NEOGEN CHEMICALS LTD.

November 12, 2022

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 **Scrip Code No: 542665**	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **Company Symbol: NEOGEN**

Sub.: Q2FY23 - Earnings Conference Call Transcript.

Dear Sir/ Madam,

With reference to the captioned subject, please find enclosed herewith the Earnings Call Transcript of the Company's Q2 & H1 FY23 Earnings Conference Call held on Monday, November 7, 2022.

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

Kindly take the same on your record.

Thanking you,
Yours faithfully,
For Neogen Chemicals Limited

NEOGEN CHEMICALS LTD. Thane

Unnati Kanani
Company Secretary and Compliance Officer
Membership No. A35131

Encl.: As above

Neogen Chemicals Limited
Q2 FY 2023 Earnings Conference Call Transcript
November 7, 2022

Moderator: Ladies and gentlemen, good day and welcome to Neogen Chemicals' Q2 FY23 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Nishid Solanki from CDR India. Thank you, and over to you, Mr. Solanki.

Nishid Solanki: Thank you. Good afternoon, everyone and welcome to Neogen Chemicals' Q2 FY23 earnings conference call for analysts and investors. Today, we are joined by senior members of the management team, including Dr. Harin Kanani, Managing Director; Mr. Anurag Surana, Director and Mr. Ketan Vyas, Chief Financial Officer. We will commence the call with opening thoughts from the management team, post which we shall open the forum for questions and answers in which the management will be addressing queries of the participants.

Before we commence, I would like to share our standard disclaimer. Certain statements made or discussed on the call today may be forward-looking statements. The actual results may vary from these forward-looking statements. A detailed disclaimer in this regard is available in Neogen Chemicals' Q2 FY23 earnings presentation, which has been shared earlier. I would now like to invite Dr. Harin Kanani to share his perspective. Thank you and over to you, sir.

Dr. Harin Kanani: Thank you, Nishid. Good afternoon everyone and welcome to our Q2 FY23 earnings conference call. I hope everybody is keeping safe and healthy. We have reported our second quarter numbers on Saturday, 5th November 2022, and I hope you had an opportunity to go through them. I will be sharing the key insights and updates on expansion initiatives, while Mr. Ketan Vyas, our CFO will take us through the financial performance for the quarter under review.

We demonstrated healthy overall performance during the first half of the fiscal year 2023, notwithstanding the challenges posed by inflationary trends in (the prices of) key raw materials, elevated utility costs, as well as continued volatility in the foreign exchange rates. Our revenue grew by 50%, while EBITDA improved by 35% and profit after tax increased by 13%, respectively. Recently, we have witnessed some cooling effect in (the prices of) raw materials, barring Lithium, which continued its upward trajectory, reaching its highest levels and Bromine, which continues to remain steady with moderate increase. However, we were able to pass on the lithium-related costs to the customers, thereby protecting the absolute EBITDA. The EBITDA percentage margin considers the impact of higher revenues and higher RM costs with preserved absolute earnings.

In H1 FY23, we reported 19% growth in Organic chemicals. Growth in Inorganic chemicals stood at 176% which was largely driven by realisation gains across products. Steady demand momentum with incremental benefits from recently augmented capacities also contributed to the performance.

As planned earlier, we have started shifting our production to high-value customised products that enjoy better demand visibility. These are complex products that require expertise in key

chemistries but are value accretive and lead to customer stickiness, given the nature of offerings. We have further strengthened our R&D team to accommodate such complex products and now have a 60-member dedicated R&D team to take advantage of these upcoming opportunities.

Our expansion plans are progressing well across both, lithium-ion battery chemicals and existing business operations, including CSM segment and we are on track to deliver our stated revenue guidance for the next few years. In line with our CapEx trajectory, we are also ramping up our teams across business development, operations and EHS among others to increase the management bandwidth.

We have bolstered our in-house capabilities and process expertise in CSM and Advanced Intermediate segment to accommodate complex products that require multiple steps. We have added five customers in last quarter, in Europe and Japan, across Agrochemical, Flavours & Fragrance and Engineering segments, where projects have moved from pilot to first commercial operation with a combined revenue potential of more than Rs. 200 crore. We are now working with more than 15 customers actively and have started the initial working with U.S. and European agrochemical companies to understand their requirements and identify projects where Neogen facilities and expertise can add value to their requirements.

Our own six advanced intermediates targetted towards Pharma and Agro end-use, have completed their pilots and/or first commercial run, which have a revenue potential of around Rs. 150 crore and will start contributing to our revenue in second half and will allow us to reach peak by FY25.

We have also extended and demonstrated our capabilities of doing organometallic chemistry from carrying out Grignard chemistry to now being able to perform Organolithium chemistry at commercial scale, further extending the commercialised technologies in our toolbox available for our domestic and global clients.

On lithium battery materials front, we continue to work with future lithium cell producers in India to test our electrolyte samples internally or with their global partners and discussions around long-term contracts and with several of them have been initiated and are in progress. In addition, we have received positive feedback from global customers for lithium electrolyte salts and additives and sample testing and approval process has been initiated by these customers. We have also seen keen interest from several global technology providers to partner or share technology with Neogen and we continue to evaluate these options.

I will now share some of the updates on expansion initiatives announced till now:

- Based on timelines from our customer, we have prioritised our Lithium Electrolyte Salts and additives manufacturing setup at Dahej SEZ. We expect commissioning by Q4 and trial production to start by Q1 next year. The electrolyte pilot facility will, in parallel, continue to work. A smaller capacity for electrolyte trial, needed for our customers' immediate demand has already been installed and can support hundreds of Kg requirements for trials for our customers.
- In the existing business, work on increasing capacity for existing lithium business has been initiated and the new streamlined facility will be ready by Q4 of this year. So additional capacity will be available for the next financial year.
- Work on increasing Organic chemical production capacity also continues and is expected to be completed by Q1 or maximum Q2 of the next financial year.
- We have been in active discussions with key customers in lithium battery materials and have received positive responses from them. Larger CapEx plans will depend on how the final discussions progress for the lithium-ion battery materials space and will accordingly be announced towards the second half of the current fiscal year.

Overall, these planned expansions will put us on a strong growth footing within the chosen areas of our expertise and help us leverage the positive demand opportunity in the Indian Chemicals landscape. Our FY24 revenue guidance stands at Rs. 700-725 crore as was stated earlier, while by FY25/FY26, we will add another Rs. 250-300 crore at full utilisation levels. All these estimates are based on stable lithium prices, and any large CapEx that we do in lithium-ion battery materials will be in addition to that.

Our inventory stood higher as on September 2022 due to change in product-business mix and planned customer supply schedule for the forthcoming quarters. This will improve as new capacity gets added, as well as some of these inventories are liquidated and converted into sales in the second half of this year, when we see additional demand.

Looking ahead, I am enthused with the abundant opportunities that are emerging for India and more specifically for Neogen, driven by greater focus from the global business. This along with gains from our planned upcoming projects will steer the momentum for the next few years. We will maintain financial discipline while accelerating our performance traction through prudent capital allocation. That ends my opening thoughts. I would now request our CFO, Mr. Ketan Vyas to share the financial highlights for the period under review. Over to you, Ketan.

Ketan Vyas: Thank you, Dr. Harin. Good afternoon, everyone and welcome to our Q2 FY23 earnings call. I will now take you through the key financial highlights. Please note that these are on a standalone basis and are based on year-on-year comparison.

During the half year ended FY23, revenue increased 50% to Rs. 296 crore as compared to Rs. 197.8 crore in H1 FY22. We witnessed robust demand momentum and saw gains from augmented capacities as compared to the same period of last year. We have been refreshing our product mix, to offer products that enjoy better demand thereby deriving higher value.

We saw 35% increase in EBITDA which came in at Rs. 48.9 crore. This was delivered despite continued inflation-related cost pressures in the prices of raw materials and key utilities, further aggravated by foreign exchange fluctuations. Favourable product mix, as well as higher utilisation levels at various plants fuelled the EBITDA performance.

Moving to PAT performance, it increased by 13%, at Rs. 21 crore in H1 FY23. The performance was in line, given the impact of high depreciation and finance costs due to new plant addition and increase in the interest rates.

Now, let me take you through the quarterly numbers. Revenue in Q2 FY23 increased by 31% to Rs. 148.1 crore, EBITDA was higher by 18% to Rs. 24.3 crore and PAT stood at Rs. 9.9 crore.

I will also share the revenue breakup segment-wise and geography-wise. Organic chemicals saw growth of 9% year-on-year at Rs. 99 crore in Q2 FY23. Inorganic chemicals jumped 122% from Rs. 22 crore in Q2 FY22 to Rs. 49 crore in Q2 FY23. Domestic and Export mix for Q2 FY23 stood at 50:50

So, these were the key financial highlights. I will now request the moderator to open the forum for Q&A session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session.
The first question is from the line of Ranvir Singh, from Edelweiss Wealth Research. Please go ahead.

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Ranvir Singh: Thanks for taking my question. Sir, just on the growth side – what had been the volume growth during the quarter in Organic chemicals segment.

Dr. Harin Kanani: In our existing quarter, for both the segments, there is a volume growth as compared to the previous year's Q2. In case of Organic, there is a volume growth as compared to even Q1 of the current financial year. Our Organic revenue was also almost up by 10% at Rs. 10 crore as compared to previous quarter.

In case of Inorganic, we reached the highest lithium prices in the current quarter. So, the peak lithium price impact was in the current quarter based on which there were some customers whose volumes were a bit down and like you know, there was a resistance to accept these high lithium prices. Also, some of them knew that the peak is coming. So, in Q1, they had pre-booked the material and were working off inventory. Therefore, in terms of volume as compared to last year Q2, there was growth, but as compared to Q1 of the current financial year, there was a slight decrease in the volumes. However, most of the customers have now accepted the new price and we also feel that lithium prices have now stabilised. Earlier, the

expectation was that may be this high price would not be sustainable and that the prices will crash, but the high prices are more or less sustaining after about 10% kind of a correction. Now more and more customers are open towards accepting this price. Of course, there are a few customers who are just not able to afford the high lithium prices, but as I mentioned in my earlier calls, we are adding more international customers to basically make up for the little bit lesser volumes in the whole year.

Overall, we were expecting about Rs. 100 crore plus kind of revenue from lithium in the current financial year, on a stable lithium price. That, we are on track to achieve and our new capacity for lithium will also come online so that next year, we can end up doing better.

Ranvir Singh: Precisely, can you quantify the average realisation in Organic chemicals segment and Inorganic separately?

Dr. Harin Kanani: In case of Organic and Inorganic, the biggest challenge is that the product mix has changed significantly and it keeps changing almost every year. So, it is very difficult to say how much quantity is more or how much quantity is less. So, that is why it becomes difficult for us to say that in terms of tonnage what has happened. However, qualitatively what we can say is that, yes, if we just look at trade difference – how much it did contribute to; so when you look at it from that point of view you can say that there is an increase or there is a decrease. So, this is what I have shared with you.

Ranvir Singh: If you just take the total revenue and divide it by the volume, which I assumed on that particular capacity utilisation basis, the average per litre price is coming exorbitantly high during this quarter. That is why I wanted to connect the dots to know whether I am calculating right or wrong. So, in terms of capacity utilisation, can you indicate that of the 4,07,000 litres total capacity that we have, what has been the sold volume during this quarter?

Dr. Harin Kanani: Mahape and Karakhadi continue to work at around 80% utilisation levels. The Dahej site was at around 60% utilisation levels. But again, this 60% is not fully optimised yet, because some of the new molecules were getting launched and again, some of the materials which were made but were not sold yet. So, this is the utilisation levels of site. For some of them, the profit will be generated when we make the final sale of the material or the revenue will be generated when we do the sale. But, if you were talking of utilisation levels, again, Mahape and Karakhadi are around 80-85% and the Dahej is around 60-65%.

Ranvir Singh: Secondly, you indicated Rs. 250 crore of additional revenue in FY25. Will that come from the Inorganic side or Organic side or is this solely related to the new CapEx of Rs. 150 crore that we are doing on the lithium side?

Dr. Harin Kanani: You mean the Rs. 250 crore additional revenue from around Rs. 150 crore CapEx which we are currently doing, right?

Ranvir Singh: Yes. You indicated in the commentary on the revenue guidance that in FY24 it will be Rs. 700-725 crore and further in FY25, Rs. 250 crore of additional revenues may come in. So, on that Rs. 250 crore of revenue, is it related to the Inorganic - lithium side where the expansion is currently going on or would there be contribution from the Organic side also?

Dr. Harin Kanani: There are three contributing factors for the additional Rs. 250-300 crore of revenue which is coming in. One is the additional lithium capacity that we are adding, which will be somewhere around Rs. 50 crore in revenue. The second is, we are adding 60KL of additional reactor volumes and that will be a second contributing factor. The third one will be the lithium-ion battery material salts which we are doing. So, together, the three of them are likely to contribute between Rs. 250-300 crore of revenue. This we have targetted for FY25 and FY26. Once we are in FY24, we will have the exact clear guidance of how much in FY25, but somewhere between FY25 and FY26 we can reach full utilisation.

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

Archit Joshi: Good evening and thanks for the opportunity. Just needed some clarifications. Sir, I am a little confused from reading the presentation. We have mentioned that 250 MT of capacity will be

operational in FY23 and the 400 MTA line will also be available as additional capacity going ahead. If you can just share the timelines on how these capacities will be commissioned. Also, since you mentioned that some bit of revenues will be derived from the new electrolyte plant that we are expecting to commission by the end of FY23. If you can also share the quantum, in the beginning how much we can expect and going ahead, what could be the size of this, once this 400 MT of plant is operational and available for us?

Dr. Harin Kanani: As I said in my opening remarks, we have given priority to the 400 MT plan for the salts, the lithium salts and additive products, because we see that the demand from the customers is present today, because this is basically targetted at lithium salt derivative requirements. The electrolyte requirement is going a bit slower on our Indian customer side. So, we are giving priority to the lithium salt derivatives – lithium salts for battery materials electrolyte, which is targetted for the international market.

Also, once this is available, when we start our electrolyte plant, we can use our own lithium salts. So, we don't have to depend on an external source. Because of this, we have prioritised that first. As I explained in my opening remarks, we are expecting that in Q4 of this year, we will start the commissioning of the plant – the final installation of all the equipment; not the installation, just the initial trial, and by Q1 next year, we are targetting that trial production can start. This is for the 400 MT lithium salt derivatives plant.

For the electrolyte, we are working in parallel and we expect that it should be ready by Q1 or Q2 of next year. So, sorry if it is still FY23 in the investor presentation. We need to correct that, but it will be ready a little bit later in Q1 or Q2 of FY24.

In terms of revenue from the 400 MT plant, again, that is part of the Rs. 250-300 crore additional revenue which we have projected; it should be, at peak utilisation, somewhere close to around Rs. 100-odd crore. It will depend also on the final product mix and how it gets sold. This is approximately the idea.

Out of that Rs. 250 crore, about Rs. 50-odd crore will come from traditional lithium, about Rs. 100-odd crore will come from our additional Organic capacity which we are adding, and around Rs. 100-odd crore will come from lithium salts derivatives unit again on full utilisation. Now, I think lithium salts and organic derivatives might get done sooner. But because this is new, we want to first wait for approvals etc., to give a guidance that by FY25 or FY26, by when we can fully utilise this.

Archit Joshi: Since you mentioned that there is a fair bit of visibility more on the salt front which is the electrolyte salts than that of electrolytes, which is where we are focusing at this point in time. Shouldn't it be the other way around that someone would be looking for a more packaged material which comes in the form of an electrolyte per se than buying the salts because electrolytes can be readily installed in a battery; so, is there something that we are missing or is there an insight that you would like to share as to why there is more demand for salts than that of final product itself?

Dr. Harin Kanani: I am glad you asked this question, so, I could clarify. Yes, in terms of overall interests, especially when it comes to India, the interest remains in electrolyte. As you have rightly said, customers would like to buy electrolyte and when it comes to India, our focus is also to sell the electrolyte only. However, Indian demand for electrolyte is likely to start somewhere in 2024. So, there is still a lot of time.

However, in terms of lithium salts, international customers, who are making electrolyte or who are making other electrolytes, the requirement is today because it is being consumed even today. From that point of view, there are customers who are ready to test the sample and let us say, if my plant starts in the month of April or May, they can start buying. Whereas, for electrolyte, the Indian customers are still taking time to start consuming the electrolytes. Right now, they want only a very small quantity. As I mentioned, we have a small set up that can do 200 kgs per month, and that requirement can be met with my small plant. So, in terms of timing, we felt that the electrolyte salt is needed first and the electrolyte plant can be slightly delayed and still, we should be okay.

Moderator: Thank you. The next question is from the line of Ankur Periwal from Axis Capital. Please go ahead.

Ankur Periwal: Thanks for the opportunity. Just continuing with the earlier question. Lithium salt initially we will be addressing the international market and given that Indian demand is expected to start picking up from 2024, obviously, will this be shifted back to India? Or is it that there could be another round of CapEx with which you can expand the lithium salt capacity as well, so that the international market and the domestic market both could be addressed?

Dr. Harin Kanani: What we are basically planning to do is that, right now, with this trial plant of 250 MT and 400 MT of salts which we make, we will supply this to the international customers and in parallel, we are also working out that what is the size of the electrolyte plant for India. As I have said in my earlier calls, electrolyte is mostly a local business. So, in India, we have an advantage because we are locally situated and our target is to serve the electrolyte market within India. Internationally, we want to do lithium salts. Thus, the other idea of preponing the salt is, that once I have sold the salt and I know what is the international interest, then when I am planning my India electrolyte and electrolyte salt demand, if I have the feedback of the international demand; accordingly, I can go for a larger capacity for the salt, which will take care of India as well as the international demand and electrolytes, which will be mainly for the Indian demand. So that is how we see it happening.

If we can get this done quickly, then we can do our planning more efficiently, go for a bigger capacity for the salt, both for India and the international demand. The electrolyte plant capacity, we will plan it based on what is the India demand.

Ankur Periwal: Just a clarification, all this will be based on our own technology, right?

Dr. Harin Kanani: Yes, on the technology which we have. We have our own technology and we also keep talking to international technology providers or people who have technology to see if there is an interest in partnering with Neogen. This is because what it does is that, if there are companies or if we have people who have technologies which have a proven track record of having supplied to cell manufacturers globally, then it gives us even further credibility to Neogen. We keep exploring both the options, our own technology – we are working based on our own technology, but there are also international companies, which have interest, which are working with us.

Ankur Periwal: Sure, sir. That is helpful. Secondly, in your initial remarks, you did mention a new client addition, as well as the inquiries that have been rising across Europe and Japan. If you can probably touch on or may be put some more light – what sort of inquiries these are? More short-term sort of requirements for structural or longer-term contracts that we are working on?

Dr. Harin Kanani: These are again mostly with innovators or those who are global leaders in their areas in Europe and in Japan. Yes, these will be long-term requirements. However, the size of each molecule is, between Rs. 15 crore to Rs. 50 crore kind of a demand. I do not know whether we will ultimately get into a long-term supply contract, but yes, it will definitely be long-term and it will be long-term demand because then mostly we are working with global leaders in their particular areas, or who have a global strong position in their final molecules.

Especially in flavour and fragrances, it is mostly Europe and in agrochemical, it is mostly Japan and Europe. We have just started working with the bigger agrochemical companies. As we said, once we have Dahej site ready, we have started approaching them and we have seen good response during our initial presentations and now, we are identifying potential projects on which we can work together.

Ankur Periwal: Just one other question on the gross margin pressure. We had seen some bit of it earlier and there is an improvement this quarter. Will it be fair to say that most of the benefit is already there or probably there could be some further improvement there?

Dr. Harin Kanani: You mean in the gross margins?

Ankur Periwal: On the margin front. Yes.

Dr. Harin Kanani: Overall on margins right now, I see the biggest impact, when you look at a percentage margin, is of higher lithium prices. The worst we have now seen. At least, now we feel that the lithium prices have reached their peak and are now with a new stable price, at least for next one or two years. It may eventually decrease a bit, but for now, I think, at least for next one or two years, the price should remain more or less close to where it is. Slowly, my customers are also accepting this.

I am very happy to say that our team worked really well with the right procurement at the right time; getting into back-to-back contracts, where we ensured that in spite of a historical 4-5 times increase in lithium prices, still we were able to pass on all the lithium prices to our customers while basically protecting our absolute EBITDA margin.

Overall, in this year, we had targetted a Rs. 600 crore revenue with around 18-18.5% EBITDA, which is around Rs. 100-110 crore. In the first six months, we have already done Rs. 300 crore, and we have done an EBITDA close to around Rs. 49-50 crore. We are on track to achieve our target this year. The way we look at it is that our final revenue will be somewhere between, let us say Rs. 650-700 crore, depending on how lithium behaves in the remaining six months. We will be somewhere between Rs. 650-700 crore and the EBITDA should be closer to Rs. 100-110 crore is what we have targetted.

More or less, yes, there is a very strong lithium price, which will be passed on to our customers and whatever was the absolute EBITDA that we are protecting. Then as lithium prices stabilise, with our new customers and lithium coming in, we will try to work that even with the higher lithium price, how our EBITDA margins or percentage margins can also improve going forward in the future.

Moderator: Thank you. The next question is from the line of Mihir Damania from Ambit Asset Management. Please go ahead.

Mihir Damania: We have seen elevated levels of working capital, which has resulted in almost Rs. 93 crore of negative cash flow from operations in the first half. How do we see it panning out for the second half and may be for FY24?

Dr. Harin Kanani: I think in the second half, our working capital cycle will improve and because we are basically ramping up from let us say Rs. 80 crore to Rs. 150 crore plus kind of a revenue. As I mentioned earlier, we will end the year with a top line of somewhere between Rs. 650-700 crore. Ultimately with the elevated lithium price, we are talking of revenues in the range of Rs. 175 to Rs. 200-225 crore target that we need to reach. When we are doing this ramp up, there is some addition to working capital requirements as debtors as well as our stock levels have to increase to support these business levels. However, in this particular quarter or in the last six months, it was a bit higher because we are ramping up and we are preparing for some of the molecules. We make the molecules and we keep it. So, this was one reason.

The second reason was that for some of our pharma molecules, we see abnormally low demand as compared to what we had seen. These are basically our regular products that we have been making for many years for which the demand was a bit lower. So, we still continued our production and have some inventory. Now, this inventory will be sold off because the demand is now improving and we have now planned our production in such a way that, since we have this inventory, there are other molecules which are in the pipeline. So, we use the facility for making that and again control our inventory.

I think in the second half, by end of March, we will see an improvement in our inventory levels. They should be lower than what they are today and also, overall, it will be better in terms of the six months, from the working capital point of view, as opposed to the six months now. Also, as we get into FY24, as I have stated earlier, our goal is to first reach around 110-120 days of stock inventory levels on a net sales basis by FY24. Then going forward, once the new molecules which are coming from more dedicated facility to improve it gradually as we get into FY25 and FY26. So, I think we will continue to maintain that.

Mihir Damania: Just the other question that I have is, how are we looking to fund additional CapEx requirements which will be announced in H2 this year?

Dr. Harin Kanani: First we need to figure out what is the total CapEx requirement going to be. Based on whatever we had estimated earlier, if we are going for the same capacity, then we already had some debt and some equity portion which is raised, and then the remaining we were planning to fund using debt as well as our internal accruals.

Of course, if the demand exceeds what we have currently planned, then we will have to take a relook at it. But currently, the plan is, it is a mix of equity, which we have already raised, our own internal accruals, as well as the additional debt which we will be taking. So that our debt-equity ratio will still remain around 1:1, maximum 1.25 for a short period of time, but otherwise, it stays below 1:1, is what we are targetting.

Moderator: Thank you. The next question is from line of Sabyasachi Mukerji from Centrum PMS. Please go ahead.

Sabyasachi Mukerji: Just continuing on the last participant's question on funding the next CapEx. If I look at your balance sheet and cash flow, cash has almost been consumed. We are sitting at, I think, almost Rs. 250 crore of net debt and given the huge increase in inventory, cash flow from operations has also been negative. Are we looking at a fund raising plan as well apart from taking on debt?

Dr. Harin Kanani: There is a certain level of investment that can still be managed with our own funds. As I mentioned, the working capital will improve and while we have not yet fully utilised our working capital facilities, we still have room available there. We feel that up to a reasonable amount of investment, we should be able to raise our own funds just with debt, as well as the Company's own operations. But again, the final decision we can take once we have the exact size of the electrolyte business and the lithium salt additives which will come with that is once finalised.

Sabyasachi Mukerji: So, the next CapEx division will entail, one the electrolyte CapEx and two, if at all we need a larger salt and additive capacity, right? Both the CapEx decisions will be taken.

Dr. Harin Kanani: Yes. It will definitely lead the salt capacity, but whether the salt capacity will be only to the tune of what is required for our own consumption or also to take care of international *(demand)*. So, that is the decision which we still need to make.

Sabyasachi Mukerji: Okay. And you will take this decision hopefully by next earnings call that you will be hosting?

Dr. Harin Kanani: The thing which is pending is the final confirmation from our customers. Most of my customers are right now about to finalise their final equipment purchase contract. Some of them are finalising their technology provider partners. Once we get the final clarification, then our expectation is that by March or before March, we should get maximum clarity from them. So, in the second half, we should get clarity from them and based on that, anytime between now and March we should be deciding on the CapEx. So, whether it will be before the earnings call or just after, I do not know. It depends on how the customers finalise.

Sabyasachi Mukerji: Got it. Second question. If I look at other players in terms of competition in electrolyte CapEx, I see many of them setting up their electrolyte CapEx. Gujarat Fluoro is one such name. So, what is your view on competition, especially, in the domestic market?

Dr. Harin Kanani: As I have said in my previous calls that yes, there will be some competition where the customers can say, okay, I would like to buy this internationally, even though there are some challenges; or there can be some international company coming to India and setting up a shop here. But nobody has announced or nobody has even started work on that. Or the third can be domestic competition. Among all of these, we will divide the market share. And then based on whatever we have done so far or the work we have done, we will get a certain market share of that. Because the business is big enough, where the final market will be divided in these three or four ways.

So, how much market share Neogen is getting - 25%, 40%, 50% or 60% - will decide the final capacity of the plant that we need to make. Because how much India is going to make, there is a good degree of certainty. When they will start making, that is a bit uncertain but what market share Neogen gets, is what is going to determine the plant size that we have. I am fairly hopeful with the work we have done, with our track record and the lithium that we have,

we are expecting a decent market share, but exactly how much it is I do not know yet. Once I know, I will have my plant size and then the investment.

Sabyasachi Mukerji: Any other chemistry, other than lithium-ion that we are exploring like sodium-ion or any other chemistry?

Dr. Harin Kanani: Yes. Sodium-ion chemistry follows as the equipment or the facilities required are very similar to lithium-ion. Right now, our focus is on lithium. But yes, at our R&D we also have started looking at sodium to take care of some of the companies in India which have already announced their plans to work on sodium. Although, our main focus remains on lithium and the same facilities can, with some modifications, also be used for sodium as needed.

Sabyasachi Mukerji: Last question from my side, bit on the chemistry process. I hear many companies are talking about continuous flow chemistry or moving on to continuous flow chemistry from a batch process kind of a thing. Do you see any merit for our case and do we intend to move to continuous chemistry?

Dr. Harin Kanani: We have an R&D team, which has been working on continuous chemistry for some time now. Generally, our experience is that molecules which are of large volumes, so you have may be one or two steps, but you have a large volume requirement, that is where continuous chemistry is more useful. We do have some bromine derivatives - which are our normal bromine derivatives - that we have been making for a long period of time, where the volumes are a couple of hundreds of metric tons. So that is where we are currently trying the flow chemistry options. Although, bromine being corrosive, the tool boxes for continuous chemistry remain a bit more challenging for bromine as compared to others. But we are learning that and we have a team which is working on that. But as of now, nothing concrete or commercial on which we can plan them.

Moderator: Thank you. The next question is from line of Nitin Tiwari from Yes Securities. Please go ahead.

Nitin Tiwari: Hi, sir. Good evening. Thanks for the opportunity. My first question is with respect to the lithium salt businesses that we are discussing. Just wanted to understand that and correct me if I am wrong. Lithium salts would be about 10-15% of the volume and cost of electrolyte, right? So today, the lithium products that we are manufacturing at what percentage does lithium form a percentage of those products?

The motivation behind this question is that, today lithium prices are fairly high, with 4-5 times increase we have seen. But we have been able to pass on that increase. My sense is that, the percentage of lithium being used as raw material in the final product is a very small proportion and therefore, the cost pass on is easier. Would that be the case with lithium salts as well?

Secondly, wanted some perspective around the market for lithium salts currently in India and globally; what kind of manufacturing facilities do we already have in India and what is coming up? If you can give us some sense around that.

Dr. Harin Kanani: I think there are two parts of the question, the way I understood it. The first, our existing lithium molecules and how much lithium contributes in that. Correct? So, in our existing molecules which we make, the lithium – when I say lithium consumption, it is lithium that globally comes out as lithium carbonate equivalent, as lithium carbonate and all the lithium is measured as lithium carbonate equivalent. So, I will also say, in terms of lithium carbonate, we have a product where the lowest side it would require 0.15 kg per kg of lithium carbonate and on the higher side, 1 kg of lithium carbonate is needed to make 1 kg of the molecule. So, we have the full range and irrespective of that, we have been able to pass on the increase.

The main reason why we could pass on the increase is that – yes, there are some customers for whom this price is a challenge - but the fact that we are still able to source lithium at competitive rates as compared to our competitors, this is what is allowing us to be able to pass on the increase. Wherever our existing customers are not able to take the increase, we are finding new customers who are interested in capability, because there are many of our competitors, who are just not able to get enough lithium. So, the fact that Neogen is able to get this lithium and make this product and has been making it for last 30 years, is what is

allowing us this, either, with the existing client or with finding alternate customers to whom we can sell the product in such a way that we do not have to take a hit, because of the lithium price increase and we are able to pass on the difference.

I think in the second part of the question, you wanted to know what are the capacities which are existing for such a kind of existing lithium salt production. That is shared in my previous call. So, there is a company in Korea, there is a company in Japan, there are two companies in China and there is one company in Europe. So, these four or five companies do similar work as what Neogen is doing. There are some companies in India which like bromine, like sometimes lithium also comes off as a by-product in some other reactions in pharma, or at the end of the life of the machine. So, there are some companies which collect this lithium material and then from that, they try to make molecules similar to our existing molecules.

However, most of the OEMs do not like to work with them, because the quality is uncertain and even the pricing and the demand availability is uncertain, because they can only make so much as what they can get from the by-product or a waste product. So, this is when it comes to our existing lithium business.

Now, when it comes to the electrolyte business, the lithium electrolyte salts, as you mentioned, they are between 15-25% by weight, but you said weight and value. So, by weight 15-25% is correct, but by value the contribution can be much higher and that will depend on what are the lithium prices and what are the other raw material prices at that time. If I were to say today, it would be much higher as compared to 15-25% that you are mentioning on the value of the salt, which is present in the final electrolyte in the electrolyte pricing.

So, I hope this answers your question.

Nitin Tiwari: It does clarify to a large extent. Actually, what I was trying to understand is that, has the increase in lithium prices either impacted the lithium electrolyte salt market or has impacted the demand in any way? Like what is the sense that you are getting in your conversations? Can you help us understand that and what could be a potential size of the market for the salts specifically in India? We have only been given an indication of may be the electrolyte market size that you are looking at, given the battery capacity that you will be looking at by 2030. But any sense on salts market side as well, globally and within India?

Dr. Harin Kanani: First of all – your question that have high lithium prices affected the demand of the electrolyte salt? To answer that, the electrolyte salt requirement or electrolyte requirement will be driven largely by EV and to some extent by the energy storage requirements which are there. At least, when it comes to EV, it is very clear that the demand and the projection still continue. In the long-term, especially when you are talking globally, almost in all the countries, wherever EVs are getting made, there is a waiting period of between 4 months to 12 months or 14 months and pre-booking is required to get the EV. So, I think, the demand still remains strong as I have not heard of anybody cutting down on the demand of the EV. As long as that is remaining and also the desire to move to non-conventional energy, which basically generates the energy storage requirements, also continues. More countries want to move to solar, wind, etc., and especially in Europe with what is happening with the existing problems of gas, it is even more that they want to move to renewable energy which requires more energy storage. Therefore, I do not see the demand for lithium-ion batteries going down and hence, the demand worldwide for the electrolytes remain the same.

Similarly, when we are talking of India, the projections which we have given for 2030, which was made by IEFA and which is what we have used as a basis, continues to remain. I do not see any delay in the plans or the demand going down from where it was. Therefore, the demand which you mentioned of around 150,000 metric ton of electrolyte continues to remain. In terms of electrolyte salt, it will be between 15-25%. So, you can just multiply that number by 15-25% and you have the range of what is the electrolyte salt which will be required for India, let us say by 2030.

Nitin Tiwari: Still on that topic. If I understand it right, there are a number of electrolyte salts which are used in a lithium-ion battery. Are we planning to produce any particular salt or will there be a range of salts that we will be producing as such?

Dr. Harin Kanani: Yes. We are planning to ultimately make the range of salts required.

Nitin Tiwari: Understood. Lastly, if I may push one more. In your presentation, you had indicated that CSM opportunities are also looking very attractive. Can you throw some more light on these opportunities that are coming our way and how we are looking at that segment evolving over the next couple of quarters?

Dr. Harin Kanani: On CSM opportunities, we had two targets – first is, once Dahej site started, our idea was that the CSM should increase from 10% of our revenue to 20% by FY24. If I look at the first six months, we are already at 15%. So, we are moving in that direction. As I also mentioned in my opening remarks, now that the Dahej site and the capacity are available, we could go to the customer, take POs and there are four to five molecules which have now moved from pilot to a first commercial production, across three different industries - Agro, Flavour and Fragrance as well as Specialty Chemical Application and Engineering. So, these molecules have now moved. On top of that, this will allow us that, at least, by FY24 we are meeting our target of 20% of Rs. 750 crore that we are getting by the CSM opportunity.

In addition, for growth beyond FY24, we said that we'll start now, once the Dahej site is available, we'll start working with global innovator companies in Europe and U.S., which have much larger requirements. We have made our presentations and many of them have really appreciated our Dahej site. Some of them have also started visiting. With some of them, we have just made the initial presentation and they are evaluating based on our chemistry expertise as to what it is and which are the kind of projects that we can do.

Also, as I mentioned in my opening remarks, we were also working in organometallic – we were working with Grignard reagents, which are magnesium-based organometallics, whereas now, we were able to also make use organolithium molecules, which are even more difficult to handle and the reactions happen at even lower temperature. With this increase in our expertise, there's a good interest and we hope that by the time we work with our existing 15 customers in the CSM space to meet our short-term goals, we would have a pipeline of bigger molecules coming in from global majors. Hopefully that will fuel the growth for FY25, FY26 and beyond.

Moderator: Thank you. The next question is from a line of Yash Shah from Investec India. Please go ahead.

Yash Shah: My question was in continuation to the previous participant's question, which was about our competitors in electrolytes and you mentioned that we'll be splitting the market share. What I actually wanted to understand is, as you have mentioned that we've been pioneers in the lithium chemistry for last 30 years and our ability to procure lithium sets us apart from our competitors, which are not many in the Indian space at least. What I really wanted to understand is, having such kind of an edge, should we not be the market leader and why would we split the market share with our competitors when it comes to the electrolytes?

Dr. Harin Kanani: I said there are three things. One is, that the customer can say I'm going to buy this directly from someone who's already making and supplying it to battery manufacturers now. That's one sense of competition. The second sense of competition is, some of the global companies coming to India and saying – I will set up a shop in India and supply, and these companies also are making electrolyte and selling electrolytes, but which has not happened. The third is that other than Neogen, some other company also, could basically be setting up electrolytes. I would be very happy if I have 100% market share, but I know my customers are considering all these options and may be each customer, even if they go with Neogen, they might want to keep a second option. They might say split it between in 80:20 or something like that. Again, it depends on my customer, but I would expect that there will be some competition looking at the size of the molecule and size of the market. Of course, how it's going to get split and how much market share, I will get – my effort will be to try to get maximum market share considering our abilities. But ultimately, I can say more concretely only as things develop.

So, in our internal projection, we have like a minimum case and we have a maximum case. We have an idea that the capacity will be somewhere between in a particular range. But it's better that once I have stronger confirmation or some contracts with my customer, where we can give a more precise number of where the market share will lie.

Yash Shah: My second question was regarding employee cost and the tax rate. Regarding employee cost, is there any one off this quarter because it has been at historically highest level at about 8% of the revenue? On the tax front, like for H1, the tax rate has been significantly high at about 29% approximately. I was assuming that with Dahej revenues ramping up, our tax rate will decrease. So, any comments on these two factors?

Dr. Harin Kanani: The first one, yes. Basically, we have reached our peak employee count already before we have reached our peak turnover from Dahej and other sites. As utilisation improves, let us say we have a capacity of Rs. 750 crore, so that is roughly around Rs. 175 crore on an average. And with today's lithium prices, it is somewhere around Rs. 200-225 crore. So, as we reach around that kind of numbers between Rs. 175-200 crore, as a percentage you will see that our revenue will come up. Sorry, as a percentage, the employee costs will kind of moderate. Yes, this is relatively on the higher side, but I feel it will improve as compared to this, as our utilisation levels improve.

On your second question about tax, we have been a bit more conservative. Dahej operations are still ramping up. We are projecting on a higher side, but as we get closer to the year, and you are very right, that with the Dahej contributing more, our overall tax rate should improve and should be at least 25-26% or below. Otherwise, you always have an option to go to a second region. So, this is our expectation and this has been a provision done uptill now based on guidance from our auditors and our internal working. However, it is more conservative and we hope that by the end of the year, it will be closer to 25% or so.

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

Pallavi Deshpande: On the electrolyte salts, just wanted to understand what is the number of customers that we are talking to and where they would be located?

Dr. Harin Kanani: Thanks for the question, Ms. Pallavi. We are talking to may be around 10 to 12 customers in India and about two customers internationally for electrolyte; and for electrolyte salts, we are talking to several customers in Japan, Europe and Korea.

Pallavi Deshpande: You mentioned about the pharma demand being low on some molecules. Are those large molecules that you were speaking about and you also said the demand is coming back to normal. So, any insight into that part?

Dr. Harin Kanani: Yes. I think, we have seen that some of the APIs which are of very large volumes and are used in bulk quantities, the derivatives of that also for Neogen are on the higher side. So, our highest molecule is let us say about 10%-15% of our revenue. These are the some of the molecules that have seen a bit lower demand. We are generally seeing that in pharma, either people are seeing inventory correction or because people are working from home and that is how people have become healthier. We are seeing a little bit of lower demand on the pharma side for the last two quarters. We have seen that and my sense is that it is more inventory correction that is happening, that during COVID, because pharma was essential, the entire supply chain had basically built-up inventory and now, people are doing that correction.

Historically, we have seen that such corrections come within one year's time. We have already seen some improvement in these molecules. In the existing quarter, there is more interest than in the molecules where the demand was low as compared to Q2 and Q2 was slightly better than Q1. So, I think that trend is continuing, and hopefully, by next year, the demand should return to normal.

Having said that, historically, as Neogen, we are used to such kind of demand going down for a particular API for various reasons and that is where the number of molecules that we have comes to our help. So, the regular ones we make and keep some inventory and now in the current quarter and the next quarter, till the demand comes back fully, we are now using the facility to make some other intermediates. Overall, that will help us increase our organic revenue.

Pallavi Deshpande: Would you say that this quarter and the next, I mean, may be the next quarter, it should be cleaned up and the fourth quarter should be normal?

Dr. Harin Kanani: Yes. Again, demand, let us hope by at least Q4 or Q1, becomes normal. We have seen, sometimes, when this kind of slowdown comes in pharma, inventory correction takes somewhere between one year to one and a half year. I think you have already seen six months of that. So, between next six to nine months, things should start improving but for it to be fully normal, it will take around, let us say between six months to a year from now. Neogen would like to utilise this facility for other molecules and from our side, our performance will start improving using the other molecules.

Pallavi Deshpande: The agrochemical demand has been fine on that side.

Dr. Harin Kanani: Yes, we have not seen any decrease in demand in agrochemical. However, one thing which is there across is that, we have seen with China – with the demand going slow and Chinese having over capacities, they are becoming more and more aggressive when it comes to both pharma, as well as agro. Sometimes we have seen prices from China, which is really difficult to believe, are historically low. Sometimes, we even believe that this is a very good case for anti-dumping, because they are basically selling at a very, very low price, which even raw material does not make sense. This is a business typically of China, that when there is a capacity constraint, where they have overcapacity, they sometimes go to very low prices. There are times when there is demand shortage when they try to maximise the potential. Yes, we have seen a bit of that but I think more customers are aware of this kind of Chinese practices and they are still sticking. There is very strong competition, in general from China, because of the overall low demand from them.

Pallavi Deshpande: Is the Chinese competition more in the agrochemicals than the pharma within the setup?

Dr. Harin Kanani: It will be there for both. But in pharma, it is a little bit more difficult because they need to have prior approvals. It can be only with people who have been approved. When it comes to agro, there is a bit more flexibility for customers to change over because there is no registration or U.S. FDA approval or anything like that required. In a non-regulated pharma and agro, it becomes a little bit easier and in case of regulated pharma, it is not so much.

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

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

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

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