

Fermenta Biotech Limited (formerly known as DIL Limited)

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July 7, 2021

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

Sir,

Ref.: Code No.: 506414

Subject: Transcript of Earnings conference call held on Thursday, July 1, 2021 regarding the financial performance of the Company for the quarter ended March 31, 2021 ['Q4FY21']

We hereby enclose the Transcript of Earnings conference call held on Thursday, July 1, 2021 regarding the financial performance of the Company for the quarter ended March 31, 2021 ['Q4FY21'].

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

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

Thanking you,

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

Srikant N Sharma
Company Secretary

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“Fermenta Biotech Limited
Q4 FY2021 Earnings Conference Call”

July 01, 2021



ANALYST:

**MR. NIKHIL SHETTY - BP EQUITIES PRIVATE LIMITED
MR. SWAPNIL SHAH - BP EQUITIES PRIVATE LIMITED**

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



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Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2021 Earnings Conference Call of Fermenta Biotech Limited hosted by BP Equities Institutional Desk. As a reminder, all participants will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone phone. Please note this conference is recorded. I now hand over to Mr. Nikhil Shetty from BP Equities. Thank you and over to you, Mr. Shetty!

Nikhil Shetty: Thank you Nirav. Good morning everyone. On behalf of BP Equities Institutional team, I would like to welcome you all to the Q4 FY2021 Earnings conference call of Fermenta Biotech Limited. We thank the Fermenta Management for giving us an opportunity to host this call. We have with us senior management team of the company represented by Mr. Prashant Nagre – Managing Director; Mr. Satish Varma – Executive Director; and Mr. Sumesh Gandhi – group CFO. With this, I would like to hand over this call to the management. Over to you Sir!

Satish Varma: Thank you so much. Good morning everybody and thank you for your valuable time. This is Satish Varma here. I hope you are all keeping safe and well under the current circumstances.

It is our pleasure to welcome you all to the earnings conference call for the fourth quarter and financial year 2021. I am joined on this earnings call with our CFO, Mr. Sumesh Gandhi and our newly appointed Managing Director, Mr. Prashant Nagre.

Let me ask Mr. Prashant Nagre to give the operational highlights followed by Mr. Gandhi to give the financial highlights. Thank you very much. Over to you Prashant!

Prashant Nagre: Thank you Satish. Good morning everyone, this is the first time that I am interacting with you all, and it is a great pleasure to be representing the company on this forum.

Now let me give you some key highlights on this financial year. As you know that we have completed our backward integration project during the year and our capacity expansion project in D3 at our Dahej SEZ plant, which has been completed.

On the 1st December, 2020, the company’s wholly owned subsidiary Fermenta Biotech USA LLC acquired a 52% stake in the US-based Vitamin Company AGD Nutrition LLC, headquartered in Nacogdoches, Texas. The deal is expected to combine the expertise of both companies and result in synergies that will bring in greater operational capabilities to enhance company’s footprint in US market, which is one of the largest markets for human and animal nutrition. The name of AGD Nutrition LLC has subsequently been changed to Fermenta USA



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LLC reflecting the brand value of Fermenta and expected to capitalize on Fermenta's growing recognition as a nutritional ingredient supplier in the US market.

With respect to the vitamin D3 business in quarter four financial year 2021 the volumes of human vitamin D3 40MIU were higher by 101% over the quarter four financial year 2020. However, the volumes of animal D3 feed were lower by 14% over the same quarter last year.

For the entire financial year 2021 there was a positive impact on the human side of the demand and consequently the volume and the average prices of human vitamin D3 40MIU were higher by 71% and 4% respectively over previous year. However, the volumes and the average prices of animal vitamin D3 feed were under pressure and were lower by 35% and 17% respectively over the previous year.

The company saw a successful launch of its new product cholesterol from fish oil for the first time in the world for aquaculture market which saw a sales of approximately 23 Crores in the financial year 2021 constituting around 6% of our total operational revenue.

I am happy to mention that the board has proposed a final dividend of 50%, that is Rs.2.5 per share for the financial year ended 2021, and now I request Mr. Sumesh Gandhi our CFO to give the financial highlights. Over to you, Sumesh!

Sumesh Gandhi:

Thank you Prashant. Good morning everyone and thank you for joining on this call today.

Few brief highlights for the quarter ended and the financial year ended March 31, 2021 from my side over here.

On a standalone basis in Q4 FY2021 the revenue from operations for the quarter was Rs.91 Crores, which was an increase of approximately 26% on a year-on-year basis. Operating EBITDA reported was Rs.18 Crores which was an increase of about 33% on a year-on-year basis. Operating EBITDA margin stood at approximately 20% as against 19% a year ago. Net profit after tax reported was Rs.9.7 Crores which was an increase of 35% on a year-on-year basis while PAT margins stood at 10.7% as against 10% a year ago.

Now talking about the annual performance for FY2021 on a standalone basis and for the year end also. The operating income for the year was 373 Crores which was an increase of approximately 24% over the previous year. Operating EBITDA reported was Rs.94 Crores which was an increase of about 35% over the previous year.



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Operating EBITDA margin stood at 25.1% as against 23.1% a year ago. Net profit after tax reported was Rs.52 Crores which was a decrease of about 18% on a year-on-year basis. While the PAT margins stood at 14% as against 21% a year ago.

Let me just remind you which I had also said in my earlier earnings call that in FY2020 there was a onetime deferred tax asset benefit to the tune of approximately 19.5 Crores due to the amalgamation of the companies, which is why the PAT for the year ended FY2020 was higher and cannot be comparable to FY2021.

One more update from my side before I put it open for the questions and answer is that the company had given an ICD aggregating to Rs.21.3 crores in various tranches to a nonrelated party for the development of new product that is cholesterol from fish oil. As on the board meeting date as of today the full ICD amount along with interest has been recovered.

Thank you very much everybody and with this I can now open the floor to questions and answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mr. Nirag Shah from Exemplar Investment. Please go ahead.

Nirag Shah: Thank you for the opportunity. Congratulations for posting decent set of numbers. Can you tell me the contribution of human and animal D3 separately for the year end and for the Q4?

Sumesh Gandhi: Thank you for the question. Niraj, for FY2021 the whole year breakup between the human and the animal is 66% and 34%.

Nirag Shah: Can you quantify in numbers, Sumesh?

Sumesh Gandhi: So, from a number's perspective it will be 190 Crores and 100 Crores.

Nirag Shah: 190 Crores and 100 Crores for FY2021?

Sumesh Gandhi: Yes, approximately.

Nirag Shah: And for Q4.

Sumesh Gandhi: I would not have for the Q4 specifically because we normally capture all this on a yearly basis rather than on a quarter-to-quarter basis.



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- Nirag Shah:** In P&L at consolidated level, our stock in trade worth around 19 Crores which we are seeing for the first time in the history of the company. So, what kind of products which comprises off hand is it going to be a recurring going ahead or is it a one off.
- Sumesh Gandhi:** Can you please repeat the question? I am sorry I missed it.
- Nirag Shah:** At consolidated level in P&L we see stock in trade worth 19 Crores which is not present in standalone numbers. So, what is it about and is it going to be a recurring thing?
- Sumesh Gandhi:** Stock in trade of 19 Crores, this is basically because this was stock in trade which was moving between the Fermenta here and the subsidiary. So, this is the stock which is moving from Fermenta India to its wholly owned subsidiary, for its subsidiaries which are there and that is showing as a stock in trade.
- Nirag Shah:** So, you mean it's a sale, reflecting in the inventory for Q4 this is not going to be recurring right?
- Sumesh Gandhi:** No. It is not going to be recurring until and unless at the end of the quarter, we have any stock which is moving between the company and its subsidiary then only it will feature over here otherwise we would not see that.
- Nirag Shah:** How much has recently acquired that AGD nutrition contributed to Q4 in fiscal 2021 revenues?
- Sumesh Gandhi:** In Q4, they really did not have any contribution coming in from AGD nutrition. One of the reasons is that it was sitting on few inventories which were pretty old, and we wanted to liquidate those inventories which are there and that is the reason we have sold off those inventories to clean up everything at prices which were much lower, so it really did not contribute anything.
- Nirag Shah:** So, there is no contribution from AGD nutrition for Q4?
- Sumesh Gandhi:** Yes, if you look at it from an EBITDA basis perspective, however if you see from a sales perspective, yes it has contributed approximately 10 Crores.
- Nirag Shah:** For FY2021 how much of AGD's revenue is included in the consolidated revenue number, I think we acquired AGD in Q3, if I am right?
- Sumesh Gandhi:** No, we had acquired in the December of 2020 so basically there was not much difference on that one month basis but from a four months basis it would be say close to roundabout, no I



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I am sorry, I missed out on one thing, it was 72 Crores, which is what we have got over a period of four months.

Nirag Shah: Pardon.

Sumesh Gandhi: 72 Crores on the sales front.

Nirag Shah: From AGD?

Sumesh Gandhi: Yes.

Nirag Shah: We have improved at a consolidated level?

Sumesh Gandhi: Yes.

Satish Varma: 72 Crores?

Sumesh Gandhi: No, I am sorry. I am sorry for this.

Satish Varma: We will be close to 10 to 12 Crores Mr. Nirag in sales from AGD. The liquidation of stocks is a onetime thing, so the company has always been profitable. AGD Nutrition now called Fermenta USA, let's refer it to as Fermenta USA henceforth. Also It is a onetime thing as we did not want the products to be lying there, past their shelf life. Hence we decided to liquidate the stock, that was a onetime sale.

Nirag Shah: So, for Q4 I see our EBITDA margin getting very much affected so it is because of this one time sale?

Satish Varma: Yes, you are right. It was a onetime sale, we asked them to liquidate it and as you are all aware the animal feed business is continuing to be under pressure, so we did not want to continue to hold the stock and we decided to liquidate the stock.

Nirag Shah: It is finished off or it will be recurring?

Satish Varma: It is over. We will see profitability coming in from Q1 onwards we are confident of that.

Nirag Shah: On balance sheet front I had two small queries. First is we have a CWIP of 52 Crores so, but I believe our Vitamin K1, cholesterol and human VD3 expansion projects are already done on commercialized. So, what is it for and what kind of capex we can expect in FY2022 and FY2023 in which specific area we are coming over future capex?



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- Satish Varma:** Capital work in progress I think is towards the new plant for expansion although the cholesterol plant has been completely capitalized almost. The expansion plant had not been capitalized in Q4, so that was still be there and then regular capex also would be a part of it .The expansion expense is about 35-40 Crores out of it, so that has not been capitalized, that we can see. It should get capitalized maybe, if not this quarter by the beginning of next quarter it should get capitalized. There are minor things pending, although we started production, K1 is a part of that. Going forward as far as this year and next year are concerned, we are looking for next two three years say about 150 Crores to 200 Crores of capex plans out of which at least to start with 50 to 60 Crores will happen in this year, some of it will happen in our existing facilities wherever we have an opportunity to utilize the existing infrastructure and most of that will be happening in our new industrial plant in area we have taken in Saykha that we have plans to put up a Greenfield project there so most of it will be going there but some portion will be going in the existing plants over the next two, three years we are anticipating between 150 Crores to 200 Crores. It all depends on how much of D3 capacity expansion as we already mentioned earlier, we are looking at setting up a premix plant, we are looking at setting up mineral plants, we are looking at expanding our D3 capacities if all goes well then, we also look forward to having our fermentation capacities enhancement coming in the new plant so this all will over the next two, three years Mr. Shah.
- Nirag Shah:** Also, additional capacity of human VD3 which we were talking about has it been commercialized or will it commercialize in Q1?
- Satish Varma:** Some of it is coming in Q1 sir but by Q2 I think we should be able to commission most of it. You would understand that during these COVID times running against time to service the increased demand versus taking liberty to debottlenecking and all that is taking sometime so most probably by Q2 we should be able to do all of it.
- Nirag Shah:** So, in FY2021 no additional capacities have contributed to the revenues right of human VD3?
- Satish Varma:** Some debottlenecking has happened in the existing plants but not the new building and plant that should come in with the additional capacities that is taking some time but we did increase almost by 15% by debottlenecking in the existing facilities itself both at Kulu and Dahej put together. So yes, we do expect another 20% odd to come in once at least in the Dahej plan an increase of that much more.
- Moderator:** Thank you. The next question is from the line of Sudhir from Punji Financial. Please go ahead.



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Sudhir Kuvadia: Very Good morning Sir. Couple of questions especially from backward integration side if I look at the EBITDA margin also from 2019 which was around 37% is falling to 22% so as you mentioned is it just because of the onetime liquidation of the stock that we did?

Satish Varma: So that is on the consolidated basis Mr. Sudhir.

Sudhir Kuvadia: Yes, that is on consolidated basis.

Satish Varma: On a standalone basis if you look at anyways if you are looking at 2019 the consolidation would not matter because this acquisition has been done just last December. So, if you look at 2019 and look at the margins and everything, we saw the highest level of sale volume as well as most importantly historical in the entire history the highest prices of Vitamin D3 feed grade. I do not think so that is an apt comparison especially now if you look at 2019 to 2021, there has been a degrowth of almost 60% or more on the animal feed revenues this has mainly happened because of even last year also there was almost a 45% decline so both years put together more than 60% in revenues alone and prices have degrown by almost 60% again over the last two years. This has happened because last year there was a major swine flu breakout in China and maybe 50% or more of the pig population had to be culled, China being one of the main consumers, not that we sell in China, but China produces Vitamin D3, so the stocks were available everywhere. It has been captured in the market. Number two then the Corona hit. So that is one part of it. You were asking this question also in relation to the benefits to be derived from the backward integration. Backward integration our benefits would be derived from two ends, one is the efficiencies we get in the cholesterol production from wool grease that we purchase. I think we are more or less close to the stated objectives from at least this quarter onward we should see that efficiencies being completely met from it; however, valorization of the side streams which would add also to the margins has taken in backseat in this COVID time so as and when we come to that, valorization effects start coming in we will achieve the full benefits that we anticipated on this. Number two, if we are looking at margins alone in terms of EBITDA margins in this year numbers have almost about 25 Crores of other new products that we have launched including fish oil which is the major portion. So since the launch year both because of production efficiencies and market entry our margins were very negligible. If you take that out the new product contribution at the topline and the EBITDA line I think our EBITDA margins would be showing much higher maybe even 27% also or even more. I hope that answers your question?

Sudhir Kuvadia: Thank you very much for this Sir, and Sir one more thing on pipeline if you look at the nutraceuticals segment the basket we have K1 Astaxanthin and Omega 3 is a part of it so specially on this front can you put some color means in terms of phase I, phase II might not be the phase III applicable now so how progress is going on especially US if we look at the



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11% of the contribution is coming so there is a huge market compared to Europe also wherein we are getting 34% so in future are we looking at the new client tie-up especially in US where is the market is quite huge.

Satish Varma: Yes, the numbers that we have seen the growth in human has a decent portion of the expansion in the market share and acquisition of new clients that we have done in US. Our current focus is on increasing our market share in the Vitamin D3 and of course on the product basket as well but more importantly product basket we have only few things left. The concentration is on getting on more clients. As far as contribution from Astaxanthin and Omega 3 Fatty Acids is concerned this is more from a tie-up that we have on current product that we have launched. It is only restricted to the Indian market. K1 the plant is ready. Again because of COVID and other related issues both at the R&D and production and staffing and all that it is slightly delayed. The plant is ready but hopefully this year we should be able to launch it. Maybe by Q3 or something like that. Q2 or Q3 we should be able to launch the product and that product we will take it everywhere, but again it is a niche product. The big expansion in market share apart from vitamin D3 I think will come from the premixes and mineral businesses etc will significantly add to our revenues going forward once those things come on stream.

Sudhir Kuvadia: So Sir would it be feasible for you because if we look at the other competitors especially the Netherlands based or the China based, who have higher market share, also so can you put in terms of percentage wise if we have some data in terms of market share kind of thing?

Satish Varma: Yes, until last year our human share vitamin D3 market share in human nutrition., our analysis was maybe 25% or higher on the human side. On the animal side we were closer to 5% to 6%. Now on the human side the last one and a half years has seen a huge expansion in the market itself. We are still collecting data and analyzing how the market has grown. and where we stand today you see that we have grown ourselves significantly in volumes 60% so we grew along with the market and plus because of the new client acquisitions also that has also helped our growth over the year I think about 71% in volumes we grew in human sales.

Sudhir Kuvadia: Sir one last question I know this is not much contributing but if you look at the property realization also so is there any fall in terms of tenant or the occupancy at Thane One or Worli because if I look at the revenue wise also it is falling from 20 Crores to almost 17 Crores so can you put some color on tenant or occupancy at Thane One or Worli related area, why I am asking this question is this revenue segment itself is helping us to repay on debt wise also?

Satish Varma: See on the revenue side I think we did not fall so drastically earlier Fermenta itself was paying so on a standalone basis you would see revenue from Fermenta was also being shown in erstwhile DIL. Once the consolidation happened there was no rent coming from the



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subsidiary. So that is one negation but yes I think we had about 5% to 7% degrowth in the rental business either because some small client has left or because we have renegotiated some clients and have given them extensions in terms of not increasing and things like that so a combination of that but we are really not worried. We are very, very well placed to take care of those expenses through the rentals, real estate expenses through the rentals including about 75 Crores of loans in our books that is standing towards real estate. It is completely being serviced by the rentals alone. So, we are very comfortably placed and as you are all aware that we are in the market to see how we can monetize this. Unfortunately, the COVID has not helped especially on the office spaces so we will come back to you as and when we see some visibility there.

Moderator: Thank you. The next question is from the line of Ketan Shah from CapGrow Capitals. Please go ahead.

Ketan Shah: Sir I have few questions. Sir can you give us an update on the Vitamin D3 prices globally are they going up now or have this stabilized and on the capex front how much will be the capex going forward?

Satish Varma: Capex I think we have already answered. On the D3 prices it depends, we have a healthy mix of long-term contracts as well as spot. Long-term is more than a year or so and spot and short-term is more towards quarterly contracts of spot business so it is a combination of both. We do see a decent growth in the pricing.

Ketan Shah: Sir my question was are we seeing an improvement in pricing now in vitamin D3 on the animal side because we have seen the worst?

Satish Varma: Animal side is still, I think the market is still suppressed, there is not much improvement yet. We are waiting for the COVID situation to get better and things to start going back to square one, hopefully it will happen soon.

Ketan Shah: Sir the reason I am asking it because we have seen across the board price increases of food grains and all so with that context, I was asking whether do you see that let us say six months from now or a year from now the prices we can be surprised by the price increase we can get in the animal side of the possibility.

Satish Varma: In our investor presentation we have a slide giving the animal feed prices. There is no reason why it should not again start coming back into action and we will see that volatility because it has been commoditized and mainly dominated by Chinese. So, we will see the price fluctuations. We will see good prices, we will see bad prices. As long as we are able to play



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both the cycles and take advantage especially when the prices are up, we will always make money. There is no reason why it should not happen again.

Ketan Shah: Sir final question can you tell us how much is the capacity utilization now of our plants?

Sumesh Gandhi: On the animal side you will understand that the market is very suppressed so I will not be able to tell you that we are at full utilization, but our human side we are almost at complete maximum utilization of the capacities, we are also eager to kickstart the expansion project to come in line very soon, so the utilisation on the human side is almost 100% utilization.

Ketan Shah: Is it fair for me to assume that on animal side we will be at let us say 40%, 50% or even less?

Sumesh Gandhi: Not lesser, about 40%, 50% I would say because the animal side degrowth has helped us divert the intermediate to human side because up to a certain stage both are same and from there it is diverted. So we have been able to utilize stage capacities significantly towards this human side.

Ketan Shah: Thanks a lot.

Moderator: Thank you. The next question is from the line of Ms. Alisha from Envision Capital. Please go ahead.

Alisha Mahavra: Good morning Sir. Thank you for taking my questions. Just wanted some understanding when you gave the split of human to animal it is the animal business which is about 66% of your revenue is that correct?

Satish Varma: I think Sumesh should answer this, please.

Sumesh Gandhi: So human is 66% and animal is 34%.

Alisha Mahavra: How do you see this mix going forward considering that we are still witnessing strong degrowth in the animal business so do we get this mix to keep tilting in the favor of human?

Satish Varma: Alisha this animal side, I think we have seen the worst of the base in the recent past. So I doubt and completely hope not, that this goes down still further from here. I do not know how much more it can bottom-out both at volume level and price level. There is not much room, so we would not see that. The human side continues to grow, maybe it might not have the same growth rate once COVID is over, but the growth will be here to stay and maybe it will taper down in terms of the growth rate. Mix will always again depend on quarter-to-quarter or year-to-year depending on how the animal feed prices have behaved for the particular year,



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otherwise you would always see a consistency in the human side. The percentage revenue mix will always fluctuate depending on how the prices of animal feed, which unfortunately is not in our control.

Alisha Mahavra: Sir while you spoke about capacity expansion can you please highlight what is the kind of what in which segment if the capacity coming in 2022 and what is the plan for 2023 which segment are you looking at expanding capacity?

Satish Varma: I will ask Mr. Prashant to take this one.

Prashant Nagre: Alisha the capacity that is going to come up is in the vitamin D3 and that is currently on. So when the plant IV will start that is the additional 22%, 25% capacity that could come in with the capex which was invested last year and going forward in the next two three years our focus is going to be building a great company on nutritional ingredients and value added formats of nutrition which means that, Satish when he was explaining the capex related investments in the next few years which is 150 Crores to 200 Crores will go preliminary in building ingredients, quality ingredients in minerals and as well as the vitamin K1 which is part of the last one also will kick in , as well as the premix plant which will be premixing various minerals and vitamins. That is where the next two years will be setup. Over to you!

Alisha Mahavra: Just one last question pardon my ignorance for this the vitamin D3 capacity that you said is coming in plant for the 25% additional capacity is this animal or human or is it fungible depending on where the demand is more you can use the capacity accordingly?

Prashant Nagre: This capacity which is 25%, again it is a very unique business where some of the intermediates up to intermediate step everything is common for both the businesses and a portion of it is also going to be specifically for the human nutrition. So we have created capacity which will actually benefit both the human nutrition as well as animal to a certain stage.

Alisha Mahavra: Thank you.

Moderator: Thank you. The next question is from the line of Mr. Shariq from Duro Capital. Please go ahead.

Shariq: Just a couple of questions one on Molnupiravir any update on that front, you have had made some potential breakthrough, could you give your thoughts if any of that could translate to business?



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Satish Varma: At this stage all we can say is that yes, we have made some breakthrough in technology in terms of using our CAL B Lipase which is our in-house enzyme, to manufacture the molecule Molnupiravir. As you are all aware that it is a patented molecule and licensed to a few companies in India. The company is doing all its efforts to see how we can participate in that. I think at this stage there is nothing more to inform Shariq but as we have more clarity, and the opportunity crystalizes or something like that the company is doing all efforts we will come back to you.

Shariq: I would imagine that since everyone whose license is already manufacturing it, they are using the chemical route instead of enzymatic route to to manufacture?

Satish Varma: I leave it to your imagination Shariq. You will understand that we are currently in making all efforts, so it is not right to get into a discussion at this stage for us. As and when there is more clarity and our participation possibilities and all that we will get back to you.

Shariq: Just one more question on the overall business from more from a three, four years perspective given that there are several things you are doing in terms of forward integrating backward integrating your products if I was to ask you how this business will look say in 2025 how would you think about the business mix and also if you could comment on what you would aspire to have a margin profile like at that point in time.

Satish Varma: See our desire is to be a major nutritional ingredient player. Definitely we want to be amongst the top in India and play good role in the global market as well. In the next five years we hope that, as our vitamin D3 business grows the other products also the nutritional ingredient basket also grows to at least contribute minimum at least 30%, 40% of our increased revenues over the next four, five years. Margins, because these are all new products, we are entering the market afresh there might be dips and ups in-between but overall, we are expecting to be able to maintain a 25% EBITDA margin.

Shariq: If you could also nuance that a little bit in terms of what kind of CAGR are looking at in terms of overall size?

Satish Varma: What kind of, sorry I lost you there what kind of.

Shariq: CAGR you all are thinking about in terms of what could be the potential revenues of the company as in what we can allude to today is coming to numbers through the capex you are putting up but when we take a slightly longer-term view it will be very helpful to understand it more from a medium-term vision perspective rather than the long-term goals that you want to achieve?



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- Satish Varma:** See the objective will be to grow both at the topline and the margin levels, focus will be of course more on margins; however, having said that our first target will be the four-digit number whether we will get it in four years, or five years, or six years I think it will depend on how efficiently we implement all our plans but that is the first objective Shariq.
- Shariq:** That is very helpful. Thank you so much. Good luck to you.
- Moderator:** Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investments. Please go ahead.
- Shanti Patel:** Good morning. My question is what is our market share of Vitamin D in India and number two what is the return on capital and return on equity as on today and are you going to maintain the same after all this projects are implemented?
- Satish Varma:** The exact numbers I will later ask Mr. Sumesh to give you on the current situation but having said that the capex return on investment, return on equity...
- Shanti Patel:** Return on equity and return on capital employed?
- Satish Varma:** Return on equity and return on capital employed as we move along, I think always when a new plant is put up, the initial years will be little tough, but otherwise once it is completely operational and we get our market share, we are very confident that we should maybe not even have this kind of percentages it should be higher.
- Shanti Patel:** What is our market share of vitamin D in India and who are our competitors?
- Satish Varma:** In India, we are not aware of any other company making this product in India so far, so more or less the entire market share subject to a few imports coming in here and there. We should be close to the entire market share I would say, you can say 99% and above for that matter.
- Shanti Patel:** So, there is no competitor, right?
- Satish Varma:** Not an Indian manufacturer yet.
- Shanti Patel:** Yes, current numbers if you will give it will be better .
- Sumesh Gandhi:** On a consolidated basis we had a ROCE and ROE of 12% to 13% in FY2021.
- Shanti Patel:** Sir vitamin D we are dominating the market despite that why is it so less?



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- Sumesh Gandhi:** Sir that is basically because of the capex and everything. Sir two reasons for it one is the capex which we had put in across about 120 Crores, which we have put in over a period of one year the benefit of it I think Sir we should be able to see it going forward from here. The second part of it is also as I said this is on a consolidated basis so it also includes the revenue and the losses which was there, one-time losses which we talked about earlier in my subsidiary in USA so going forward both of it will not be there and it should show a healthy kind of a return.
- Shanti Patel:** Thank you.
- Moderator:** Thank you. The next question is from the line of Nirag Shah from Exemplar Investments. Please go ahead.
- Nirag Shah:** What is the progress on launch of 25-hydroxy-VD3?
- Satish Varma:** Unfortunately, these projects are delayed. Again because of allocation of human resources both at our R&D and plants for the existing business versus giving them new projects. So they have taken a backstage. Hopefully once things improved over this year or early next year, we should be able to get those products going. They have taken a backseat.
- Nirag Shah:** At least it will be a year and of course I think as per presentation we were going to launch, and I think Q1 FY2022 right?
- Satish Varma:** Yes. That was the intention, but they have taken the backstage Sir. We do not see visibility of being able to put our plans into action in the next quarter or two also, as it is looking difficult with the current things in hand.
- Nirag Shah:** But we are in the look for that right, we have not dropped the project right?
- Satish Varma:** Not at all. It is just taking time but otherwise we have applied for patents. We have unique technologies. We are confident of our efficiencies and cost that will come out and to be able to compete in this market we are extremely confident on that business as well it is just taking time.
- Nirag Shah:** In balance sheet in current provisions at consolidated level I see a shoot up from 50 lakh to 7.70 Crores so what are they for?
- Sumesh Gandhi:** The question is basically that on the balance sheet we are seeing that on the provisions we are seeing...



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- Nirag Shah:** Yes, current provisions have shot up from 50 lakh to 7.70 Crores so what are they provided for.
- Sumesh Gandhi:** I really need to check and come back to you on this. I am sorry Niraj, maybe once this is through, I will come back to you on this.
- Nirag Shah:** There is no bad debt or something provision?
- Sumesh Gandhi:** Not at all. There are no bad debts or any provisions of that sort which are there over there. These are all business provisions and nothing none of it is from a bad debt perspective.
- Nirag Shah:** Regarding the margin profile of our human and animal VD3 I wanted to ask because this year we have seen a great shoot up in volumes for human VD3 and also the price are almost stable around 4% even we have seen increase but if I see the margins we have not benefited much on margin front whereas in animal the VD3 for such shoot-up in volume and the prices are there then the margins get shoot up more 30%, 40% we have seen?
- Satish Varma:** As I explained earlier Mr. Shah, the margins if you take out the new products almost 25 Crores or odd that had negligible margins in the first year of introduction. If you take that out, I think our margins have expanded as per the volumes and the price increase on one side and of course they have shrunk little bit because of the animal side and the new products but it has more than taken care of. We have had a 35% increase in EBITDA as against last year in absolute numbers despite the new products not adding any margins to that. Adding to the revenue but not adding to the margins, so if you knock that off you will understand that the margins have commensurate to the increase in the human side sales.
- Moderator:** Thank you. The next question is from the line of JM Bihani an individual investor. Please go ahead.
- JM Bihani:** My question is around what is the strength of the R&D lab. I believe the R&D center is just in Thane and what kind of projects as you mentioned were delivered during this year and what is the pipeline of means what is the basic focus of the R&D organization?
- Prashant Nagre:** The R&D, is you are right it is situated in Wagle Estate, outskirts of Thane. We have about 15000 square feet of place which also got further expanded. Internally there was some space which was expanded, and the R&D mainly works on a three kind of segments; one is the API business which supports vitamin D3 part as well, the second is the biotechnology where the enzymatic catalysis has taken place and we have also invested in the formulation development where value addition formats of vitamin D3 related work happens. So there are three different segments within the R&D. The R&D has worked on various efficiency improvement program



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which we continuously invest in, improving on ongoing basis, also supports the backward integration projects which was implemented last year in terms of the tech transfer and getting it completely done on the budgeted assumptions as far as the efficiencies and the volumes were concerned. We also worked on the other project that was mentioned which is Molnupiravir. It is a drug which is using our own CAL B. So there were improvement and investments done on the R&D in terms of the enzyme itself as well as the chemical synthesis of Molnupiravir by biocatalysts way and on the formulation side that is the value addition format we have worked on many projects. I cannot give you individual names because of confidentiality but these are stable value added formats of vitamin D3 and few other formats of vitamins and as well as the premix business that we want to set up so that business has got support from the R&D itself.

JM Bihani:

It is a mix of product engineering and some value additions and improvements. My last question is around there is a segment called environmental solutions so is there any traction from commercial standpoint in that sense or it is still under investments and is there any vision for that particular segment and organization?

Prashant Nagre:

Environmental business is a kind of new kind of business. We have been around there and one of the main reasons for being around in this business is most of the degradation of waste water is by biology and through enzyme and microorganism based kind of intervention and we having been a biotech company for the last 30 years and understanding that and also a pharma company which understands engineering pretty well and having waste water treatment, we combined those expertise and started kind of supporting this business. So we are tied up with couple of foreign technologies where we see traction now. This is in the small independent units which will have decentralized waste water treatment and we are seeing good traction there. And also in the second part of the business which is institutional business which would be large builders and housing complexes which need now advance technologies in degrading in the smaller spaces within the apartment buildings because most of the municipal corporations now and compulsory wastewater treatment begin on a decentralized basis again so we see a good amount of traction. It is still a very, very tiny portion of the overall business but we are committed because we combine our expertise, and we are seeing that a company which makes a difference in terms of the unique proposition on biology and engineering has a unique place to make waves in this particular thing, so we are committed on this business, but it is very tiny.

JM Bihani:

The point was missing what is the strength of the R&D organization?

Prashant Nagre:

So, the strength of R&D including all the people in all the segments is around more than 30 to 35 people.



- JM Bihani:** Thank you.
- Moderator:** Thank you. The next question is from the line of Deepak Mehta an individual investor. Please go ahead.
- Deepak Mehta:** Sir my question is around the capex. So, what kind of asset turnover we can expect from the ongoing capex Sir?
- Satish Varma:** Sir your question was not clear you are not completely clearly audible can you please repeat your question.
- Deepak Mehta:** Yes, Sir. My question is for the current ongoing capex what kind of asset turnover means the revenue we can expect from this capex?
- Satish Varma:** Sumesh, can you please answer this question in terms of asset turnover if say 20% capacity increase happens from vitamin D3?
- Sumesh Gandhi:** The 20% increase in the vitamin D3 it is very difficult Deepak to directly say is to how it will be capitalized and put into place if it is for a human or from a vitamin but if it was from human perspective if I was take that into consideration then there should be a turnover, over a period of time but not be immediately close to four to five times.
- Deepak Mehta:** And in the long-term?
- Sumesh Gandhi:** In the long-term around five times.
- Deepak Mehta:** So, you have given roughly guidance of around 25% of profit margin so in the long-term what kind of ROCE we can expect which is right now 12% can you see it around the 18%, 20% in three to five years?
- Sumesh Gandhi:** Yes, Mr. Deepak that is what the target is to be close to 18% to 19%.
- Deepak Mehta:** One last question if at all so going forward what is the focus area it will be human or animal because in animal also there is lots of tailwinds which are there.
- Prashant Nagre:** Deepak Ji the company has a very balanced focus because we had said earlier in this call that there is an intermediate level up to which there is no difference in manufacturing the human part as well as the animal part, and then you can decide depending on the order book where you produce and how you produce, both the formats. Our focus is going to be a balance between both the formats. The vitamin D3 story is not yet over. I think COVID has



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completely changed the way vitamin D3 is consumed per se. Even before COVID vitamin D3 was among the top researched vitamins in the world with more than 3000 medical literature being published on vitamin D3. So, we continue to expect a very healthy growth even during the pandemic which is currently on and we feel that a sizable portion of the change in the attitude and the demand will stay on the human front even post pandemic. Now trying to combine all the dots so far, the capacity enhancement which has happened through debottlenecking last year and also the additional capital which has gone in and the capital which will be employed in the future couple of years in the new plant in Saykha for vitamin D3 we feel that we will continuously support the growth which will come as there has been a paradigm shift because of the attitude changing on immunity related products, post COVID. We assume and we hope also that the growth on vitamin D3 will definitely go down on human front; however, the base which has change will stay and a moderate growth will happen, so the human nutrition will be an important play. We think tthat the story is still not over, and we will be able to capitalize on that through the investments that we have done to be able to cater to that. On the animal front, as you have also understood that these investments also up to an extent where we can do the intermediates. We will focus and We have also setup a manufacturing on third-party basis through our German subsidiary in Germany, which is closer to the market of Europe and USA, and we have a very significant portion of our efforts in market expansion and capacity expansion. We feel that once the world learns to live with COVID, the animal nutrition will grow, because people will need protein and animal nutrition will come back to a normal digits and numbers and the price cycle is something beyond our control it will continue to play that price cycle. The company has played that price cycle pretty well in the past and we will continue to also focus and invest on animal front. So there is not going to be one single segment as a focus. Both are equally important to the organization and from an infrastructure perspective and capability perspective and effort we will invest equally on both and we feel that we are very confident to exploit whenever there is any upside event on either of those markets, the company's position to benefit come back. I hope I have answered your question?

Satish Varma:

Just to add Mr. Mehta to what Prashant has said I think that is on the vitamin D3, but on most other capex plans that we have other than on vitamin D3 are significantly focused on human nutrition whether it is new products or premix, all of them are significantly focused or primarily focused on the human nutrition. If there is an animal nutrition play because of being present in the human nutrition of course we will take that opportunity also and do that as well. But otherwise most of the capex other than for vitamin D3 is going into the human nutrition.

Moderator:

Thank you. The next participant is Nitin an individual investor. Please go ahead.



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Nitin: Thanks a lot for giving me this opportunity. I have two questions; the first one is like as regarding the micronutrient inflows for fortified food market. I just wanted to know by when could we see those inflows coming in into our topline. Is it going to be next within two years or three years like fortification of rice is something which I wanted to know and the second one is being how the biotechnology business segment is going to look like five years now? Thank you.

Prashant Nagre: Nitin, thank you for asking this question. It is an important part of our business and the future growth. Fortification as you know that, micronutrient deficiency is the major problem even though we are now a 70 years old republic. The major portion of it can be corrected by fortification of staple. The current administration at the center is committed towards this and Fermenta going forward wants to play a very important role in making quality products, because we are a 60-year-old pharmaceutical company and entry into the food fortification and the food segment will bring in that quality angle into the products that we will bring out, so we are focused on fortification. The first fortification product for the staples is the AD2 which is a product which is for milk and oil fortification. We started with the oil fortification, this project has been already launched and milk will happen subsequently. The Government of India has already circulated guidance, through FSSAI to see that this can be mandated. If it is mandated that is an opportunity which the company will be able to exploit. That is the first thing. We have the products, and we are at any point in time ready to exploit that entire opportunity. The second is the fortified rice. The company is interested in this project and fortified rice kind of revenues, I think yes next financial year would see the company kind of doing a significant work into this thing. I cannot disclose anything beyond this, but we are actively engaged in the oil, milk, and fortified rice kernel in terms of fortification. We will also contribute through the premixing plant, through the other players who are going to be responsible for fortification, through the premixing business that we will have, and we are also setting up the mineral plant which will again in turn contribute to the other premix players and other players who are going to be in fortification. So, I think we have got a very wide position taken and a very extensive and exhaustive position taken in this entire nutrition ingredient which will be also playing a role in fortification. That was the first part. Second is biotechnology. Now biotechnology as we see the place where we are present is called as green technology and green technology fortunately is also something which is going to be very economical and cost competitive. I think from both pressure points, that is from a green pollution perspective within our country we see a change in the attitudes of large pharma companies and from a perspective of cost competitiveness which is driven from the market angle, which is a compulsion. We see that there is a good traction coming in and we see that major molecules which are being supplied and manufactured in India. if there is a possibility of green chemistry and biocatalysts, there is traction so we will be very much committed. This is a unique strength Fermenta has, over the last 30 years starting with our journey from



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setting up Fermenta Biotech stake as a part of DIL then. We have invested in biocatalysts capability. The laboratory in Mumbai has got further investments in capabilities where we will be able to exploit this to the fullest extent, and all our enzymes are having freedom to operate, so we do not infringe IP of people and over the last one year we have had not less than 10 patents which have been filed coming only from biotechnology. So, you will see a very interesting continuous effort to exploit this opportunity further and we want to be a leading player within India offering solutions whenever people want either from a green chemistry perspective that is less pollution or from a cost competitiveness perspective, we will have solutions made available from Fermenta. We are reengineering the entire proposition of how we deal with the Indian pharma business.

Nitin: That is great to know. I just wanted to ask one more thing; it is like there are a few companies who are trying to create protein out of methane, few biotechnology companies right now which they are trying to do, are there any patents in which comes under green technology but in turn creates proteins from industrial waste are we looking into investments of patents into that as well?

Prashant Nagre: Nitin yes, I am aware of the proteins, vegetable protein as you call it. We are not in that segment, we are in a very, very specific segment called as biocatalysis. So, if you have a chemical reaction happening between two products and you get a Y product out of that, a pure chemistry is sometimes not specific and not efficient and it is of course sometimes also pollution driven. So, we exactly work on that through enzyme. So our proteins are enzymes and they are not edible they are biocatalysis. They are industrial enzyme. So, we are in that segment and not something which is for consumption. So, we do not even have plans currently to get into that. We have proteins which are very specific biocatalytic protein. We are playing a role in a chemical biosynthesis in a biocatalysis. I hope I have answered your question?

Nitin: Thanks, a lot, and all the best.

Moderator: Thank you. The next question is from the line of Vipin Taneja an individual investor. Please go ahead.

Vipin Taneja: Sir my question is to Mr. Satish just wanted to ask what will be the interest outgo in this financial year since you have mentioned about the capex and the capitalization.

Satish Varma: I think I will ask Mr. Sumesh Gandhi, our CFO to take this question to be more specific. Thank you very much.



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Sumesh Gandhi: Total capex if we are talking which we will be incurring including the backward integration and everything which we have talked about is close to a long-term capex of 133 Crores and the average interest rate at which on which it is there it is around about 7% so on the long-term debt it will be close to Rs.9 Crores on an annual basis.

Vipin Taneja: Total interest outgo this financial year all together everything put together?

Sumesh Gandhi: In FY2021 we are talking or FY2022?

Vipin Taneja: FY2022?

Sumesh Gandhi: FY2022 everything put together would be close to say 14 Crores.

Vipin Taneja: So, there will be some repayments as well?

Sumesh Gandhi: Yes.

Vipin Taneja: My question was, are we targeting to put this interest outgo between 15 Crores and 20 Crores bracket or maybe are we looking to put it down further maybe 10 Crores?

Satish Varma: As we go forward I think it should come down. But as I earlier mentioned Mr. Taneja the 100 Crores or 120 Crores that has gone in has just gone in this year I mean FY2021 and maybe another as I earlier mentioned 50 Crores, 60 Crores will go in FY2022. Once we start the utilization of this plants maybe we start seeing it going down. Of course, if our real estate something happens then you will see a different story but if I keep that aside I think maybe from next year onwards we will start seeing it going down. The intention is to keep the debt levels low. If you would notice in our books, you would see we also sit on fixed deposits of 25 Crores or 30 Crores of fixed deposits which we have with us, which we have not utilized to repay any of the loans keeping in mind our capex requirements itself. And, we continue to generate cash.

Vidin Taneja: You did mention about touching the four-figure mark so whenever it happens but any medium-term plan to at least double the turnover from the present one like say to 700, 750 Crores?

Satish Varma: I wish we can double every time Sir. This has happened once or twice, but I do not think so it can be a continuous process. It will take time Sir. So, as I just said earlier the right now we are at just about 400 levels or just below 400 levels. To reach a four-digit number in the next four to five years I think we should have a significant jump in one of those years otherwise it will be tough to reach that number. Yes, once all these investments come into motion and



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some of the plans are getting into action, I think we will see a significant jump but which year , will be difficult to mention.

- Vidin Taneja:** Thank you so much for answer my queries Sir. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Ms. Nikita Agarwal from ValueQuest Investment Advisors. Please go ahead.
- Nikita Agarwal:** Thank you for taking my question. I just had one question. I wanted to get more clarity on what is Fermenta's role in the Molnupiravir as a drug are we supplying to the licensed players is there an agreement and some clarity on that?
- Satish Varma:** No. Currently as I said the company is still making all its efforts to see how it can participate in this business. We do not manufacture anything currently. We are not participating in that currently. We are in our effort stage, if and when it fructifies which we are hopeful of we will come back to you and inform you.
- Nikita Agarwal:** Are we currently supplying for the trials or anything you can share?
- Satish Varma:** I do not think so we will be able to talk more than that we are still putting our efforts.
- Nikita Agarwal:** No problem. Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Mr. Deepak Mehta an individual investor. Please go ahead.
- Deepak Mehta:** My question is around what is the investment we are doing in R&D and specifically for capability development in terms of human talent?
- Satish Varma:** There are two questions; one is on the R&D. R&D our intention is to be able to invest about 15 Crores to 20 Crores per year, should be our investment in the R&D. I do not know the exact number for this year because of COVID, we might have been a little short of that number but that is our intention. As Mr. Prashant Nagre has earlier mentioned we have expanded our facility to utilize the entire 15000 to 20000 square feet of space that is available, to increase the strength and increase the kind of business we can do, both at the API level, at B2B formulation level and as well as the biotech level. That is on the R&D. On the human side, I do not have an exact number but there are various programs that are undertaken by the HR department. This COVID time has been difficult so most of them have been working online. We could not do much of the physical programs that we normally end up doing in terms of employee resource, increase in terms of their productivity and all those things that



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has not happened and this year has been more focused on taking care of employees and their families who got affected by COVID because they had to compulsorily come to the plants, we had to continue production, cater to increase demand, so there has been a lot of work that happened on the COVID front this year. In the last three years we participated in survey that is done by Great Places to Work. We are happy to say that over the last three years we have been certified by them and every year with increased scoring. So that should also speak volumes in terms of the efforts that are taken by the company in maintaining the human talent.

Deepak Mehta:

Thank you so much Sir.

Moderator:

Thank you very much. Ladies and gentlemen that was the last question for today. I will now hand the conference over to the management for closing comments.

Satish Varma:

Thank you so much.

Satish Varma:

Thank you all for participating in this earnings call. I hope we have been able to answer your question satisfactorily if you have any further questions or would like to know more about the company, please reach out to our Investor Relations Managers, which is Valorem Advisors. Thank you very much.

Moderator:

Thank you very much. On behalf of BP Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.