressed right now so as and when that comes back into action you will start seeing change in the numbers there.

Madhav: Regarding the EBITDA and PAT margins when I am at looking at the raw material consumption versus the sales, Sir it has gone up from 31% to 34% this quarter when we make a comeback with respect to Q1 so why is it so bad? Actually most of the cholesterol we have been producing in-house Sir so why this has increased?

Satish Varma: As we mentioned it is a matter of product mix especially on the human side while we saw a reduction in our sales on the API side, we saw that being compensated in terms of volumes by the oil that we sell and this is some new tender business to the US subsidiary that we are participating in, the margins are lower.

Madhav: How much that would be? Actually you are saying Rs.5 Crores only so still could not understand so we selling fish oil so we have about Rs.5 Crores sales from US subsidiary so fish oil cholesterol is actually a good margin business which is equivalent to human API so why did it fall Sir?

Satish Varma: As I said the crystal sales also we got through key accounts. Whatever crystal sales happened even after the reduction are through key accounts. Key accounts are long term relationships at much lower prices because these are key accounts so that will be the impact and nothing out of the ordinary or a onetime thing. I would not be able to say this is a onetime thing or something like that. Over the quarters you might see this being narrowed down.

Madhav: You are saying that there is an impact because of this human VD3 as well as in this quarter?

Satish Varma: Yes.

Madhav: When can we expect the stabilisation margins now even though this animal nutrition is not there, still the fluctuation is there in the margins? If you look at the PAT margins it has been ranging at 5 to 4% so we are sure that there is fluctuation in the margins without having any impact? How we actually is a bit of stabilization in PAT margin and EBITDA margin Sir?

Satish Varma: Again I would only be able to repeat that you please look at what we are trying to express here is, in the long term we expect to maintain that 20% to 25% margin. The year is not yet over. So far we have been able to maintain that margin levels except for that extraordinary time when we went up to 35% when the animal prices were at net peak otherwise we have always been able to maintain the 20% to 25%. We are fairly confident that we should be able to continue to do so.

Madhav: Sir the full process but I do not completely unexpected line what I want to understand?

Satish Varma: Pardon me Madhav.

Madhav: Your PAT margin, our net profit is only 4% for this quarter? Actually 4% is very low?

Satish Varma: I understand.

Madhav: Sir my last question Sir actually our inventory is being made of Rs.162 Crores so what is actually you are working on to reduce the inventory Sir?

Satish Varma: As you said this is on a consolidated basis. As I said about 30 to 35 is lying in assets in German subsidiary which we got approvals now so that is starting to get liquidated. We are working on the other inventories that we have build up especially on the vitamin D3 raw materials and intermediates because of the COVID situation. Now that the COVID has gone we are slowly starting to bring those levels down. Otherwise right from wool grease to cholesterol to other intermediate steps of D3, we have kept on building inventories so that we are not impacted by any COVID related issues whether it is our own facilities or the supplier factory or at the logistics level. I must mention here that this has what helped us including last year we were able to during the peak of COVID-times we were able to perform well and even in the beginning of this year you know how the second wave was in the country but we were able to continue to operate and perform. This was all because of the steps we have taken to ensure that whatever has happened. You will appreciate that our company is also not full proof as far as COVID impact is concerned. We have had had our share of disturbances because of COVID.

Madhav: I understand that.

Satish Varma: No not only on the business side Sir, our team, their families, right at both the plants, people coming to work for the factory every day. We have had our share of issues, but we were able to mitigate most of it with our preplanning.

Madhav: That is good and my last question Sir so what is the actual environment we could achieve? Now everywhere in the world has opened up and restrictions are being removed, so are we getting a sense that this animal business has an improvement?

Satish Varma: We hope to see something very soon because the cycle has run, downward cycle has gone long enough. We hope to see some improvement soon Sir, but cannot predict because as we have always maintained that mostly supply dynamics from China determines this prices. It is very difficult to anticipate or guess what they will do. We just are prepared from our side for a good cycle. Otherwise on the lower cycles we will maintain our share and anyway we have the human nutrition. As and when the animal comes ups we will be there to tap the cycle.

Madhav: Are we not benefiting on the power crisis in China Sir?

Satish Varma: We are hearing rumors about it going to have impact on our product also but we have not yet seen significant impact yet.

Madhav: Our competitor plants are running normal?

Satish Varma: No idea Sir what is happening right now. Absolutely no news coming out apart from the new articles on that power and steel and all those real estate things there is really not much information coming out Sir.

Madhav: Thank you very much Sir and all the best. Thank you.

Moderator: Thank you. The next question is from the line of NK Arora an Individual Investor. Please go ahead.

NK Arora: Good evening Sir. I just wanted to know Sir what is the status of the mandatory milk and oil fortification in India?

Satish Varma: I will ask Mr. Prashant Nagre to take this question, Prashant.

Prashant Nagre: Thank you, Satish. Arora Ji as the regulations that stand currently they are with the public consultation. The Government of India wants on the oil fortification, it should be made mandatory and that is under kind of discussion so they have not taken a decision. I think the direction is the entire thought process of FSSAI is to mandate the fortification. They are consulting various groups and will decide very soon as to what happens, but we will have to wait, because I think COVID and many other things have taken priority. The governments thought process but it is clear that nutrition overall is the focus of the current administration and we are very hopeful that that will remain focused going forward so we have to wait and watch as to when they will mandate it, but as far as oil is concerned already 70% of packaged oil in India is fortified. So there is a very positive trend on that and secondly FSSAI has now regulations which gives you the complete regulatory background in order to fortify the labors and the Sampoorna potion and yogurt and everything so I think we have made a progress as a country in this direction. Now we have to just wait till a decision by the government is taken further on this. I hope I have answered your question?

NK Arora: Sir I just wanted to know whether we are fully prepared to take the opportunity if it comes?

Satish Varma: Yes Sir. Yes Sir we are.

NK Arora: Thank you so much.

Moderator: Thank you. As there are no further questions from the participants, on behalf of Maybank Kim Eng that concludes this conference. We thank you all for joining us and you may now disconnect your lines