



Astec LifeSciences Ltd.

Date: 7th November, 2022

To,
BSE Limited
P. J. Towers, Dalal Street,
Fort, Mumbai – 400 001

To,
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai-400 051

Ref.: BSE Scrip Code No. "533138"

Ref: "ASTEC"

Subject: Transcript of Conference Call with Investors & Analysts held on Monday, October 31, 2022

Dear Sir / Madam,

Please find enclosed herewith transcript of Conference call of Astec LifeSciences Limited with the Investors and Analysts held on **Monday, October 31, 2022**.

This aforementioned information is also made available on the website of the Company i.e., www.astecls.com

Kindly take note of the above.

Thanking you,

Yours faithfully,

For Astec LifeSciences Limited

Tejashree Pradhan
Company Secretary & Compliance Officer
(FCS 7167)



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**“Astec LifeSciences Limited
Q2 FY '23 Earnings Conference Call”
October 31, 2022**



**MANAGEMENT: MR. NADIR B. GODREJ – CHAIRMAN – GODREJ
AGROVET LIMITED & ASTEC LIFESCIENCES LIMITED
MR. BALRAM YADAV – MANAGING DIRECTOR –
GODREJ AGROVET LIMITED
MR. S. VARADARAJ – CHIEF FINANCIAL OFFICER –
GODREJ AGROVET LIMITED
MR. ANURAG ROY – CHIEF EXECUTIVE OFFICER –
ASTEC LIFESCIENCES LIMITED
MR. MADHUR GUNDECHA – CHIEF FINANCIAL
OFFICER – ASTEC LIFESCIENCES LIMITED**

**MODERATOR: MR. NITIN AGARWAL – DAM CAPITAL ADVISORS
LIMITED**

Moderator: Good day ladies and gentlemen and welcome to the Q2 FY '23 Earnings Conference Call of Astec LifeSciences Limited, hosted by DAM Capital Advisors Limited. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nitin Agarwal from DAM Capital Advisors Limited. Thank you, and over to you, sir.

Nitin Agarwal: Hi. Good afternoon, everyone, and a very warm welcome to the Astec LifeScience Limited Q2 FY '23 post results earnings call hosted by DAM Capital Advisors. We thank Astec LifeScience management for giving us the opportunity to host this call. Let me now introduce the management participants on the call today from Godrej Agrovvet Limited, we have Mr. Balram S. Yadav, Managing Director, and Mr. S. Varadaraj, Chief Financial Officer. From Astec LifeSciences Limited, we have Mr. Anurag Roy, Chief Executive Officer, and Mr. Madhur Gundecha, Chief Financial Officer.

We would like to begin the call with brief opening remarks from the management, following which we will have the floor open for an interactive question-and-answer-session. Before we start, I would like to point out that some statements made in today's call may be forward-looking in nature. And the actual results may differ from those expressed or implied.

I would now like to invite Mr. Nadir Godrej to make the initial remarks. Please go ahead, sir.

Nadir Godrej: Good day, everyone. I welcome you all to the earnings call of Astec LifeSciences. I hope you're doing well. I will take you through the financial performance and key developments of the company during the second quarter and the six months ended 30th September 2022. Astec continued to deliver a strong financial performance in Q2 as well as the H1 FY23.

Total income grew by 97% in Q2 and 68% in H1 FY23 over the corresponding previous periods. The robust topline performance was driven by volume growth in export markets coupled with higher realizations in both the export and domestic markets as compared to the same period last year. The consolidated profit after tax doubled in Q2 and grew by 35% year-on-year in H1 FY23. It should be noted that Q2 FY22 performance was impacted by flooding in our Mahad facility, and hence, there was a low base effect as well.

The CMO sales contributed 8% of the total revenues in Q2 FY23 as compared to 4% in the same period last year. Export sales more than doubled in Q2, growing by 136% year-on-year and contributed 69% to the total revenues. The domestic business also registered a growth of 41% year-on-year, although its share in total revenues declined as we allotted higher capacity to export. For H1 FY23, exports grew by 162% year-on-year driven by both realization as well as volume growth. Domestic sales were up by 8% over the previous year.

The EBITDA margin contracted to 18% from 21% in Q2 FY23 and 17% from 20% in H1 F23 versus the corresponding previous periods on account of two key reasons, a sharp increase in raw material prices for some of our enterprise products, which could not be fully passed on and an increase in fixed overheads related to the herbicide plant.

On the operational front, the construction of a new state-of-the-art R&D center remains on track. Asset will also commercialize two new CMO products in the second half of FY23. That concludes our business and financial performance update for the quarter. With this, I end my opening remarks, and we will be happy to take your questions. Thank you.

Moderator:

Thank you, very much. We will now begin the question-and-answer-session. Anyone who wishes to ask a question may press star and one on their touchtone phone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. You may press star and one to ask a question. The first question is from the line of Nirav Jimudia from Anvil Research. Please go ahead.

Nirav Jimudia:

So, I have two questions, sir. First is for the CMO business, we did something around Rs. 88 crores of sales in FY 22. So if you can guide us that how directionally you see this business over the next few years? And if you can answer this question in relation to A, which chemistries we are currently have the capabilities, and we are already stronger, and what we intend to add over next few years in terms of our chemistry capabilities? That is one.

Second, how many scientists, PhDs we intend to add to our new R&D center? And if you can touch up on the same with respect to our existing R&D center that how many scientists PhDs we have at our existing R&D center? And third would be what could be the opportunity size orders we would initially like to target during the first few years of our CMO operations? So this is question number one, sir.

Anurag Roy:

I'll take this. This is Anurag Roy. Very good afternoon to you Nirav. So for the CMO business, you are right in saying that we clocked Rs. 88 crores last year in revenue. And as we have given the outlook in the earlier calls as well, our goal is roughly to be 20%, 25% of the total revenues in CMO in the near short-term. And then heavily focusing on it as we move towards the medium and long-term. So we continue to heavily focus on the CMO business. Similar outlook was given to the investors and the stakeholders on the herbicide plant, with which we commercialized last year. Our plan was to utilize it by 20%, 25% last year, 55% to 60% this year, and by end of third year, we want to utilize that plant to full as then we are very well on track to achieve those targets for the CMO business. So that was your first question.

In terms of the chemistry, I have discussed in detail our strategy, our focus on CMO moving forward. So the way we want to approach the technology platform and the chemistry is for Astec LifeSciences. One, we want to focus on our portfolio, which is obviously in the triazole chemistry area, we want to continue expanding our portfolio in these triazole products, broadening our portfolio strength as well as deeper chemistry insight. So that's the first prong of our platform strategy.

The second part of our strategy was to expand into the service side area. And that's when we developed competencies within the R&D as well as commercialize the new herbicide plant last year. We'll continue to improve our skill sets in that area expanding into areas like sulfonyl, urea, backward integrating into pyrimidine and then eventually into the fluorination chemistry. So that's the journey or the path which we plan to take on the medium-term basis. And then subsequently, based on our CMO partnerships or the relationships with the customers will continue to look for opportunities to expand into adjacent technology platforms. So that would be my answer to your second question. The third question was on the new target development, right? Like how many new products.

Neerav Jimodia:

No, my question was that in terms of our existing scientists and the PhDs what we currently have. So how much we will be adding to our existing base of scientists, PhDs through our new R&D center? Just wanted to understand in terms of the skill sets, what we are adding over the next few years to improve wise is on our capabilities chemistry is what you just mentioned in your remarks?

Anurag Roy:

So as you might be aware, we already have fully established R&D center, as Mr. Godrej mentioned, will have a new R&D center by end of this year, early January, which would be fully commercialized. It will be state-of-the-art R&D center with where we would be doing a lot of new product generation projects, process optimization, scale-up and product life cycle management work, and we would have the full synthetic labs, the kilo labs, the process safety labs, population lab. We are also planning for a biology lab in the subsequent year in that particular R&D center.

So what we plan to do is we already have a good institutional capabilities in terms of the PhDs, some of the scientists, which are currently working with at almost 35, 40 of them with us currently. And at the peak, peak time frame when our R&D facilities will be fully hopefully, operational, we are expecting almost 100-plus scientist working out of these facilities. So we have given this indication in our called earlier as well, and that is what my answer would be to your institutional capability building question.

Neerav Jimodia:

And sir, second question is with respect to the press release where we mentioned that some of our enterprise products faced some challenges in terms of passing of the raw material costs. And if I recall it correctly, we have already been backwardly integrated for some of our products. So if you can just again touch upon how much we are integrated to the N minus 1 level, how much we are still dependent on the outside world for our raw material supplies, that would be helpful, sir?

Anurag Roy:

See, Mr. Godrej, mentioned earlier part in the call that these were a little unprecedented times last few months wherein we saw a sharp increase in the raw material prices, the macros were all very volatile. We also realized weaker pricing in the market in a few of the products. We also realized some of the high inventory situations. So overall, it was unfavorable conditions with even climatic conditions across different geographies, not helping us. So that put together put a pressure on the margins.

In terms of the backward integration piece, for most of our key products, we are fully backward integrated. We keep on conducting on these periodic or even specific make versus buy valuations. And in case of favorable costing, we have flexibility and ability to start in production of some of the input raw materials within a few weeks. So that way, we have a very firm backward integration strategy and the sourcing strategy in place for most of our key products.

Moderator: Thank you. The next question is from the line of Siddharth Gadekar from Equirus Capital. Please go ahead.

Siddharth Gadekar: Sir, my last call, we had highlighted that we were taking up four projects in terms of our CapEx for FY '23, the debottlenecking, sustainability, R&D and land bank for MPP, the new one. So can you just share your update on where are we in all these CapEx, sir?

Anurag Roy: Sure, Siddharth. Madhur, do you want to start with the answer and then I'll add to it, if that's okay.

Madhur Gundecha: Sure. Siddharth, so basically, for the current year, we are expecting a CapEx spend in the range of INR 275 crores to INR 300 crores, out of this on INR 225 crores to INR 250 crores is expected to be capitalized in this year. So new R&D would be, let's say, around INR 110 crores. The new MPP plant would be around INR 100 crores. I think, yes. Anurag, do you want to add something on that?

Anurag Roy: Yes. So I think whatever guidance which we gave in the last few investor call, we stick by those guidance, our total CapEx plan is for INR 300 crores, roughly INR 300 crores to INR 350 crores. And we are on track to deliver on that across these two, three areas, which included some of the sustainability things, the new multipurpose plant and acquisition of new land and the other CapEx, which we talked about in the previous call.

Siddharth Gadekar: And the debottlenecking of the herbicide plant will also be completed this year?

Anurag Roy: So we have started the debottlenecking. That will be in line with the new project streams or the new contracts, which will be coming in. So we have started those initiatives and those will be concluded sometime Q3 next year.

Siddharth Gadekar: Okay. Got it. Secondly in terms of CDMO, can you just highlight till FY '22 end how many products are there in our pipeline? And going ahead, what kind of pipeline do we have? Secondly, you also highlighted that one product, if I'm not wrong, was facing challenges in the European market. So any colour on that product as well?

Anurag Roy: So see our guidance or the run rate, if I may use that word, for introducing the CDMO product every year is roughly two. So we are on track and delivering each year on those two new CDMO products every year. That's one, on one of the products where we had mentioned that the demand has been pushed for the few quarters. So, we are yet to hear back from the customers. But things are looking positive in the coming quarters based on the response from the users of that product going forward.

- Siddharth Gadekar:** Good -- so I mean in terms of number of products in our pipeline till FY '22 in CDMO?
- Anurag Roy:** Our goal, as I mentioned, is at least with the existing R&D centre to commercialize at least two per year. And with the new R&D centre, we really want to take up these number of projects to be commercialized every year. In terms of the pipeline, we do not give firm indication on how many projects are in the pipeline. But all I can say is that with the China Plus strategy and now recently Europe Plus One strategy, we are seeing a good pipeline building up on the CMO side. So as I mentioned earlier in the call as well, we are taking systematic steps to work on our technology platform. So currently, we are heavily focusing on triazole chemistry projects, herbicide projects in the Phase I. And then subsequently, we'll be broadening our CMO pipeline portfolio as we expand into other technology platforms.
- Moderator:** Thank you. Before we take the next question, a reminder to all the participants anyone who wishes to ask a question press star and one on your touchtone phone now. We have the next question from the line of Divyesh Mehta from Dinero Wealth.
- Divyesh Mehta:** Sir, I have one question. In last quarter, we said that we had some deferred revenue of around INR 30 crores, INR 35 crores, which was to be added in this quarter. So is that figure being added in this quarter numbers?
- Anurag Roy:** Yes. So from the last quarter, there has been some deferral sales. There has been some deferral from this quarter to the other one. But to answer your question, it has been added to this quarter sales numbers.
- Divyesh Mehta:** So it will be the tune of around INR 30 crores, INR 35 crores?
- Anurag Roy:** We had given an outlook of, I think, 15% to 20% of the revenues, which were the deferred sales -- so it should be in that percentage range itself.
- Divyesh Mehta:** And sir, second thing, I just wanted to understand that since we have such a high CapEx requirement, which is around INR 300 crores to INR 350 crores. Do we intend to do any right issues or any fund raise for us just to help us to fund this CapEx in a smooth way?
- S. Varadaraj:** This is Varadaraj from Godrej Agrovvet. At present, the CapEx, which has been planned, we have sufficient funding lines in place as well as arrangements in place. So at the moment, we are not really looking at any rights issue. As and when situation demands, we will be looking at that kind of situation.
- Moderator:** Thank you. Participants who want to ask a question, may press star and one now. We have a follow-up question from the line of Neerav Jimodia from Anvil Research. Please go ahead.
- Neerav Jimodia:** Yes, sir, you touched upon sulfonylurea as one of the areas where we want to focus in. So if you can just elaborate on that, what is the opportunity size there? How we want to capitalize on those capabilities, how much we need to invest over the next few years to develop those capabilities, some understanding what that part would be helpful, sir?

Anurag Roy:

Our strategy to open two herbicide segment driven primarily via motivation to expand our product portfolio. That was one. And number two was to further leverage on our existing partnership or relationship with some of our existing customers, who wanted us to work in this particular area.

So this particular capability was an extension to that and we are seeing a lot of good pipeline products in the sulfonylurea area as well within we have started the development and we see a good number of projects coming in the future as well. We also have a potent facility as we have mentioned in the previous call, along with the herbicide plant, which gives us very differentiated product offerings for our customers.

And in terms of our strategy of acquiring the customers, as I mentioned, for most part, these are established relationships, which wherein we are further penetrating with our existing partners. And very systematically, we would be also broadening it to some of our other customers in the global markets. So that's the reason we wanted to make a play in this area and over the last couple of years, R&D people and some of the projects which we worked on have developed appropriate competencies to now systematically scale it up over the next three to four years.

In terms of the investments, our first plan would be to quickly utilize fully the existing herbicide plant. Concurrently, as I was mentioning, we have started initiative to debottleneck the existing plant and then we'll also put in more investment to put in almost similar capacities as we move forward. So that's really in tune with the new business which will keep flowing over the next three to four years. So that's our overall plan in this particular area.

Neerav Jimodia:

Sir, just a clarification on our new herbicide plant. So you mentioned that last year, we applied almost 20%, 25% this year, 50%, 55%. And next year fully, we are target to utilize. So what could be the peak revenue potential from this herbicide plant considering we are also initiating some debottlenecking over there also, so what could be the peak potential from that plan, sir? -- revenue potential?

Anurag Roy:

See, we normally do not give specific revenues or profitability or forward-looking guidance, but you are aware for all the investments, which we do we are looking at 1.5 to 1.7 asset turn. And these are all multipurpose plants. So getting the right product portfolio in these plants, can further scale up the capacities, can further scale up the revenues and profitability. So our first goal is with the existing product, we get to a particular utilization level, so that you understand these product chemistry in detail. And then systematically bring in some of the new products through debottlenecking, so that you could further bump up the capacities and hence, the revenues. So very difficult to give you a number, but we would try to take it to the higher end of the asset turn in the third year or the fourth year. That's what our goal is.

Neerav Jimodia:

I'll just finish off my part of the question. So this sulfonylurea project would be also on the similar lines where the thought process would be the same in terms of initially investing a few amount and then probably scaling up. And once it gets scaled up we would also try to do some backward integration there also so that we remain in that value chain where we are therefore, a product

supplier also as well as the raw material also we become a critical player there also. So the strategy remains same over sulfonylurea also

Anurag Roy: Absolutely. And if you know this segment well, there are two or three key starting materials, which forms a crop of almost 60% of this sulfonylurea. So once we decided to enter into this area, our first initiative of goal was to get a good grasp from the chemistry side on these key starting materials. So that then we keep branching or adding up into more and more sulfonylurea as we move forward. So yes you're right, the complete backward integration, any product play which we would be doing, we want to have a full control on the product life cycle, and that would be our strategy for all of our new technology platforms.

Moderator: Thank you. We have the next question from the line of Vidit Shah from IIFL Securities. Please go ahead.

Vidit Shah: My first question was, you mentioned around INR 30 crores, INR 35 crores of sales deferred from 1Q to 2Q. So just if I adjust for these sales, there's been like a sharp decline quarter-on-quarter. If I just normalize these sales back into 1Q, so there's been a 20% to 25% decline in that case on a quarter-on-quarter basis. So could you just touch upon the factors that that have led to such a decline in revenue?

Anurag Roy: Yes. So for us, first of all, 35 is not the number which we gave. I talked about the percentage deferred sales from Q1. But we had a margin reduction in this particular quarter. because of the factors which Mr. Godrej also highlighted, we saw a sharp increase in raw material prices.

There was weak realization due to high market inventories from the last season. The macros are also not supporting too much right now, there's a lot of raw material cost inflation. So we faced a lot of margin pressure in some of our key products, while in other products where the prices were still at an elevated level, there was RM cost inflation which we were not able to pass on fully to our customers.

So it was a challenging quarter from that respect. And two, three reasons or the market trends globally, which led to this was number one, as most of you might be aware, there was adverse weather changes all across the globe. You saw adverse weather situations in North America, where it was unprecedentedly hot this time.

There were some parts of EU. France, the UK was facing the drought. There was a lower uptake of some of these fungicides in the China market, leading to exports into other geography. -- which in turn started putting pressures on the margins. And then obviously, we had also seen that last 18 months, there has been increasing the price trends on some of these key products wherein a lot of these buyers in the market have topped up in anticipation of the supply shortage which has led to some inventory buildup in some of the global geographies.

So I think these were three or four fundamental macros which played against us in the existing product portfolio, which we had. But having said that, we were able to systematically manage it based on our backward integration, strategic sourcing, manufacturing efficiencies. And we

continue to weather the storm of such macros over the coming months. to get on to our targets for this year.

Vidit Shah: So I mean you touched upon a lot of factors that sort of impacted margins. But on the top line, where volumes have volumes declined? Is it right to interpreted as a decline in volume due to the inventory buildup that you touched upon right now? Or is there any other reason?

Anurag Roy: Volume growth, like year-on-year in Q2, we are almost at 38% volume growth. And if you look at the first half, we are ahead by 11%. So most of the decline was because of the margin reductions on some of the key products.

Vidit Shah: And you guided towards roughly INR 300 crores to INR 350 crores CapEx in FY '23. Is it fair to expect a similar sort of run rate in the medium term? And if so, how are you going to fund this? Will it all come out of internal accrual or will some of it be funded by additional debt?

Anurag Roy: I think for the futuristic CapEx we would talk about it once we get into the next financial year. Year-on-year, we give the indication, we would not give any forward-looking guidance on the CapEx at this stage. And as Mr. Varadaraj, has earlier talked about, lot of these CapEx is, our strategy would be to, fund these through debt or internal accrual, but all the options will be reviewed as we move forward in terms of taking these CapEx depending on the growth strategy, depending on the order pipeline and other factors.

Moderator: Thank you. Ladies and gentlemen, this would be the last question for today, which is from the line of Praful Siddharth from Shravas Capital.

Praful Siddharth: I just want to understand what is the revenue share from CMO segment in Q1 and Q2 this year?

Anurag Roy: From CMO segment in H1, you were asking, right? We are almost at 11% of the revenue share from the CMO in H1 for FY '23.

Praful Siddharth: And the second question is how much percentage of RM is currently being imported? And how will this evolve going forward, so?

Anurag Roy: We are -- in this year, roughly, I think earlier guidance, what we have also given as roughly 50% to 55% RM is what we bought this year in the first half, it was slightly on the higher side, close to 65% to 68% RM is what we have imported and so we continue to reduce our dependency on import specifically from China through various backward integration initiatives and developing vendors, either domestically or from the other geographies.

But as I mentioned earlier, it's more of a strategic sourcing made versus buy valuations, which we continue to work on, and that's how these ratios or percentages keep changing. So we are roughly around 60% indicative is what you can take as RM buy from for these products.

Praful Siddharth: And why is this increase average from 50% to 55% to 60% to 65%

Anurag Roy: See, as I was mentioning earlier, it's more the factor of RM cost inflation that has happened. So I would attribute the majority to that.

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

Nadir Godrej: I hope we have been able to answer all your questions. If you have any further questions or would like to know more about the company, we would be happy to be of assistance. Thank you once again for taking the time to join us on this call.

Moderator: On behalf of Dam Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.