



“Advanced Enzyme Technologies Limited Q2 FY 2020  
Earnings Conference Call”

**November 04, 2019**





*Advanced Enzyme Technologies Limited*

*November 04, 2019*

**MANAGEMENT: MR. MUKUND KABRA -- WHOLE TIME DIRECTOR,  
ADVANCED ENZYME TECHNOLOGIES LIMITED  
MR. BENI PRASAD RAUKA -- GROUP CFO, ADVANCED  
ENZYME TECHNOLOGIES LIMITED**



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**Moderator:** Good Day, ladies and gentlemen and a very warm welcome to the Q2 FY 2020 Earnings Conference Call of Advanced Enzyme Technologies Limited. From the management of Advanced Enzyme Technologies Limited have with us today Mr. Mukund Kabra -- Whole Time Director; and Mr. Beni Prasad Rauka -- Group, CFO.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I am now glad to hand the conference over to our Whole Time Director -- Mr. Mukund Kabra. Thank you and over to you, sir.

**Mukund Kabra:** Good afternoon, everyone. I believe that the Quarter 2 and First-Half Results are in-line with our expectations. We are progressing towards meeting our goal for financial year 2020. Although the revenue growth is in single-digits, the bottom-line has shown a significant uptick as compared to last year. The substantial increase in profit is primarily because of additional gross contribution on increased sales and lower financial cost. EVOXX is doing substantially well. It became EBITDA positive in the previous quarter and has registered 59% growth against the last quarter.

Now, please allow me to take you through the financial highlights:

Sales in the Quarter 2 Financial Year 2020 is up by 8% year-on-year to INR 1,114 million from INR 1,032 million in Quarter 2 Financial Year 2019. EBITDA for Quarter 2 Financial Year 2020, increased to INR 473 million from INR 421 million in Quarter 2 Financial Year 2019, up 12%.

Net profit is increased by 23% in Quarter 2 Financial Year 2020 to INR 318 million from INR 259 million in Quarter 2 Financial Year 2019. Sales for H1 financial year 2020 is up by 7% year-to-date to INR 2,218 million from INR 2,074 million in H1 Financial Year 2019.

EBITDA for H1 Financial Year 2020 is increased to INR 1,008 million from INR 905 million in H1 Financial Year 2019, up 11%. H1 Financial Year 2020 net profit rose by 15% to INR 658 million from INR 571 million in H1 Financial Year 2019.

Now, we would like to open the floor for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. The first question is from the line of Dharmik Patel from ActiveAlpha. Please go ahead.

**Dharmik Patel:** Can you help me with the revenue, EBITDA and PAT for EVOXX?

**Beni Prasad Rauka:** So, for EVOXX the top-line is INR 58 million and EBITDA is INR 13 million and then we have a amortization of about INR 17 million for this quarter as compared to the previous quarter of top-line of INR 56.5 million and EBITDA of about INR 8.2 million and amortization of about INR 15 million.

**Dharmik Patel:** Okay. Now with respect to the closure of Malaysian subsidiary, I want to understand what was the particular reasons for us to take this decision? Because we acquired a subsidiary in 2017 and within two years, we had to make a decision of closing this down.

- Beni Prasad Rauka:** Yes, so, it is like all the trials and all the efforts is driven by our parent company. So it was another setup, and we could see a lot of administrative and then compliance with all those requirements are there and there are un-wanted expenses which we thought we do not need it at this point of time. And we will continue to work on that from India in any case. So we thought there is no point in continuing that particular company as such. So we do not need a separate entity as such over there. Does it satisfy your question?
- Dharmik Patel:** Any reduction in the effort that you are making and exploring the opportunities with regard to palm oil given the closure subsidiary or will it continue at the current pace?
- Beni Prasad Rauka:** Revise arrangement you can say in a way just to address some extra overhead. We will continue with our efforts.
- Mukund Kabra:** But this is a very mature industry and it will take its own time, we do not see in the near future, any sense is coming. So we do not want to spend the money continuously.
- Dharmik Patel:** What do you see the growth drivers of this company going forward for next two years?
- Beni Prasad Rauka:** Next two years we see, probiotic, human nutrition, animal feed, bio catalyst, and the food industry, bakery industry, these are various which will take us further.
- Dharmik Patel:** Product launches planned?
- Beni Prasad Rauka:** Some of them are in the pipeline and some of them are being launched.
- Dharmik Patel:** Now, I have two questions on financials. So, first, what are the reasons of cost of material consuming? It is doubled over the last year for this quarter.
- Mukund Kabra:** Last year or you are saying on quarter-to-quarter?
- Dharmik Patel:** On quarter-to-quarter?
- Beni Prasad Rauka:** Yes, when you see the raw material, it is because of some changes on product side when the sale mix is changed, number one. Number two, if you really compare YTD numbers, you will not see any drastic change, it is on quarter-to-quarter the change you are observing on, right? But if you see year-to-date number, year-to-date numbers are more or less similar. Last year, we had spent about I think 18% on raw material consumption and this time it is about 19%. So, there is a 1% extra and that comes because of some changes in the price of the input whatever we use. So there is no major change as such. So you look at the quarter-to-quarter basis it is like you need to see it on a broader perspective and a year-to-year basis.
- Dharmik Patel:** Sure. What was the change in other equity because it has increased by 10% from FY 2019 figure that is from Rs. 656 crores to Rs. 721 crores in first-half?
- Beni Prasad Rauka:** That is because of the translation you know, it happens because of the translation of our foreign subsidiary company because those are in different currencies so, we have to translate them in INR. So, all the assets and liabilities are translated, and the difference is taken through OCI.
- Dharmik Patel:** All right, understood. With respect to the line item in cash flow statement this increase in provisions for first-half that is Rs. 11.7 crores, what are these provisions for?
- Beni Prasad Rauka:** Let me tell you, I think, you need to see some kind of a regrouping and reclassification is required as such. So it is net you have to see with reference to other current liabilities. So

provision and other current liabilities both you have to match and then you have to look at it. So, last time, I think it was INR 79 million, this time it is about INR 89 million.

**Dharmik Patel:** And my last question is, with respect to EBITDA calculations, I believe I am getting confused from somewhere in calculations because...

**Mukund Kabra:** No, we do not add. See, we do not add the other income in this.

**Dharmik Patel:** All right, understood. Okay. And my last, no, it is not a question, but it is a concern. We were trying to reach out to the investor relations team and also the management team, but we have been unsuccessful since last few months. So, it is you know....

**Beni Prasad Rauka:** We are we are working on that; we are definitely working on that. So going forward, probably, you will observe the better, PR exercise.

**Dharmik Patel:** If you want to come to and visit and the plant and its facilities and all that stuff. But it is proven to be very-very challenging. Although, you know, despite our very considered effort, I mean if you reach out again, maybe this week or week after we will have a different response.

**Moderator:** Thank you. The next question is from the line of Amar Maurya from ALFAccurate Advisors. Please go ahead.

**Amar Maurya:** Yes. Sir, thanks a lot for the opportunity. I have two - three questions. Number one, sir, if I see the current revenue run rate like you know 7% odd, but we had guided for odd about 12% kind of revenue growth on a full year basis. So are we maintaining our revenue guidance?

**Beni Prasad Rauka:** Sir, we said about 10%.

**Amar Maurya:** I think, the range was 10% to 12%. Even though if it is a 10% then probably in Q3 and Q4 we will need a pretty higher revenue numbers because your run rate is not crossing more than Rs. 110 crores and that is probably from last if I see around about seven to eight quarters, the revenue is moving around Rs. 100 crores - Rs. 110 crores. So if you want to even give the 10% plus revenue growth number then also you know you have to cross something around Rs. 120 crores - Rs. 125 crores kind of a run rate Q3 and Q4. So, are we confident on that?

**Mukund Kabra:** Amar, at this point of time, we are maintaining it. But we are facing a lot of challenges in the U.S. market at the same time, we are facing some challenges on the Serra market in Indian area on top of that, we are trying to do the best but at this point of time we feel that we should be able to maintain 10% revenue growth.

**Amar Maurya:** Okay. And secondly, sir, like you know, if I see your margin and like we had recovered our margin to around 41% - 45% - 48% and then now at 42%. But is it fair to assume that you know last year you had closed the margin at 43% there will be a margin inch-up from the year-over-year basis like full year it was 43%. So, can we expect some margin improvement given that now we are focusing more on the human nutraceutical, probiotic which are relatively a better margin business than the traditional business?

**Mukund Kabra:** Amar, probably this year we will maintain the same range which we used to go from 40% to 48%, right? But we feel that as the growth will come up, our margins will improve going up in future. But this year probably we will maintain the same.

- Amar Maurya:** So the like, you know, last year it was Rs. 43 % Is it fair to assume that you will at least post the 43 % number or there will be deceleration from that number also?
- Beni Prasad Rauka:** That should be around the same, Amar.
- Amar Maurya:** Okay. Because I am asking you this thing, sir, if that is the number then probably the PAT growth would be very-very negligible. So what my concern is, what kind of EBITDA growth then we will see because, if we post 43% numbers, is it fair to assume that you know, at least there will be a 14% - 15% EBITDA growth and around 17% kind of PAT growth we will be able to post in 2020?
- Mukund Kabra:** Amar, we feel that that is possible at this point of time.
- Amar Maurya:** Okay. And what would be the top-line contribution in this particular quarter?
- Beni Prasad Rauka:** Top client.
- Amar Maurya:** Top client contribution
- Beni Prasad Rauka:** It is about 14%.
- Amar Maurya:** It is about 14% and I think, it has come down from 20% to 14%, right?
- Beni Prasad Rauka:** Last quarter was again 14%.
- Amar Maurya:** Okay, again, 14%. Okay, thank you, sir.
- Moderator:** Thank you. The next question is from the line of Akash Satale, an Individual Investor. Please go ahead.
- Akash Satale:** I had a question. it is regarding the promoters; I am a new investor in the company, and I have been just finalizing the company and going through the report for the past two years and all those recent developments. I see that, there has been a promoter change in the last one year or so. Mr. C. L. Rathi was the Managing Director and Piyush Rathi was there, and now it is Mr. V. L. Rathi. So, can you please give me more details about this change in the promotership?
- Beni Prasad Rauka:** The change in the sense Mr. Vasant Rathi was promoter earlier also and he continues to be there, and only change what you have observed is like the one we said happened in September 2018.
- Akash Satale:** What happened in September 2018, can you...?
- Beni Prasad Rauka:** I mean, one of the promoter, he has exited from the company.
- Akash Satale:** Okay. So that is what I want you to understand. So Mr. C. L. Rathi, has exited from the company?
- Beni Prasad Rauka:** Right.
- Akash Satale:** And Mr. Piyush Rathi has also...
- Beni Prasad Rauka:** Yes, he is has also resigned subsequently.
- Akash Satale:** Okay, and they have sold their stake in the company?
- Beni Prasad Rauka:** No, they continue to hold shares about 15% in the company and the remaining stake they have sold.

- Akash Satale:** And they are not in a management team now?
- Beni Prasad Rauka:** Yes, you are right.
- Moderator:** Thank you. The next question is from the line of Rohit Sinha from Emkay Global. Please go ahead.
- Rohit Sinha:** Just wanted to know, we are looking for better growth, I mean, expecting a better growth in second-half. So, from the Human Nutraceutical, whether it would be from India or outside India or a mix of that thing. I mean, geographically where we are seeing a better growth in the second-half?
- Mukund Kabra:** This year we are feeling the better growth will still come from India.
- Rohit Sinha:** Okay. And looking after the industrial segment I mean, still we are not seeing that kind of industry growth right now. So probably second-half would be also be on the lower side from the industrial segment?
- Beni Prasad Rauka:** Industrial segment will continue to be about you know 14% - 15% of our total top-line.
- Moderator:** Thank you. The next question is from the line of Dharmik Patel from ActiveAlpha. Please go ahead.
- Dharmik Patel:** What is the R&D expense for this quarter?
- Mukund Kabra:** I guess, Dharmik Rs. 40 million but we will recheck it. Yes, it is Rs. 40 million Dharmik.
- Dharmik Patel:** All right. And also, I did ask previously that, when can we expect you know when can we get in touch with you?
- Mukund Kabra:** Next week.
- Moderator:** Thank you. The next question is from the line of Dhiral Shah from PhillipCapital. Please go ahead.
- Dhiral Shah:** An existing capacity which we have, what kind of revenue we can generate at an optimum level?
- Beni Prasad Rauka:** We feel that we can double the revenue.
- Dhiral Shah:** Okay, so our utilization is only 50%, sir?
- Beni Prasad Rauka:** Yes, roughly.
- Dhiral Shah:** So by when sir, you are targeting doubling the revenue?
- Beni Prasad Rauka:** It is a very good question. we need to strive for the better. So hopefully, maybe, let three years we target that we should really utilize our 100% capacity.
- Dhiral Shah:** And sir, with margins, you are guiding between 42% to 48%, is not when our utilization you know goes up do you feel, we can even generate more than 50% margin?
- Beni Prasad Rauka:** Yes, you are right, absolutely right. You got it exactly because fixed expenses remains same...
- Mukund Kabra:** Most of the fixed expenses.
- Dhiral Shah:** Okay, and sir, what will drive this growth?

- Mukund Kabra:** Yes. So as I said earlier, like most of the growth will come from the probiotic, bio catalyst. The bio catalyst range of what we do in the EVOXX. So we will explore those range and the animal feed market.
- Dhiral Shah:** Okay. Understood, sir. So we will be in touch, sir next week then.
- Moderator:** Thank you. The next question is from the line of Amar Maurya from ALFAccurate Advisors. Please go ahead.
- Amar Maurya:** So I wanted to understand when you see like, you know, you are seeing some pressure in the core markets of U. S. as well as in the India. I mean, is it like the competitive intensity in the industry has increased or you know it is general slowdown what are what is the kind of because, if I talk to few other players like you know they are sounding very optimistic about their export business?
- Mukund Kabra:** Amar, U. S. businesses I think it is not too competitive, but it has really slowed down and because there is no growth in the top customer as well and revenues are going down from them too. So U. S. it is not a competition, but it is a slowdown. When it comes to India, there is some competitive pressures what we are feeling on the Serra market and that is where like we are diversifying also into the other revenue areas.
- Amar Maurya:** When you say in India Serra market meaning what? Pet food market, correct?
- Mukund Kabra:** Human Nutrition.
- Amar Maurya:** Yes, human nutrition, okay. Human Nutrition market. So sir, like, you know, when you say like, the top customers are not growing or seeing some slowdown in us. So is it like a portfolio issue for you? Like how we want to come back from this?
- Mukund Kabra:** See there are a lot of things which are going up right even like last quarter, if I recollect, right, Amar besides the top client we had a 23% of growth last to last quarter. So we are working on the other customers right, and we are trying to make other customers big. So this is ongoing process, it will take some time.
- Amar Maurya:** So, like, you know, then in that case of pretty medium-term question, not on a quarter-to-quarter basis, like you know, if I see your last two years run rate probably would have been mid-single-digit or very low double-digit number kind of 7% growth in 19% and 10% growth which we are guiding for 2020. I mean, when we want to see a very healthy kind of a double-digit growth you know and what we should see going forward? Like you know, 2021 - 2022?
- Mukund Kabra:** Amar, as you know like we were consolidating, last year was the consolidation this year is again going to be a consolidation year. We are putting all our R&D's and what is required for the future growth in pipeline, right? So most probably next year, second half, we should have better growth.
- Amar Maurya:** Okay, so you were saying that, you know, it is like still today the four quarter away for you to consolidate and then from there on to grow.?
- Mukund Kabra:** That is right, Amar. That feels like at this point of time. This is our expectations...
- Amar Maurya:** And, and what can what can go wrong in this expectation, sir then in that case?





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**Beni Prasad Rauka:** So that is the reason, it is taking time. So we are very cautious about this, that we need to address all whatever risk what you are talking about is what can go wrong. And that is the reason we are giving a timeline of one year because you know a lot of efforts are being now put into it.

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

**Mukund Kabra:** Thank you, everyone for your participation. We will look forward. Thank you very much. Bye-Bye.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Advanced Enzyme Technologies Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.