



**November 16, 2023**

BSE Limited Department of Corporate Services Floor 25, Phiroze Jeejeebhoy Towers, Dalal Street, Kala Ghoda, Fort Mumbai 400 001 <b>Scrip Code No: 542665</b>	National Stock Exchange of India Limited Listing Department, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 <b>Company Symbol: NEOGEN</b>
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**Sub.: Q2FY24 - 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 Q2FY24 Earnings Conference Call held on November 9, 2023.

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**

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**Unnati Kanani**  
**Company Secretary and Compliance Officer**  
**Membership No. A35131**

**Encl:** As above



**Neogen Chemicals Limited**  
Q2 FY24 Conference Call Transcript  
November 09, 2023

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**Moderator:** Ladies and gentlemen, good day and welcome to the Neogen Chemicals Limited's Q2 FY24 conference call. As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star and then zero on your touchtone 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, sir.

**Nishid Solanki:** Thank you. Good evening everyone and welcome to Neogen Chemicals' Q2 FY24 earnings conference call for investors and analysts.

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 Q&A, when 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 conference call today may be forward looking. The actual results may vary from these forward-looking statements. A



detailed disclaimer in this regard is available in Neogen Chemicals' Q2 FY24 earnings presentation which had been shared earlier.

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

**Harin Kanani:**

Thank you. Good evening everyone and thank you for joining us on Neogen Chemicals' Q2 FY24 Earnings Conference Call. First, Festive greetings to each one of you. Wishing you all a very Happy Diwali and a Prosperous New Year. We announced our Q2 FY24 financial results yesterday and subsequently, circulated the result documents. I trust you have had an opportunity to review them. As always, I will begin by guiding you through the performance highlights, important updates and expansion initiatives. Following this, our CFO Mr. Ketan Vyas will provide an overview of the financial performance.

I am delighted to announce that we have sustained a steady performance, even in the face of ongoing external challenges that have negatively affected the end-user demand. These headwinds relate to persistent inventory reduction, continuous dumping by China as well as deceleration in several developed markets. Furthermore, the ongoing conflict in the Middle East has had global ramifications, resulting in increased price volatility for raw materials (RM) linked to crude oil. Although a significant portion of our revenue comes from non-discretionary segments like Agrochemicals and Pharmaceuticals, which experienced demand challenges, we are partially insulated thanks to our diverse product range and the expansion initiatives which are already underway. We have maintained a strong emphasis on value addition and have established long-term arrangements with our customers.

While it is still early days, we have begun to see some signs of recovery and anticipate the situation to normalise towards the end of the current financial year. That said, all our expansion projects are on schedule and advancing as expected.

Let me now give you an overview of our consolidated financial performance for Q2 FY24. Revenues grew by 9% to Rs. 161.7 crore, while EBITDA came in at Rs. 25.9



crore, higher by 7%. Profit after tax stood at Rs. 7.9 crore. Alongside the incremental gains from recent capacity expansion, the performance was bolstered by the contribution from BuLi Chem. Improvement in EBITDA was a result of better product mix and rationalisation of key inputs and RM costs.

In Q2 FY24, we witnessed 24% growth in Organic Chemical revenues, whereas Inorganic Chemicals reported a de-growth of 21%. This was mainly due to historically high lithium prices prevailing during the same period last year, which have now approached a more normalised level. Overall volumes remained unaffected and slightly improved.

I will now share an important update. As you may be aware, we successfully concluded the preferential allotment on 1st November, 2023. Through this allotment, we have raised Rs. 253 crore from esteemed high-equity institutional investors. I would like to convey my gratitude for the confidence shown in us and the support provided for our future growth initiatives. We propose to utilise the net proceeds to establish a long term presence in the Battery Materials space, while maintaining the growth trajectory in the existing business segments of specialty Bromine derivatives, Advanced Intermediates and Custom Synthesis and Manufacturing, including our recent acquisition in the Organo Lithium Chemistry space. In addition to this, we will strategically deploy these funds to retire some of the existing debt, to create enough leverage and quickly expand based on the evolving market situation.

Let me now elaborate on our expansion plans. Within Organic Chemicals, we have a total expanded capacity of 463 m3 as on date, and additional 29 m3 is likely to be commissioned closer to the end of this financial year and year around that. For Inorganic Chemicals, we have a total installed capacity of 39 m3 as on date, which includes 15 m3 reactor capacity added till March 2023. I am happy to share that this has started contributing to the revenues.

With respect to Battery Chemicals, I am glad to share that trial production has commenced for one section of 400 MTPA Lithium Electrolyte Salts and additives



capacity. And final checks and tests are underway for the remaining section which is just before commissioning. For Electrolyte Salts, we are also now proposing to put up a 2,000 MT plant, instead of 1,000 MT planned earlier, and this will be operational by Q4 FY24.

Based on the evolving demand and capacity put up by ACC Cell Manufacturers as well as international customers from Japan, Korea, Europe and USA - we have seen interest across the globe - we also propose incremental expansion plans for Battery Chemicals which are now under consideration. The Electrolyte capacity will be increased to 1,000 MT and this will be operational by Q1/ Q2 FY25. The greenfield expansion of Electrolyte Salts is now increased to 3,000 MT of electrolyte salts. The greenfield expansion will be at a new site, which will be dedicated to battery materials and new business opportunities. At the new site, we are planning an additional 30,000 MT of Electrolyte capacity and a 3,000 MT of Electrolyte Salts capacity. Together, the plan is that, from our original plan of 10,000 metric tonnes of Electrolyte, we are increasing that to 30,000 plus 2,000, so 32,000 metric tonnes and our earlier plan of electrolyte salt from 2,000 metric tonnes total, we are increasing to 4,000 metric tonnes. So we are doubling this, and the additional greenfield site also should be operational by 2025 calendar year or Q2/Q3, FY26. The Electrolyte salt will utilise MUIS manufacturing technology, while the Electrolyte salt will be based on our own technology.

Let me conclude by saying that we are excited about the next phase of growth that lies ahead and are well poised to garner a significant share in Battery Chemicals space given our domain expertise. Various initiatives undertaken in the past will bolster our offerings, strengthen our market position and relationships with our valued customers. Neogen will continue to leverage its expertise in complex chemistries and R&D to deliver sustained performance and enhance value for all the stakeholders.

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



**Ketan Vyas:**

Thank you, Dr. Harin. Good evening everyone and welcome to the Q2 FY24 earnings call. I will take you through the key financial highlights. Please note that these are on a Consolidated basis and based on a year-on-year comparison.

We reported revenues at Rs. 161.7 crore, depicting a growth of 9% over the last year. While external pressures, such as, inventory de-stocking, slowdown in key export markets and geopolitical uncertainties prevailed, the Company maintained its revenue momentum. It witnessed gains from recent capacity expansion, stable demand for key products and higher contributions from BuLi Chem.

Organic Chemicals saw revenue growth of 24% at Rs. 124 crore, whereas Inorganic Chemicals noted a decline in revenues by 21% at Rs. 39 crore. As highlighted by Dr. Harin, decline in revenues in Inorganic Chemicals was mainly due to historically high lithium prices in the same period last year, which has now come closer to normalised level.

The domestic and export mix stood at 69% and 31%, respectively.

EBITDA increased by 7% at Rs. 25.9 crore fuelled by an enhanced product mix and a lower RM and key input costs.

PAT saw a decline of 20%, at Rs. 7.9 crore. This was due to rise in finance costs and depreciation associated with ongoing CAPEX initiatives. Our strategic debt repayment from the recent fundraise will lead to a reduction in finance costs in the short term.

That concludes the financial highlights.

I will now request the moderator to open the forum for Q&A session.

**Moderator:**

Thank you very much. The first question is from the line of Noyan Vas from Union Asset. Please go ahead.



**Noyan Vas:** Yes, I just want to clarify a couple of things. Just to get some sense of the Electrolytes and the salts business, are the customer approvals expected for salts in fourth quarter or are we expecting Electrolyte approvals in fourth quarter?

**Harin Kanani:** Hi, thanks for the question. For both, salts as well as Electrolytes, several of our customers have already approved our lab-based samples. And for the salts, in Q4, a part of the section of our Phase 1 of electrolyte salts (*facility*) has already started some trial production and is likely to stabilise by December. Similarly, the second phase also will be ready by the end of December with some trial production. So we expect by Q4, we will start getting approval for the salts.

Similarly, in Q4 we are also expecting the electrolyte facility to be ready. And some of the customers may want to audit this facility. We already have some non-binding MOUs in place for some trial quality which companies want us to produce. And we expect by Q4 (*FY24*) or Q1(*FY25*), our electrolyte sales also can start from the 2,000 metric tonne electrolyte line. So earlier we were going to make 1,000 tonnes, then 5,000, then 10,000. But looking at the current demand scenario, we have decided that instead of 1,000 (*we will*) directly do 2,000 metric tonnes at our DAHEJ-SEZ site. And then from 2,000, we will directly go to 30,000. So this 2000 metric tonnes per annum line will be installed in Q4. And either Q4 current financial year or Q1 next, we will start to see revenues coming in from there.

**Noyan Vas:** Okay. And just to clarify on working capital. How much are we expecting it to, because considering the fact that we are now starting off this new business, how should we see working capital move closer at the end of the financial year? And what should be the steady state going forward?

**Harin Kanani:** So I think, you know, again, the last six months have been very, very volatile. We had made some plans, but the demand has been much lower as compared to what we had expected. This has affected our plans to improve working capital amount. So if you look at our last year's performance in the first six months, the working capital was, significantly the operating cash flow was negative. In the second half, we were able to do a positive cash flow and overall for the year while it was



negative, there was an improvement. Similarly, we will aim in the second half of the current year also to improve operating cash flow. However, things are very volatile. Of course, our aim remains that as business is stabilised, we would like to go to around 120-130 days on net sales basis inventory, which we had; and the debtors between 60 to 90 days and creditors around 60 to 75 days, what used to be Neogen's normal working capital cycle. And then as we hit full utilisation levels and have bigger molecules improve upon that. We will try to achieve these numbers. But just with the kind of volatility we have, we have not been able to execute our plans fully. You would though expect an improvement in the second half as compared to the first half, just as we had in last year.

**Moderator:** Thank you. The next question is from the line of Nilesh Ghuge from HDFC Securities. Please go ahead.

**Nilesh Ghuge:** Yes. Hi. Hi, Dr. Harin. Hi, Ketan. So my first question is on battery chemicals. It is good to hear from you that from 10,000 MT, you are planning to raise your capacity to 30,000 MT. And also in your indigenously developed Electrolyte business, you are expanding capacity from 1,000 to 2,000 MT. What gives you this confidence? Is there any agreement signed (*with any customer*), or are there chances that you believe agreements will be signed for such a huge capacity?

**Harin Kanani:** Sure. There are three aspects. Our own Electrolytes, which we have to start, where we have increased from 1,000 MT to 2,000 MT. We have talked to three to four customers who are now quite certain that in 2024 calendar year, they are going to start their cell production, may be at a half a giga/one giga kind of a level. So we are seeing a clear demand. And we have one international customer where the demand is not very large, but they have already signed an MOU and they are just waiting for their production line to stabilise. So once that happens, you know, they will basically be needing this.

This gave us clarity on 2024, with three to four customers, very keen to start working with Neogen. So we are very sure that between them, 2,000 MT, that is just two gigawatt hour. So we thought with this bare minimum capacity (*of*) two





gigawatt hour, we should have to basically take care of the initial demands of this customer.

Now, the larger demand, which is basically what we are building with Mitsubishi technology. We have again seen two or three large giga players make significant advances. So we keep talking to them about what is the status of their equipment, how they are doing. At least two of them are very confident to start in 2024 towards second half and ramp up in 2025. And the third one also is likely to start sometime towards the end of 2025 or early 2026. So with these guys who are coming up with giga capacity and scaling up, and so far, the work has been going more or less as per their plans. We are more confident that the demand for the Electrolyte, at a large giga scale, is going to come to India and the demand will start. Further, we have seen many international players also wanting to come to India. So as we get into 2026-27, some of the international customers also may start having demand for their plants in India.

Again, if we are ready with a 30 gigawatt hour, we can do a very seamless approval with a track record of these. The last consideration in this decision is that whatever initial design considerations and discussions we had from MUIS, we felt that instead of 10,000 tonnes, when we go to 30,000 MT, the capex does not become three times, right? There is a significant saving when we do further scale-up. So by doing that our capex efficiency per tonne improves. And therefore, our ability to be more competitive improves. So I think with all these considerations, we made a decision to directly go from 2,000 to 30,000 tonnes.

We have seen in the interim that 2,000 MT is really needed. It depends on exactly when 30,000 MT starts and when the giga factory scales up. So if needed, the 2,000 MT, we might scale up to three or four, but we feel they should take care of the early demands of the customers and the 30,000 MT will come on time to take care of their larger requirements.

The last bit is on the salts side, where originally we had said we will start with 400 tonnes. This may be delayed by a couple of months, but it is starting. And we have



seen tremendous interest in that facility. We had said that we will increase this to 1,000 metric tonnes in Dahej. That plan remains on schedule. There is no change in that. The expansion which we were going to do in the greenfield, where we were going to add another 1,000 MT, that we have now changed to 3,000 MT, and this is largely depending on the demand that we saw from customers in Japan, Korea, Europe, U.S. Almost all geographies are very keen to have a non-China Electrolyte salt supplier. So what was our plan B is becoming almost like plan A. Especially the U.S. requires this in 2025 when they are not allowed to use Electrolyte salts from China. Therefore, we have ramped up from 1,000 to 4,000 MT, which can take care of the initial demands of these international customers. And to be honest, this demand keeps evolving. We keep having customer visits. Every month we are meeting new customers or new customers are visiting our demo facility. And most of them have gotten confidence and are now further discussing more concrete action plans. This gives us confidence to increase both the Electrolyte salts and Electrolyte capacity. Sorry, we gave a bit longer answer, but I hope it clarifies the thought behind *(our decision)*.

**Nilesh Ghuge:** No, thanks, Harin. Thanks for the detailed answer. But can you just throw light on the capex front? How much capex will you incur? Any ballpark number?

**Harin Kanani:** We have doubled our Electrolyte salt from what we had said earlier, and our Electrolyte capacity, we have *(increased)* three times. So, if you just go ballpark, just on scale, it will be sometimes two and a half to three times - between two and a half to three times when we are doing this. But like I said, because there are efficiencies involved, it has to be lower. So we are expecting somewhere between two to two and a half times of what we had said earlier, which was about Rs. 450 crore. But the exact number we will be able to tell you once Mitsubishi finishes their design. Once we have the design *(which is)* expected *(by)* December. So hopefully before the February call, we will have more clarity on that and we will be able to give you the exact capex number. But the current estimate is between two to two and a half times, so somewhere between, let us say, for Rs. 450 crore, from Rs. 900



-1,100 crore, somewhere in that range. But the exact number we will be able to give once we have the Mitsubishi design finalised.

**Nilesh Ghuge:**

Okay. And as you said, that for a huge capacity, as you mentioned, that for a 30K TPA, two, three large significant players are coming. They are planning to ramp up in FY25. So at what stage is the approval process with the large gigawatt power, the Electrolyte battery manufacturers? I am not talking about the small ones (*but*) the large ones.

**Harin Kanani:**

For the large guys, we have been providing them with samples. Like I said, some of them have been testing our samples for almost more than a year. Some of them sometimes have to struggle because they were dependent on their technology partner. But now two of them have already evaluated our samples and they are now working with their technology partners for their final approvals.

And one of them, we are still working with them and their technology partner because the technology partner is not willing to share the recipe. So we are working on somehow how we can give comfort to their technology partner to share the recipe with Neogen. So once that happens, we can submit the sample. I feel we have enough time. And one good thing about it is that it is just a question of the recipe. Most of the customers are quite convinced that with the plant being made by Mitsubishi design, they do not have a question or worry about the quality of the electrolyte being made. So they just feel it is just going to be a procedure. So we are just discussing more on the other aspects – on the timing, on the size, minimum volume commitment, what kind of formula pricing we can have and stuff like that. So those are the major discussions. And in some cases, how do we get the recipe from their technology partner if they are not willing to share and how can Neogen help them find a solution around that. All of them fortunately have said that they want localisation because they have all realised that Electrolyte is going to be very complicated to directly import.



**Nilesh Ghuge:** Okay. So just one clarification. You said that you have already supplied the samples. You are working with those customers since last one year. But we signed this contract with the MUIS just six months back. So I am just confused.

**Harin Kanani:** No. So we were making samples on our own. And earlier the proposal was that, we were going to supply to them the Electrolytes from that 1,000, 5,000, 10,000 MT plant, correct? But we are already making samples in our – so we have a lab facility where we can make 200 kg of Electrolytes per month and from that facility we keep submitting samples.

**Nilesh Ghuge:** Okay. And what kind of involvement Mitsubishi has while marketing these products? Are they completely involved? Do they come along with Neogen Chemicals while marketing this product? Or they are just a technology supplier as far as this whole process is concerned?

**Harin Kanani:** As I said, in the agreement, one part is the Electrolyte. How to make Electrolyte, and the technology of the plant, which is what they are giving to us. Basically we are the end user of that. So there is no marketing of that. But they are also approaching some of these customers to convince them to use Mitsubishi recipe. So that is the second bit where, like, there are some customers whom we have contacted, and there are some customers who are already in contact with Mitsubishi. So basically, together, we are making it - trying to convince these customers to use a Mitsubishi recipe and share the advantages of Mitsubishi recipe. But, again, that is something which is an ongoing process. Some of them may start with their existing tech provider recipe and then switch over to Mitsubishi. But some of them right from the beginning may use Mitsubishi. So that is something which the customers are evaluating.

**Nilesh Ghuge:** Okay. And, Harin, let us say as of now, there could be N number of recipes available with Mitsubishi or may be in the market. With evolution of technology, suppose there could be some recipes come up over the next, let us say, five, 10 years. Will Mitsubishi help us, or can Neogen go back to Mitsubishi and get those new recipes from them? Is there such a kind of a clause in your agreement?



**Harin Kanani:** So we are already actively working in a way where if a customer has a particular cell design, we are gathering all the information going to Mitsubishi and then Mitsubishi will recommend to us which kind of recipe would work best for the customer. That is something which we are currently doing. And, like I said, the second bit on the recipe agreement...the final details and the clauses of these are being worked out. That is a separate agreement about technical support and recipe, which is still being discussed. But we both are actively working until all the details and the contours of those will get worked out.

**Nilesh Ghuge:** Okay. And my second question is on our organic chemical business. So organic chemical business grew by about 25% Y-o-Y. However, if I break up between the, or I knock off the BuLi Chemicals revenue from this quarter - 50% growth can be attributed to BuLi Chemicals. So did the traditional business - organic business - grew just about 13%? What percentage of this growth is volume driven? I am talking about the traditional organic business, ex- BuLi Chemicals.

**Harin Kanani:** Yes. The traditional business in volume terms has grown more. It is just that some of the rates, like especially because of bromine, have gone down. And we have seen even higher rates of this in lithium. Even though there is a volume increase, but because of the significant reduction in lithium prices, we have seen reduction, because last time this business was lower. But the main impact that we are having, see we are guided for Rs. 800 - 900 crore kind of revenue. And in that, we said if the lithium prices are softer, it will be closer to Rs. 800. And when we are thinking of Rs. 800, we have to think of last year's revenue not as Rs. 680, but Rs. 600/Rs. 610, which is what it would have been if the lithium prices would have remained stronger. So again, Rs. 610, when we wanted to do that Rs. 800, our organic should have been at Rs. 150 crore per quarter by now. But the fact that bromine prices have reduced that, and the other raw material prices also have reduced, so the de-growth because of that, and also the lower demand is why we are still not at a full utilisation level. This is the impact that we are having, that ideally organic should have been at, if the rates remain same, if the demand remains same, it was Rs. 150 crore plus BuLi Chem somewhere around Rs. 10 crore, Rs. 15 crore. So that is Rs.



160 crore/Rs. 165 crore. Let us say around Rs. 165 crore odd is the max potential of the organic chemical. Against that, we have just done Rs. 124 crore.

That is where we are heading, and we need to do a better job. And we are working very hard. Of course, the markets also need to improve. But from our side, we are trying to work on more molecules. We started working a little bit more aggressively on the flavours and fragrance side, and are trying to go back to some of the older molecules, which we have not done for quite a while, and see if we can get some of this business. So this is something which we are trying, and let us see what best we can do with the demand that we have in the next six months.

**Moderator:** The next question is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

**Abhijit Akella:** Yes. Hi. Good evening Dr. Harin. Thanks for taking my questions. Just had two - three of them, if you don't mind. One was, I really wanted to get your thoughts on this whole noise about solid-state batteries that is going around in the world markets in the recent past. Toyota has spoken about some technology that is fairly imminent, apparently. So in that context, how do you see the technology adoption shaping up in this industry in EV batteries in the coming years? And in terms of our marriage with a particular technology, do we have the flexibility to change in case technology changes? How do you see this whole shaping up?

**Harin Kanani:** Generally most of the people who are working with batteries and on the EVs, one of the primary concerns for them is testing. And especially when you are talking of EV testing in a real-world kind of an application. And, the safety of the battery. The solid-state batteries are still very nascent. There are many technologies. Technologies are getting finalised. Yes, Toyota has done some tie-up, and they are quite confident. And they might do a lot. But most of the time, the way this technology will spread is, like, you launch one model in one particular geography. Then you take it to more models. Then you take it to more geographies. And then, after the innovators start, everybody else comes. So most of the people, be it



scientists, be it industry veterans, none of them see solid-state becoming a significant play before 2030.

The other thing about the solid-state is also going to be the cost of manufacturing and the technology for manufacturing. While you can make small, but large-scale production of these is still a big challenge. So therefore, until 2030, some people say 10 years, some say 2030, solid-state will not be very significant. If at all, they are saying it will be more for where you want a higher-range or a higher-cost kind of model. We also have looked at what is required in solid-state. Of course, right now, we just have our plate full just with the traditional one. But, like, in our R&D moment, some of our solid additives, which we are seeing strong demand for Electrolytes, these are set. We will also be ready whenever solid-state batteries come. But for a large-scale adoption, it is still time - seven to 10 years.

**Abhijit Akella:**

That's great to hear. Thanks for that. Also, one other thing I just wanted to check was, in Europe, for example, there are some concerns that EV adoption itself is may be lagging behind the original expectations because of various reasons. May be in a place like India, it could even be because of, absence of, a shortage of charging infrastructure, etcetera. So in that context, how do you see the adoption curve shaping up in India in the coming years?

**Harin Kanani:**

What most people, when they estimate, they say 30% penetration, for example, in India and by 2030, and globally, may be between 35% to 40%, by 2030. This is the number which most of the people, be it the mining companies or the other trade estimates which I have seen. So this is a number which fairly everybody believes in. If I actually add up the OEMs or the battery makers' numbers, they are actually going much higher than this. So if I just add up - I met all the Indian battery guys, and somebody said capacity X, somebody said Y - if I add all of that, the number is actually two times of that. But even if we go with this, this is something which is what has been based upon, and I think that is not a very difficult number. I mean, I do not know, but one of the numbers which I recently saw in three-wheelers, we are already in new car sales, new three-wheeler sales, we are already at 80%-plus kind of numbers which are estimated for the current year. So I personally still do



not see this as a big challenge to that 30%. If the 30% become 25%/27%, it would still not make a very big impact, because especially for India, we are starting from zero. So if we are at that 30%, 150 gigawatt hour, the electrolyte demand is going to be 150,000 metric tonnes. So it will just basically change the decision that when we go from 30 to whatever - 50/60/70 next - what will be the speed of that? So it is something which is what I need to consider when we are doing future capex beyond this 30%.

**Abhijit Akella:** Perfect. Just one other thing. On the quarterly numbers, we have got some 20% odd growth in organic and 20% odd decline in inorganic. Would it be possible to just share the volume versus price breakdown in each of these roughly, if that is possible.

**Harin Kanani:** With the product mix we have, you know, it becomes very challenging, but, I can say both, from our utilisation levels as well as the volumes that I see, we have a volume increase, but we are not able to give you exact percentage volume increases because the product mix keeps changing so much. So it is very difficult to compare. Like, you know, if I am selling 10 tonnes of one-stage molecule versus 2 tonnes of eighth-stage, how do you compare volume? So that is why it is a bit more challenging to do. But overall, the way we see it, there was a significant decline in the raw material rates. So that is there. And in spite of that, then we have given 24%. So if I were to look at a volume growth, effectively, it is more than 24% in the organic. And just for inorganic, you know, in case, like, if this helps you, so this year, we basically have done around...Rs. 39 crore against Rs. 49 crore. But just a year before, when the prices were normal, it was Rs. 22 crore. So if you look at our FY22 Q2 numbers, it was Rs. 22 crore when lithium price was more or less normal. We are almost double of that. If you remove last year, when the prices were very, very high, we are still double of that. That is a good growth, and we are seeing good interest in companies internationally, which want to have Neogen as a backup source.

**Abhijit Akella:** Perfect. Perfect. That is helpful. Just one last thing.





**Moderator:** Sorry to interrupt. We request you to please rejoin the question queue for follow-up questions. Thank you. We have the next question from the line of Jason Soans from IDBI Capital. Please go ahead.

**Jason Soans:** Thank you for taking my question. First of all, I just would want to confirm the capacity expansions which you mentioned. So Lithium Salts, you said you were expanding from 2,000 MT to 4,000 MT, and Electrolytes is from 10,000 to 32,000 MT with the MUIS technology and Lithium Salts with your own technology. Is that right?

**Harin Kanani:** That's right. Just a clarification in that 32,000 MT. The 2,000 MT will be with our own and the 30,000 MT is with the MUIS.

**Jason Soans:** And Lithium Salts from 2,000 MT to 4,000 MT. Is that right?

**Harin Kanani:** Out of that, 1,000 MT will be in our existing site and 3,000 MT will be in the greenfield site.

**Jason Soans:** Okay. And you also mentioned about capex. Of course, initially we had a plan of Rs. 450 crore of capex before the MUIS agreement. Now, you alluded to that the capex will be probably around Rs. 900 crore to Rs. 1,000 crore. And this will completely take care of the entire expansion. Is that right? So Rs. 900 crore to Rs. 1,000 crore of capex for the 30,000 MT?

**Harin Kanani:** Yes, right now it is just an estimate because I am (*not*) able to give you the exact number. But what we are saying is, my expectation is between 2 to 2.5 times for this. So it is somewhere between Rs. 900 - Rs. 1,100 crore - is what I said. So in that range is what we are expecting, more or less.

**Jason Soans:** But that is for the entire expansion, right?

**Harin Kanani:** For everything, yes.

**Jason Soans:** For everything, for everything. Okay, sir. And sir, just would want to know, you did speak about getting a lot of traction from a lot of customers - Japanese, Europe,



Korean customers. Now, again, in the current scenario, we are also seeing a lot of Chinese dumping in a host of other chemicals. So I just wanted to know from, of course, de-risking is one thing, and China Plus One is a theme. But just when you look at from a long-term, do you see some competition coming in from China, pressures on Electrolytes, since you are adding a lot of capacity in that sense, and China probably will be one of the most cost-competitive producers that is a well-known fact. So how do you see this picture shaping up in the long-term?

**Harin Kanani:**

There are two parts. One is Electrolytes for India, and Electrolytes salts for the world. When we are talking of Electrolytes for India, we feel here localisation has two benefits. One is just the complexity of handling Electrolytes, ISO tanks internationally is very, very complicated. And sometimes the quality also gets degraded. Worldwide, these Electrolytes are always made locally. So if I take the biggest Japanese producer, which is MUIS, they also went and set up plants in each and every continent. If I look at some of the Korean electrolyte producers, they are also setting up plants in all the parts of the continent, rather than just have one large plant from where they will supply.

So therefore, you know, the competition, if at all comes, they have to come to India and set up a plant. And right now, no one has come. Now if anybody comes, they will be a little bit delayed. So right now, that is the reason why if a Chinese guy has to come, set up a plant in India, that is when they will be able to really compete with us. I am not saying they cannot do it, but that is the way. And with today's scenario, it is very difficult even for them to come set up a plant here, set up all the supply chain in here. That is one part.

The second is because we are making, starting just what is coming out of mine and we are doing all the value addition in India. Therefore, the companies which are PLI beneficiaries for whom the local value addition is a key criteria...we are able to take care of their requirements. So this PLI benefit, the need for localisation; and the third thing in electrolyte is basically that the customer wants a knowledge partner because cost-wise, it is not that much, but the criticality of this is very important. So having a Mitsubishi, Su-1 technology, we working with them for the last one,



one and a half year, hopefully also working to give them a recipe which will improve their self-performance. So I think all of these make our electrolyte play very strong. Now, we will be able to take care of the Chinese competition. I am not saying we will not be completely affected by them. I mean, they will be there. But what I am saying is that we will have at least a significant market share, especially for India Electrolyte demand.

Now the second bit is Electrolyte salts, for which we are basically targeting the world. Now in this, there are only two things we can support. One is de-risk from China. And the second is that the US has put a very strong trade barrier in the form of IRA in which they have said that to ensure that supply chain is not concentrated, as per the IRA rules, there are foreign countries of concern and from these countries, your critical mineral cannot be processed and coming. Therefore, most of the cell producers or Electrolyte producers who are part of the US value chain, want to have a salt alternate or additive alternate, which is free of China. Not only just my Electrolyte salt, but even my raw materials, which I am buying, also have to be completely free from China, all the way up to the mine. I think this is a strong message. These are the two things which are generating a lot of interest. So as long as this continues, this is where Neogen can add value. What we have also gotten as feedback is that while of course, sometimes China prices are very low but outside China, India has been one of the good destinations and a very competitive destination where, with our background, we can add capacities faster. Other geographies where the salt alternate - Korea and Japan - it takes a little bit longer to add capacity. I think this is a strong point which is attracting most of the customers. And they are very, very keen to work with us.

**Jason Soans:** Okay. Thanks a lot, sir. Just finally...

**Moderator:** Sorry to interrupt. We request you to please rejoin the queue. Thank you. The next question is from the line of Sabyasachi Mukerji from Bajaj FinServ Asset Management. Please go ahead.



**Sabyasachi Mukerji:** Hi, thanks. Thanks for taking my question. I have two questions. First is, on the working capital situation and we are still not being able to generate positive OCF. And the kind of capex burden that we are seeing close to, you mentioned Rs. 900 crore to Rs. 1,100 crore. How do we plan to fund such a huge capex? Will some of our partners help us? Will they partially fund? And how are you looking at it and what would be the timeline of this - capex amount of Rs. 900 crore to probably Rs. 1,100 crore?

**Harin Kanani:** Yes. This timeline - it gets over second half of FY26. So it is whatever is remaining FY24/25, and may be two or three quarters of FY26. It is going to be spread over seven to eight quarters. But we hear you, and one of the reasons what we have done is we have raised this additional Rs. 253 crore, which will partly give us some breathing time till the regular business stabilises. And we are quite confident. It is just these last six months have been very, very difficult, whatever we plan on one molecule, but suddenly the demand in that goes away like even BuLi Chem also when we started. That is also stabilising now. So there are also some of the biggest customers who basically were the biggest customers for Livent. So the time we have bought it, we have zero demand. In spite of that, in the first quarter itself, we were able to add revenue more or less in line with what can be good revenue. We were also able to break even in the first quarter itself in spite of the top customers not being there, our samples were still getting approved. There are a lot of things happening, but in the second half we will try to improve on that. But over the next seven/eight quarters, we will keep evaluating. We are very sure about the business that, we are again very sure, that we do not want to do any of this at a new risk. So our target remains at 1.25 debt-equity ratio. Anytime we feel we need to raise more funds or we need to evaluate options with partners who would like to fund this together, we will remain open to that. And we will also keep watching how the Pharma and Agro will improve. Most of the people I have talked to expect Pharma to start improving from Q4 of the current financial year. And we have also seen signs of some of the customers' interest. But we will see whether that is sustained all the way till the end of next year; how the whole next year pans out. But we will



keep evaluating options where it is needed to make sure that our cash flows are basically being managed.

**Sabyasachi Mukerji:** Sorry, just a follow up here. The entire 30,000 tonnes of capacity in Electrolyte and 4,000 tonnes of salt capacity, we are aiming to be done with by the end of CY25? Are we gunning for that?

**Harin Kanani:** Yes. You mean calendar year 25, right?

**Sabyasachi Mukerji:** Yes. Yes. Yes.

**Harin Kanani:** Yes. So that is currently the target. Again, the 30,000 MT we will basically see phase out some of the sections. So it will depend on the final. By the time we get there, we will see if the demand is still lower or if India, in case there is any delay, we can figure it out further. But currently we are preparing ourselves to complete it by calendar year 25, basically by second or third quarter of FY 26. Because we expect by calendar year 25, at least three to four giga companies getting ready for scale up. And we also see some of the international guys who would like to come in 26. So if we are ready in calendar year 25, then we can be their supplier from the beginning.

**Sabyasachi Mukerji:** Got it. My second question is, we have seen a sharp increase in employee expenses this quarter. I think the run rate was somewhere around Rs. 12 crore/ Rs. 13 crore. It has gone to probably Rs. 17 crore/close to Rs. 18 crore. Have we done some top level hiring in the battery chemicals business? And what would be the stable run rate going ahead?

**Harin Kanani:** It is two/three things. One is the addition of BuLi Chem. As you would remember, we acquired BuLi Chem towards the end of May. So in the previous quarter, it was there only for one month, but there were around 50-odd employees which got added. So there is some jump in it because of that. And the increments which we did, these were also done in the second quarter.

We are now getting ready to start building teams for BuLi Chem. Of course, some of it is right now more project related and capitalised, but other leadership teams



also will start. So we will do that. I do not have an exact/absolute number, but our safe target is around 7% to 8% of the revenue. What is right now working is that, like I said, we should have been doing our organic at around Rs. 150 crore/Rs. 160 crore, if everything was going right as per our plan. So that is a little bit delayed, hitting the peak utilisation level. We keep planning our recruitment as much as possible to basically remain within a reasonable number. But ultimately on a stable basis, we are looking at, at least for now, whatever historic was 7%/8% of the net sales as an employee expense.

**Sabyasachi Mukerji:** So does it change - the Rs. 140 crore/Rs. 145 crore of EBITDA number that we are probably targeting for FY 24 - do you still stick to that number?

**Harin Kanani:** Our FY 24 was Rs. 800 crore - at around 18%. Again, it looks a little bit difficult for us to do Rs. 800 crore at 18.5% today. Just because if you look at the first six months, we have done hardly around Rs. 335 crore. And the run rate becomes very high for the remaining two quarters. And at least Q3, I am not expecting a very large jump. So Q3, we will see slightly better contribution coming in from , BuLi Chemicals, because the other pharma customers are now coming and we are also expecting international approval.

And Q4, we will have battery revenue kick-in. But it looks a little bit difficult to get to that Rs. 800 crore kind of number. The number that we had on a stable lithium price. Right now the way it looks, somewhere in the range of Rs. 700 crore/Rs. 725 crore would be a good number unless we see a very sharp recovery in Q4. Again, we still want to try our best to reach that. But the way the last six months have gone, that Rs. 140 crore number looks a little bit of a challenge at present.

**Sabyasachi Mukerji:** Got it, sir. Thank you. All the best, that is it from my side.

**Harin Kanani:** Thank you.

**Moderator:** Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.



**Anirudh Shetty:** Thank you for the opportunity. Sir, my first question is, in our battery chemical business, particularly given that lithium prices are so volatile, is it fair to assume that our profitability will largely be immune to this? Because whatever contracts we enter into with our customers, we will lock in the raw material price beforehand and so in a way we will hedge ourselves. Is that a fair assumption to work with?

**Harin Kanani:** Yes, with a slight correction. We will not lock in the lithium price, but it will be basically some kind of an Index-based price. And we will have a back-to-back price reset clauses based on Index prices.

**Anirudh Shetty:** Got it. And given that prices can be volatile, margins might be a bit misleading because the sales realisation, moves in tandem. So if one just looks at your business on a per-tonne basis, then what is the right - for Electrolytes and electro-salt business separately - what is the right gross profit per tonne, or the right EBITDA per tonne that one should look at as the most steady-state number?

**Harin Kanani:** Well, there are two things. You are right that the percentages will keep varying because of two things. One as you said, was the lithium price and the other raw material prices also can have bottlenecks and therefore the price can fluctuate significantly. The other thing is, as your volumes ramp-up, as I explained earlier, when you increase your capacity 3x, your capex does not go 3x, right? So as the volumes go, there is also going to be some price changes which has happened because of volumes. So the way I am seeing at least this business is more going to be driven by what are the ROCEs that you are able to generate. Because ultimately, as you have capex efficiency, your competitors are also going to have capex efficiency. And what any good businessman would do is to basically protect the ROCE and try to get as much maximum market share while protecting the ROCE. So I think this is a business where ROE and ROCE, are going to be the key factors. We would like ROCE to be upward of 20%. We like to model and try to get prices of ROCE above 20%. But as I have said in the past, for Electrolytes, at least, today there is no buyer, there is no customer in this business. And if you look globally, the way the electrolyte prices are in China, the way the prices are in Europe, Japan, and US, the cheapest and the costliest, there is 2x to 3x difference in the Electrolyte price.



Part of it is also the performance. So sometimes if you have a very high performing battery, customers might give you a higher price depending on the additives. So that is why, if you have a very good recipe from Mitsubishi which is benefiting our customer, it can really help us.

So I think we will see where the market comes. But at least on the Neogen side, our intention would be to try to get a 20%-plus kind of an ROC. Let us see. Only once the market really stabilises, we will be able to say where exactly it is going. But I would say, more than per tonne or more than percentage, it is the ROCE which is going to drive this business. This is my own assumption.

**Anirudh Shetty:** Fair enough. And is 20% post-tax? Is that a fair understanding?

**Harin Kanani:** No, I have thought of it as pre-tax.

**Anirudh Shetty:** Okay. And just a follow-up to the earlier question around the solid-state batteries and everything. My broader question is, what do you think is actually a technology risk to our business, our battery chemical business, keeping in mind that there are certain changes that we can do in our formulation to keep up with changing technologies like solid-state batteries. Under what situation do you feel that there is a technology risk which we cannot adapt to?

**Harin Kanani:** See, the only technology risk is, I told you that, for example, solid-state batteries are going to take seven years/10 years. And this is what the rest of the world is thinking. Again, the way it will work is, I mean, there will be a new technology which can come. But will it, that technology, will it take away 100% market share of batteries within the next two years? That's not possible with the amount of investment which is happening. So we are right now very safe other than solid-state batteries. Whatever, whenever you require a liquid Electrolyte, whether it is a sodium ion, whether it is a lithium ion, may be tomorrow even flow chemistry, vanadium, all of those with slight modification of my plant, the skill set that we have, how to remove metals, how to make it very pure, less than one ppm impurities, how do we control moisture, how do we pack and transport this, how





do we keep them stable, how do we test the performance of this battery...all of these skill sets that we have is always going to be useful.

Now, when we think of solid-state batteries six years or seven years down the line, that is really the scale question, that as it adopts, you stop increasing capacity on the electrolyte, liquid electrolyte, and start putting more capacities of the solid. So the way I see it, if you are talking of a 10-year, 20-year period, we have to keep watching the market, keep adding Electrolyte capacities beyond this 30K, and when we do that beyond 30K MT, whenever I am doing from 30 to 50, from 50 to 70, etcetera, that is the time every time I will have to ask myself that how long is this going to be sustainable.

And in parallel, I will also have to start building solid-state batteries. In fact, if you have seen Electrolytes are catching up. I mean Mitsubishi made liquid Electrolytes 30 years ago, right? There are some other Korean companies which have made it 15 years ago, 20 years ago. As compared to that, we are just going to start making it. So there is one decade/two decades. So with the knowledge that we have, with the connections that we have, in solid-state, we hope instead of decades, we are talking of a couple of years, right? So we will be ready much in time. So how our liquid Electrolyte capacities will scale and how our solid-state will scale, that is something which will depend on how the technology adapts. And again, the amount that we are investing, even in a worst-case scenario, there is going to be at least 30 gigawatt hour of Electrolyte requirement, whether it is India or somewhere else. So it is not something that you worry about. In my view, it is more a question of, it is something which you will consider when you are scaling up your plants, whether it is liquid and solid. And yes, as and when solid comes, you will be ready for it.

**Anirudh Shetty:**

Got it. And just one final question. You know, I just want to understand...

**Moderator:**

I'm so sorry to interrupt. We request you to please re-join the queue for follow-up questions. Thank you. The next question is from the line of Rohit Nagraj from Centrum Broking. Please go ahead.



**Rohit Nagraj:**

Thank you. The first question is on the supply chain. Electrolyte salt to Electrolyte formulation. And all the components or all the raw materials required for the same. How are we placed for the entire supply chain? And given that you also alluded to the US, where the IRA regulation is changing. So if we were to supply these Electrolytes to a US-based company, all the supply chain has to be completely away from China or given that they have the largest reserves of the rare earth metals plus other key starting materials, how are we going to tackle this? And from the capacities perspective, are we already in talks with the suppliers from supply continuity perspective, given that there may be other players who also would be looking at simultaneously putting up capacities? Thank you.

**Harin Kanani:**

First of all, when you are thinking of IRA, we are not talking about Electrolytes. We are only talking about Electrolyte salts. Electrolyte salts fortunately require - because we are starting from scratch and doing things - it basically requires just three or four raw materials. And again, depending on - I am talking about right now multiple salts - most of these salts, like lithium is one of the key one in that, Neogen has been buying lithium China-free for last 30 years. We have good relationship with these guys and we have already talked. And because Electrolyte takes relatively lesser quantity of lithium, as compared to cathode material or something, the quantities or the volumes which we are talking about, our lithium suppliers are very happy. They are ready to get into long-term agreements. Even now, it says that we need a customer who gives us a back-to-back assurance because they would want a minimum quantity guarantee. So if a customer gives me a minimum quantity update, I can go and get a minimum uptake lithium and we can tie into that.

The other raw materials are also required for lithium salts. We have worked out with our existing suppliers with whom we have been working for the last two/three years. We have multiple sources and they can be China free. Right to the level of the mine. So we can meet the international IRA requirements when it comes to lithium salts, which is relevant from an IRA perspective.

When it comes to India's demand of Electrolyte, the salt, whatever we have said remains true. We can be completely China free. For the solvent and the additives,



most of the lithium additives one-by-one, we are making on our own because that is also something which is needed by the international community and requires to be IRA compliant. So we do not have a challenge there.

Some of the things which you mentioned like rare earth...thankfully rare earths are not required for Electrolyte, any raw material anywhere. So we do not have that dependency on China. We do have dependency for solvents needed for Electrolytes because while we have European and Japanese and Korean sources for that, sometimes the capacity is not enough. And we have to rely on China. Although, there are Indian companies which have already taken lead. This is basically petrochemical kind of molecule who have plans to basically put capacity in next two to three year period.

And we have built such capacity that even if the Indian guys can make a technical grade, purifying this to battery grade is something which we can do on our own. So that even if the Indian companies can make technical grade, we can again develop them very quickly. This is where we are. There is a dependency on the solvents of the Electrolytes on China at present, but other than that we also have a backup. But like you said, if there is a shortage, the backup capacity for the solvent is relatively lower. So that is when still more work is needed. And we are working with potential Indian partners for that already.

**Rohit Nagraj:**

Good. Good to hear that. Second question is on the competition in the domestic market. So unfortunately, basically may be my knowledge is less. We hear only about the listed companies which are currently involved in the Electrolyte and Electrolyte salt, opportunity and segment. But there could be - from your understanding, there could be other unlisted or other people who also would be working in the similar space. So do you see that there could be a greater amount of competition from the other people who are also working in a similar space and targeting a similar set of clients, may be domestically or internationally? I mean, just your thought process on this, maybe my understanding from the industry perspective is relatively limited.



**Harin Kanani:** Yes. Even whatever we have seen and one of the reasons why we also increased capacity. So I think, we have also not seen, especially when we are talking of Electrolytes. You have also not seen any significant other players who are coming other than me and few of the other companies which have already announced, like the listed companies which have announced their electrolyte plans.

We have so far not seen other companies come in for Electrolytes. Again, we have already been supplying this Electrolyte. So we already have a head-start. We already have been working, trying to work with the customers for the last one/one and a half years. We also now have Mitsubishi's license. So I think we have done enough to at least make sure a decent market share for Neogen. At present, other than me and one more company, I do not see any other companies which have actively shown interest or which have actively done something.

Whoever comes now will be a little bit late, in my view, to take care of the initial demands of these customers. But this is my view. And I think even with that, at least we should be able to get a decent amount of market share. I would say broad range - anywhere between 25% to 40% - at least in the initial year, is what I am seeing. And that has been the basis for my judgment to really set up this capacity.

**Rohit Nagraj:** Sure. Sure. That is really helpful. Thanks a lot for answering the question. Best of luck. And Diwali wishes to you and your team. Thank you.

**Harin Kanani:** Same to you.

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

**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, and we look forward to connecting with you again in the next quarter and wish you all a



very happy Diwali with your family. Please take some time off and enjoy. Thank you and have a great day ahead.

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

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**Note:** *The transcript has been edited for clarity. Although an effort has been made to ensure high level of accuracy, it may contain transcription errors. The Company takes no responsibility for such errors.*