ASTEC

Astec LifeSciences Ltd.

Date: 12th May, 2021

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

Ref.: BSE Scrip Code No. "533138"

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

Ref.: "ASTEC"

Subject: Transcript of Conference call with Investors & Analysts held on Tuesday, 4th May, 2021

Dear Sir / Madam,

Please find enclosed herewith transcript of Conference call of Astec LifeSciences Limited with the Investors and Analysts held on Tuesday, 4th May, 2021.

The aforesaid information is also being hosted on the website of the Company, viz., www.astecls.com.

Please take the same on your records.

Thanking you,

Yours sincerely,
For Astec LifeSciences Limited

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ROHAN
PRADHAN

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"Astec Lifesciences
Q4 FY2021 Earnings Conference Call"

May 04, 2021

ANALYST: MR. ANKUR PERIWAL –AXIS CAPITAL LIMITED

MANAGEMENT: MR. NADIR GODREJ – CHAIRMAN – GODREJ AGROVET & ASTEC LIFESCIENCES

MR. BALRAM S. YADAV -MANAGING DIRECTOR –GODREJ AGROVET

MR. S. VARADARAJ – CHIEF FINANCIAL OFFICER – GODREJ AGROVET

MR. ASHOK HIREMATH – MANAGING DIRECTOR – ASTEC LIFESCIENCES

MR. ARIJIT MUKHERJEE –CHIEF OPERATING OFFICER – ASTEC LIFESCIENCES

MR. SAURAV BHALA –CHIEF FINANCIAL OFFICER - ASTEC LIFESCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Astec Lifesciences Q4 FY2021 earnings call hosted by Axis Capital Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited. Thank you and over to you Sir!

Ankur Periwal: Thank you and good afternoon everyone. Thank you for joining us on the earnings call of Astec Lifesciences for Q4 and Full Year 2021. We have with us today, Mr. Nadir Godrej – Chairman of Godrej Agrovet and Astec LifeSciences. From Godrej Agrovet, we have with us Mr. Balram S. Yadav – Managing Director and Mr. S Varadaraj – Chief Financial Officer. From Astec LifeSciences, we have, Mr. Ashok Hiremath - Managing Director and Mr. Arijit Mukherjee – Chief Operating Officer of the Company. We would like to begin the call with brief opening remarks from the management following which we will have the forum open for an interactive Q&A session.

Before we start, we would like to point out that some statements made in today's call may be forward-looking in nature and actual results may differ from those expressed or implied. We would like to hand it over to Mr. Nadir Godrej for his initial remarks. Mr. Godrej!

Nadir Godrej: Good afternoon everyone. I welcome you to the earnings call of Astec Life Sciences. I hope and wish you are doing well and are staying safe. In the FY2020-21, demand and supply was disrupted across sectors due to the COVID led lockdown. As a result, the output for most sectors is expected to be lower to than the previous year. However, the agrochemical sector was classified under essential commodities; therefore agrochemical companies including Astec have not been materially impacted. In the beginning of the financial year 2021-22, India is seeing the second wave of COVID-19 which is more severe, but the situation is expected to normalise in coming months as the rollout of the vaccination programme gathers traction. Economists expect India's GDP to grow by double-digits driven by the expectation of higher consumption, investments and a revival of the service sector. The agricultural sector is again expected to grow an early macro indicators look promising, with the expectation of a normal monsoon. This will benefit farmers and companies catering to this sector.

Now, I will quickly take you through the financial performance and key developments in the company during the Q4 and the full year ended March 2021. In Q4FY21, Astec has reported consolidated total income of 174 Crores compared to 186 Crores in the same period in the previous year. EBITDA and PBT during the quarter were 40 Crores and 32 Crores, respectively, as compared to 48 Crores and 40 Crores, respectively, in the same period last year.

For the full year 2021, total income was 563 Crores compared to 534 Crores in the previous year. EBITDA and PBT were 119 Crores and 89 Crores respectively compared to 97 Crores and 61

Crores in the previous year. We would like to highlight that due to the seasonality involved in our business, full year financials are a better representatives of our performance.

In Q4, revenues were marginally lower than the previous year due to a high base effect; however, for the full year, revenues have grown at 6.3%. Geographically revenue growth is driven by the domestic business and segment wise enterprise sales have contributed to growth. Given the higher demand and better pricing of key products in India, Astec focused more on the domestic market than exports. While exports volumes have also grown, low pricing over the high base of last year has impacted export revenues.

The gross profit margin for the year has increased to 39.2% from 36.7% in the previous year driven by higher volumes, better pricing and strategic raw materials stocking. The EBITDA margin has increased to 21.2% from 18.2% and profit before tax has seen robust growth of 45.2% year-on-year. Our balance sheet remains strong with a debt equity ratio of 0.6 as on March 31, 2021. Return on capital employed has increased to 22.3% for this year compared to 20.4% in the previous year.

We have successfully developed and launched a new contract manufacturing product for an international client in fiscal year 2021 and this coupled with commissioning of the herbicide plant is expected to contribute to revenue growth in the near term. We are also in the process constructing our new state-of-the-art research and development facility which is expected to materially increase our capabilities to take up new projects.

The agrochemical sector is more resilient vis-à-vis other sectors to the disruptions caused by COVID-19. Further, macro indicators for the sector are expected to be positive in FY2022 as well both in a domestic markets and international market. At Astec, we believe that given our future plans, we are well placed to capitalise on the growing opportunity.

That concludes our business and financial performance update for the quarter and for the year. With this, I close my opening remarks. We will now be happy to take your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Harish Kothari from Alfa Accurate Advisors. Please go ahead.

Rajesh Kothari: This is Rajesh Kothari here. My question is to Mr. Godrej. In terms of few years back, you were contemplating merger between Godrej Agrovet and Astec Life. What are your plans now, what is your thought process? Astec Life has now become really very solid company and also the future looks very bright and do you still consider the merger or it will remain as an independent entity?

Nadir Godrej: We are always looking at that option, but we do not see any prospects in the immediate future.

Rajesh Kothari: Any rationale for this since it is not yet clear, why such a thought on merger or why not to keep as an independent entity?

Nadir Godrej: In the long run, I think it will be best for us to merge this business, since we also have agrochemicals business, but I am not sure this is the right time.

Rajesh Kothari: Fine. Sir, my second question is with reference to the business, last time you were saying that the capex is coming on stream, so whether that plant has started and how do you see the utilisation in year 1 and year 2?

Nadir Godrej: Yes, would anyone else like to answer this question?

Ashok Hiremath: The new herbicide plant that we spoke about has got delayed a little bit because of the COVID situation. But however, I am happy to tell you that the plant is ready, we are just waiting for some permissions to come in and again because of COVID, government officers are taking some time to grant all permissions. But we hope to have it commissioned by the end of May or early June. In terms of the first year of operation, this year we expect utilisation to be in the range of 25%-30%, but we intend to fully utilise it by year three. That will be the phase wise ramp up in the capacity utilisation of this plant.

Rajesh Kothari: Thank you Sir.

Moderator: Thank you. The next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

Pritesh Chedda: Some colour if you could give on the volume and pricing growth that we would have recorded in FY2021. In an initial comment, you mentioned that exports have not done well because of lower prices, so if you could comment on the extent of pricing decline in any of your key products, if you could help us to give a better colour on your topline numbers?

Ashok Hiremath: I think since we have many products, it is hard to tell you about these products decline and increase in so and so forth. But to answer your question, although our topline went up by 6%, our volume growth was 12%, so that gives you a kind of flavour of what is the price decline that led to lower revenue growth than our volume growth. But having said that, we controlled our costs very well and therefore improved the margins, you can see the gross margins improved by 3% this year, which effectively led us to a higher profit before tax. The domestic market was particularly strong, it's not that the export market was not good, but we deliberately made a choice to sell more domestic markets and maximise our margins.

Pritesh Chedda: Any colour on what would be the domestic growth and what should be the export growth for us?

Ashok Hiremath: The export as the percentage of sale declined from about 54% to about 48% for the last year. Now in terms of growth of the exports, can Arijit do you have these numbers, we have export growth was -8% and the domestic growth was 25%.

Nadir Godrej: But Ashok there was no volume decline in exports.

Ashok Hiremath: No, only marginal decline in the export volume because of the significant improvement in the domestic sales, but overall as I said there was 12% increase in volume.

Pritesh Chedda: Just to confirm, export declined 8% by value and domestic grew by 25% by value in FY2021, right?

Ashok Hiremath: Right, yes.

Pritesh Chedda: Okay, so this explains the correlation with the pricing decline of 6% that you would have seen which is largely the export market?

Ashok Hiremath: Yes.

Pritesh Chedda: Another update I wanted, we were supposed to launch a couple of products in the export. One was I think, we have got some business on Tebuconazole that was the product we added, what is the status, there in terms of business there? Last year, you could also talk about two new products been added, so when should the business from those two, three products flow?

Ashok Hiremath: The products we spoke about were well-accepted by the customer. Now we see that there is going to be regular demand for these products. So we introduced the triazole that you spoke about, we introduced another intermediate for an herbicide which is expected to have very, very good sales growth because this is a patented molecule, it has been made for. It is an herbicide that has been introduced for the first time this year and it is competing in a market space which has got a very high volume potential. So over the years we expect that to be a very large molecule for us. So basically, last year we introduced three new molecules, this year we plan to introduce four new molecules, two in the CMO space and two in the enterprise sales category.

Pritesh Chedda: Okay, so both could be linked to exports, right?

Ashok Hiremath: Sorry?

Pritesh Chedda: Both will be linked to exports?

Ashok Hiremath: The contract manufacturing is also exports and one of the enterprise sale products is for the domestic market but eventually we will start exporting, initially for the local market.

Pritesh Chedda: Tebuconazole sales have started last year?

Ashok Hiremath: Yes.

Pritesh Chedda: Thank you. If I have more questions, I will come back.

Moderator: Thank you. The next question is from the line of Abhijit Akela from IIFL Securities. Please go ahead.

Abhijit Akela: Good afternoon. Thank you for taking my questions. Just to understand the improvement in margins this quarter, on a sequential basis gross margins are up, EBITDA margins are up even more sharply, so what has helped there? Even on a year-on-year basis, despite very difficult comparison from last year, when I believe prices of one our products were very high, we still performed quite well this quarter, in terms of holding up against the high base. So any particular factors that kind of helped shore up the performance this quarter?

Ashok Hiremath: That is the beauty about the business because we are multiproduct, that if one product is having a slightly lower margin we can make it with some other. One of the other products which had a lower margin last year gave us a much better margin this year. There is a shortage of it and we still continue to see very strong demand for that product in the coming year. So given our product mix something makes up for decline in certain products and that was the affect by another product did very well this year.

Abhijit Akela: Okay, so coming quarter should we expect this level of margins to sustain?

Ashok Hiremath: Yes, we do not see any reasons for any decline on our margins. We have always given guidance. We expect our EBITDA to be above 20% going forward. So we are always working towards ensuring that our product mix is such that, I mean backward integration that we do and strategic performance that we do and everything else make sure that we maintain our margins.

Abhijit Akela: Thank you. That is helpful. On the herbicide plant that is about to be commissioned, you mentioned about 25% utilisation for this year. So just wondering if you could help us, first of all I mean what segment is to be targeted as is it mainly for enterprise sales or CMO or both and any rough split if you could give us. Second, any orders in hand that we already have for that plant?

Ashok Hiremath: It is a plant that is built on CMO customer. It is just that in the first year, the utilisation will be less, but since after the first campaign is over we will then make another product which is also on contract for a customer, so there are two products on CMO basis which will come out of that plant. The third product which will make over there will be an enterprise sale product which we will produce towards the latter of the year, so I would say revenue wise about 50:50 for enterprise and CMO.

Abhijit Akela: Got it and the CMO part is already tied up with firm orders in hand?

Ashok Hiremath: Yes, firm orders in hand and these are all things that have a long-term potential demand.

Abhijit Akela: One last thing from my end and I will step back in the queue, just an update on your new personnel hiring plans. Any further key functions that you kind of beefed up with addition of new talent from outside? Second, just on the R&D centre when we should expect it to be commissioned?

Ashok Hiremath: In terms of key personnel as far as senior level, well we hired some people in R&D and also at the middle level. Most of the beefing up have been in R&D and technology transfer. We see that as we are introducing more and more products, we need a very smooth way that we scale our products from the laboratory to pilot plant to plant and we demonstrated that this process that we started following gives us very good results, because we were able to get our desired yield on costs in the shortest possible time. So in order to improve our ability to introduce multiple products, we are hiring more and more people in multiple tech transfer teams, so that is the effort on the people recruitment. In terms of the R&D, there has been a little delay in the construction of that because of COVID and some design changes that we did to improve the R&D centre, so we are expecting now completion will be Q2 of next year.

Abhijit Akela: That is Q2 of FY2022, so September basically?

Ashok Hiremath: July-August 2022.

Abhijit Akela: July-August 2022, got it. Thank you so much. I will step back in the queue.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal. Please go ahead.

Susmit Patodia: Good afternoon Sir. Hope everyone is safe and the Astec families. My first question is, this is only the second time that your operating cash flow is negative in your history, any thoughts on that what happened? We paid down on large part of the payable, if you can just throw some light on it?

Saurav Bhala: Our cash flow is very slightly negative basically on two counts. This year our working capital position in the Q4 has increased a bit, primarily, as Mr. Ashok was explaining we are more domestic sales than export sale. Last year, we had done a lot of export factoring in Q4 for most of our exports sale, this year the domestic sales been higher that possibility was not there, so that is one of the key reason why our working capital went up. The other reason, this year is the strategic stocking level was low and accordingly our creditors levels were slightly lower, this has contributed in the overall working capital going up marginally and accordingly, and slightly negative operating cash flows for the year.

Susmit Patodia: Is this a one of our domestic continues to be a larger proportion this is something that will go through?

Saurav Bhala: It depends on the profitability. As Mr. Ashok has already explained, wherever we get better margins to improve the profitability of the business, we will try to take the advantage. As of now the margins of domestic remains to be healthy, so depending on how the export and domestic dynamics play on, to protect our margins, we will take the calls accordingly.

Nadir Godrej: I would like to point out that interest rates are very low, so this is not a cause for concern.

Susmit Patodia: Mr. Nadir it is your group philosophy that revenue is vanity, profit is sanity and cash is reality.

Nadir Godrej: But, we will not sacrifice profits to have cash.

Susmit Patodia: Right, as shareholders, I would like to submit that if we have profits without cash?

Saurav Bhala: There is no concern on that at all. We are in a very healthy position overall and Mr. Godrej also said the borrowing remains to be very healthy and interest rates are going down, so we are in a very pretty comfortable position, nothing to worry about.

Ashok Hiremath: I would like to add that you might have noticed that our interest costs last year was less than 1% of sales and average borrowing during the year was only 102 Crores. It is in the last quarter of the year because of our increased domestic sales, that the borrowing went up by the year end. If you look at our average borrowing during the year, it is only 102 Crores. While we had a capital investment last year of about 130 Crores, we managed to have that level of borrowings throughout the year, so which indicates a very strong level of internal cash generation. This level of higher working capital which we had at the end of the year will be reduced in the first quarter of this year, because those receivable will start being collected.

Susmit Patodia: Got it and my second question is the CWIP that shows up 110 Crores, this is pertaining to be herbicide plants that are still to be commissioned?

Ashok Hiremath: Correct, the moment it is commissioned, we will then capitalise it.

Susmit Patodia: Just on herbicide plant Ashok Ji, if I may ask on January 27 call, you have indicated that the plant will be inaugurated in the third week of February, and obviously COVID then struck, so this delay is because of COVID or is there some stabilisation challenges?

Ashok Hiremath: No, actually some permissions got delayed. Unfortunately, we were expecting some permission. The plant was ready, and we even did opening of the plant. Unfortunately there was some permissions which did not come through and then we were waiting for them and then they got delayed and COVID happened and the people are not coming to the office and so and so forth, that was the only reason, otherwise the plant was ready.

Susmit Patodia: Got it, that is all. I will get back in the queue. Thanks, you and best of luck.

Moderator: Thank you. The next question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Thank you for giving this opportunity. I just have couple of questions on the numbers. If I look at the P&L and employee cost has gone up while our finance cost at the full year significantly gone down. so if you could just give guidance as to how do we see these employee cost and interest expense going ahead over next one year to two years, do we take this as a new base?

Saurav Bhala: In the current year, employee costs has gone up basically on two counts which are not normal. So this year as you know our plant got operational right from April and all the employees and the labour went out of the way to support the operation. Accordingly company also supported our team in the exceptional time by giving some extra hardship allowances to maintain their safety and to motivate them. So that was one sort of expense during this year amounting to roughly about some 2.5 Crores, which is not normal, that will obviously come down once the COVID situation is normal. Other figures are basically new headcount increase which happened for the plant and R&D and our regular operation. Those are the two major reasons, so one will get normalized and other thing will continue because as our operation base keeps on going up, we add new plants, the employee spend keeps on going up.

Nadir Godrej: I presume our employee cost as a percentage of sales is not rising.

Swechha Jain: So in absolute term we might see a little bit of increase in the expenses since because as per the business need, but nothing one off that we are expecting next year and it is going forward?

Balram S Yadav: We are recruiting ahead of time in R&D.

Nadir Godrej: Right, absolutely.

Ashok Hiremath: Again, to add to that, our employee cost is around 7% of sales, which is a healthy level and when we hire like this and revenues catch up, then again it will normalise at that level.

Swechha Jain: Sir the second part of that question was the finance cost, if you could share your views on it?

Saurav Bhala: Finance cost, so basically as soon as COVID hit, we did a lot of restructuring of the way we were borrowing in terms of instrument and we renegotiated the rates to the banks. As you know this year has been a reducing interest rate and we took with the maximum opportunity out of it, so our borrowing cost for all the short-term loans went down drastically. This year we have also issued commercial paper in a bigger way at a much better cost. So these two are the major reasons why we were able to get our cost overall down.

Swechha Jain: We do see this interest cost being at this level or going down from here in next year?

Saurav Bhala: Since the COVID phase-2 has already hit us, I do not think it will immediately rise, so H1 should remain at the same level. H2 depends on how the COVID situation improves and what are the RBI monetary policies. Probably H2 it may see small increase, but as of now we are pretty much in comfortable position and that is in our way.

Nadir Godrej: The current interest rates are so low, there is small increases which will have no impact on business.

Saurav Bhala: No major impact, that is true. We do not foresee any major increase in our interest cost for the current year.

Swechha Jain: My second question was in the other expenses, we have one-off of 6 Crores. So, I just wanted to understand, is the entire magnitude been taken into consideration like 6 Crores or we are expecting all this 10%-20%, we have currently taken in other expenses?

Saurav Bhala: Other expense or other income, you are talking about what?

Swechha Jain: Other expenses, if I look at the note, I think in other expense, we have stated an impact of Rs.6.2 Crores as an error of export incentive claimed in earlier years considering we have taken that.

Saurav Bhala: That was last year and that was onetime adjustment and no further such adjustment is foreseen in the years to come.

Swechha Jain: Thank you.

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

Shravan Vora: Thanks for the opportunity. I hope all is well with our team at Astec. Sir I just had one feedback- if now we are Rs.2000 Crores market cap plus company, if we could have more detailed presentation on our growth prospects, like our parent company Godrej Agrovet has, that was one feedback on my part. I just wanted some colour in terms of growth for a company in the medium-term to long-term say three to five years. Breakup if you could give from the traditional enterprise sales and CDMO business. What kind of growth can we see in terms of sales from the herbicide business? Just some colour on that.

Ashok Hiremath: Firstly, the guidance we have been giving all along is, we see a compounded profit growth of 20% and we have been delivering on that and perhaps over-delivering on that. The revenue growth will depend on pricing and so on and so forth, but the bottomline growth we expect this to be kind of splendid growth. In terms of the CMO versus this, while we have a number of CMO projects in hand, our enterprise sales are also growing simultaneously. While we want to increase the kind of portion of CMO sales we are seeing that it is in the range of 20% for a few years. So while we had ambitious plans earlier we would at least try and bring it up to 30% in the next three years and then see how those after that with all new R&D facilities is there we hope to launch some pretty big projects and then that whole scenario can change. In terms of your question about the herbicide plant, well, we have invested about Rs.100 Crores we expect a kind of turnover asset ratio about 1.8. So by year three that is the kind of turnover we expect out of that unit.

Shravan Vora: Right, perfect Sir. I got your point and all the best. Thank you so much.

Moderator: Thank you. The next question is from the line of Harish Bihani from ICICI Prudential Asset Management Company. Please go ahead.

Harish Bihani: Good afternoon. Sir, first question is on the R&D, if understood correctly the R&D centre will be commissioned next year some-time mid of next year. In the meanwhile how should one think about your entire progress of entire R&D that you are doing in terms of the product, the effort that you are doing in right now, that's one? In terms of the number of people that you have at this point in time and how will this kind of ramp up post the R&D centre commissioning?

Ashok Hiremath: At the moment, we have hired some additional laboratories near our existing laboratory which has increased our capacity for development significantly, so that is how we are tiding over this time until a new R&D centre comes. In terms of the number of people in the R&D Arijit, can you happy with that.

Arijit Mukharjee: There are around 60 people directly from synthesis to the piloting so more or less there are 60 people who are working in the R&D.

Harish Bihani: What will the step jump like post the R&D centre commissioning or is it going to be a gradual kind of an increase?

Arijit Mukharjee: There would be a gradual increase. Based on the requirement of the projects and everything there will be a gradual increase, with the required skill set we will gradually increase it. Before the new R&D comes up we will employ some more people. So that is the continuous process of adding up few more people, that will go on across the year.

Harish Bihani: Sure Arijit, and in terms of the effort that you are putting in now for the next one year or so, how should we think about in terms of the yielding efforts, final fruits this will happen in 2023-2024 how should we think about the time lines?

Ashok Hiremath: In terms of being able to develop the products which we have in the pipeline we are able, to cope with that. We are completing the development work as and when we are going to commission the products. As I said, this year we got four products coming online, we have the products developed, we will do all the safety whatever and scale-up studies that we need, we will be able to cope with all that. It is just that we want to accelerate that further with the new R&D centre.

Harish Bihani: Any one particular area of focus at this point in time?

Ashok Hiremath: You are talking about right now or to the R&D set up?

Harish Bihani: Right now, for the next one year, one and half year, and two years?

Ashok Hiremath: As I said we have two CMO products right now we want to introduce this year. We have another two CMOs that need to be commissioned in the following year. We have three enterprise sales products to bring out of the next two years. We have atleast four or five backward integration projects.

Harish Bihani: In terms of when we look at Astec apart from some of the key management personnel which is mentioned in the annual report and we get it online. Can you help share, say about four or five key people in the company at this point in time and what are the things that have been share between Godrej Agrovet and Astec at this point in time?

Nadir Godrej: What do you mean by you tell us about few key people mean? I did not understand the question.

Harish Bihani: Apart from the Chief Operating Officer and MD, so these are clearly mentioned either in the annual report or we have been interacting. But apart from that, in case if we just go and do a random search in any particular website, etc., you do not get much. So, essentially what we wanted to understand is that as who is leading the sales effort, who is leading the other efforts in the company apart from R&D we kind of understood you have hired recently?

Ashok Hiremath: It is a normal organization structure. We have head of manufacturing, there is head of technical services, and there is head of quality control, I mean there all.

Harish Bihani: Essentially Sir, what we are trying to understand is are these all longstanding employees in the company or some of these are recent hirers and like you have done on the R&D side?

Ashok Hiremath: No, most of these people are longstanding people. They have be around for at least 10 years.

Harish Bihani: Intuitively when you think about Godrej Agrovet and Astec Life Science intuitively to us it seems that both remaining separate makes sense. However, we are happy to engage in a separate conversation because Godrej Agrovet again has lot of moving part versus Astec which is much simpler at this point in time. So, merging these from a minority shareholder interest might not make much sense. So, just thought that maybe we can have a detail conversation later on, on this particular topic. Thanks.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good afternoon Sir. My first question is on what was the growth in the CMO/CRAM business for FY2021?

Ashok Hiremath: Actually there was a bit of a decline in CRAMs business last year because of one major product of ours where customer had some inventory and so they did not order as much as they did the year before. So, our decline of CRAMs was 6.8% last year, but we are going to make it up with new products this year and then when that product comes back, when they run through the inventory, then again this will be back on track. So, it is a slightly temporary situation.

Aman Vij: On the domestic and export trend like we saw in FY2021 exports had some headwind because of pricing. Do you think for FY2022 also domestic will be the major growth driver?

Ashok Hiremath: I think it is hard to predict that because agrochemical business is based on weather conditions all over the world, where the demand is strong, where there is dry condition. Last year Europe had very dry conditions. So, therefore the fungal attack was less and therefore the demand in Europe was less. It all depends on the particular season so we have to see how it grows.

Nadir Godrej: Yes, and the important point is there a flexible organization, we can switch from one to the other and the capacity utilization is usually high even though we keep expanding.

Aman Vij: I was asking in terms of supply, in terms of pricing of our top two-three products. Last year, one product the prices had fallen drastically, while one had improved. For the first 1-2 months are you seeing the same trend or the prices also keep fluctuating?

Ashok Hiremath: The one that is gone down is now that level, the one that is gone up is about that level. In fact the one that went up is gone up further so we have to see the blended average effect of all this.

Nadir Godrej: Even as the prices change the margins are maintained because costs come down or other factors are there.

Aman Vij: Thank you for the answer.

Ashok Hiremath: Whichever way around, we focus more on the margins.

Aman Vij: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh from Asian Market Securities. Please go ahead.

Saurabh: Thank you for the opportunity. So, just wanted to understand what the utilization level for the existing plants? Are we doing any debottlenecking and how should we look at the volume growth for the existing plant?

Ashok Hiremath: Last year we did debottlenecking exercise and we increased our capacity in some of our key products by 15%. That is in ongoing process. Utilization of our major products, we have so many plants, so some of our major products are almost 85% to 90% utilized. But there are some plants where there is some spare capacity and room for better utilization and growth coming out of existing facilities. Then of course we have the new plant which we commissioned now where there is only 25% utilization will be this year. So, these all the areas where there is upside for growth.

Saurabh: Sir what would be the capex for next year given some deferment in R&D lab what we are setting up?

Ashok Hiremath: Coming year our capex plan is Rs.180 Crores, which includes the new R&D centre and other capex is for new plants.

Saurabh: So, one more addition plant which is included in this Rs.180 Crores capex?

Ashok Hiremath: Yes.

Saurabh: So, we have already begun the construction work, or it will start within next couple of quarters?

Ashok Hiremath: No, it will start. It is at the planning stage and then we have few miscellaneous projects, but the major projects work will start.

Saurabh: So, again this new plant we are aiming for the contract CMO business or enterprise business?

Ashok Hiremath: Both enterprise and contract. As we have told you we have to introduce two or three enterprise sale products as well, so we need to build the facilities for that. So, this investment is a combination of the R&D and these new investments that we need to make.

Saurabh: Sir what I understand is from the existing CMO business long-term contracts are getting over in next one, one and a half years. So anything on that kind, or renewal front or it will be more or less annual kind of contract that will go through?

Ashok Hiremath: We are in the space where these products are what you call the patent, off patent proprietaries, kind of segment. So in certain cases we are the single source and in certain case we have one or two sources. So, they just continue, in some cases it might be a five year contract and then the contract says that it will be automatically renewed every year so it just goes on like that. So, it is like evergreen kind of project. We have not come across a project so far let us say okay this is being terminated now.

Saurabh: Thank you.

Moderator: Thank you. The next question is from the line of Amar Mourya from Alfa Accurate Advisor. Please go ahead.

Amar Mourya: Sir thanks a lot for the opportunity. Congratulations for a good set of margins. Sir, my first question is on the understanding the rationale behind merger between the Astec Life Science and Godrej Agrovet. Because what I understand is that Godrej Agrovet is a company which is diversified into pet foods, palm oil and then ease of agrochemical. But, if I see pet food and palm oil businesses which are relatively a low margin business. So, I believe the PE multiple which we will get for that versus the speciality chemical CDMO kind of business which is Astec. So, wanted your rationale to understand like what is that we are looking and why we are looking to merge this company into Godrej Agrovet?

Nadir Godrej: Speciality chemical has a high multiple because it is a fast growing business, and we feel that Godrej Agrovet will also be a fast growing business. So, we do not think even today Godrej Agrovet and Astec have much the same multiple. So we do not think that is of concern and we consider Godrej Agrovet we have very broad based agri business. We are not in pet food we are in animal feed which is very agricultural business. We are in all sectors of agriculture and we feel that Astec fits in very well with our portfolio.

Amar Mourya: Sure, we will take it probably discuss it off the line because I think it is probably not in the interest of minority shareholders. Both businesses are completely different in fact there are companies which have such business like to Astec they would love to demerge it and list it as a separate company, where as we are trying to merge. Both businesses are from a different profile, different return on capital employed and of course different strategies to grow the business. Anyway we will take it in off the line.

Nadir Godrej: We will think of your suggestions. As I said we have no plans for the merger right now and we take on board your suggestion.

Amar Mourya: Sir, second question is on the profitability front, like we indicated that our broad target is about 25% kind of a margin. So, on a year-over-year basis should we see that the profitability on an uptrend from here on?

Arijit Mukherjee: Our endeavour is always to increase the margins that as we say we always keep on saying that we will definitely keep our EBITDAs above 20%. But as our product mix improves we can see an incremental improvement with that EBITDA margin. But that is not going to happen very rapidly, it is going to happen slowly.

Amar Mourya: Okay, why I am asking this, like as we indicated that the profitability in Q1 and Q2 will be similar to Q4, but what I see here is that normally in Q1 historically the margin comes down because of probably product mix and all. So is that few of the products which we had contracted and which have higher margin, and that is why we are indicating even in Q1 and Q2 the margins would be similar to what we had seen in Q4?

Arijit Mukherjee: I do not want to make any predictions about Q1 because that is a forward looking statement. But I can just say that we look at our business on an annualized basis and we do not look at the quarter-on-quarter basis. Let me explain how our business works, that our customers in our CMO business run campaigns, so in a particular year they might run their campaigns in Q2 and then therefore want us to supply in Q1. In some years they might run their campaign in Q3 and want us supply in Q2 and so on and so forth, so our quarter to quarter results will always be a little skewed this way and that way. So, the guidance that you have to take from us is to do with our annual results, which are what they are telling you it will be. So do not go into this quarter to quarter granularization.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Thanks for the opportunity. Sir, would you like to comment on the new generation Triazole fungicide, that you are working on?

Ashok Hiremath: Yes, well they are working on the biggest Triazole fungicide which now is already in the market I think people know about it. I do not need to spell it out over here, but we plan to bring the product out. The development is completed, we are just working on the regulatory part and then we need to do the scale up work and bring it out. So, we want to put it on to the market by the end of next financial year.

Ashish Thavkar: Yes, and obviously needless to say that we will be having a better cost control than the others that who are making it?

Ashok Hiremath: We are go to people to Triazole fungicide. We know everything about it. We are starting right from the basic stages. We understand this chemistry extremely well, so we are confident of adding the best cost position in this market.

Ashish Thavkar: Yes, this is very helpful. So, on the new R&D facility obviously we are looking at many spaces like Fluorination, enzymes and stereo-selective, that we want to get into. Which is the first chemistry that we will be putting our hands on?

Ashok Hiremath: Well Fluorination will definitely be the first one and that involves KF chemistry and HF chemistry and then we will have high pressure chemistry. Then of course we are not so wedded to chemistry as what is required for each product. So, we will be more customer and product led, but we will develop the capability based on what the customers are needed in that specific point of time.

Ashish Thavkar: Yes, so this is very helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Divya Jain from ICICI Mutual Fund. Please go ahead.

Divya Jain: Thank you for taking my question Sir, I had more macro based question. If you read the regulations in Europe for Triazoles, they consider more of environmental concerns, human toxicity issues and lot of these players like Batches, Corteva, the BASF are withdrawing and coming out with combination molecules which are an effective substitute. So, I do not know how one should read about this? Is there a long-term impact for this on the overall industry and how about the other countries in terms of these regulations?

Ashok Hiremath: You are talking about looking at disruption concern, the products which have these problems have already been withdrawn. Now the ones that are remaining have a cut off, which is going to be passing with the safety criterion for these particularly Europe, which is very particular about this. The products that we are talking about all the big guys have broadened it, I mean BASF has got a new Triazole fungicide, Bayer has a new Triazole fungicide. All the big guys have a new Triazole fungicide. It is not that Triazole fungicide is a class are going to go away, it is just that the newer generation ones are going to do better and the ones which are really bad have already gone away. Then there always a very important mixing partner for the new generation of fungicides called SDHIs. So, as a mixing partner they will always have a value and we do not see that the segment is going to decline. It is just that we need to keep up with the new chemistries and see that we are in those markets going forward.

Divya Jain: For these new chemistries and the new molecules, you want to have a new registration or how is it going to work for you from your perspective. If you were to work for Batches, for the new product so the existing registrations will work or it will be a new product altogether?

Ashok Hiremath: No, every product will have its own registrations. We always develop the whole data pack then get it registered, which is a normal process.

Divya Jain: Thanks.

Moderator: Thank you. The last question is from the line of Dhruv from HDFC Mutual Fund. Please go ahead.

Dhruv: Thank you so much. Sir, in one of your earlier comments you mentioned the new herbicide plant will have 50:50 split between CMO and Enterprise. So, is this three year down the line when you have full utilization or this is just with the first year that you are mentioning?

Ashok Hiremath: No, this is for first year. We are talking about this year, afterwards that CMO proportion will increase significantly. As I told you, some of these the patented molecules that we are talking about, it is going to take a few years for that to ramp up. So, as that volume grows, the proportion of CMO will increase significantly.

Dhruv: I do not understand probably the enterprise business margins will probably volatile depending upon RM and end product pricing. The CMO will probably be more stable. Firstly is that understanding right, and secondly is it possible to give some guide on the margin difference between enterprise and the CMO business? I mean the guide of course will depend upon what average we use for enterprise but some sense there?

Ashok Hiremath: Our contract manufacturing business has a gross margin which might be about 5% better than enterprise sales on a blended average basis, if you look at over a period of time. That is about the only flavour I can give you right now.

Dhruv: Got it. That is helpful and Sir, lastly, you mentioned Rs.180 Crores of capex this year, right in FY2022. It seems our cash generation will be a bit lower so we will be using that to fund?

Ashok Hiremath: A little bit of debt will be required yes. Saurav please come in on that?

Saurav Bhala: Yes, a bit of debt would be required. That is right Sir.

Dhruv: Sir, any colour that you can give for capex for FY2023?

Ashok Hiremath: But as I said at debt equity ratio is very comfortable so there are no any issues there.

Dhruv: Yes, of course that I get. I just wanted to check my numbers and on FY2023 any sense on capex or any initial colour I believe your R&D will come up?

Ashok Hiremath: We have not firmed it up yet, I do not have that number, and we have not firmed it up.

Dhruv: Thanks a lot Sir.

Moderator: Thank you. Ladies and gentlemen that was the question for today. I would now hand the conference over to Mr. Ankur Periwal from Axis Capital Limited for closing comments.

Ankur Periwal: Thank you everyone for active participation in this call. Sir, would you like to add any closing remarks?

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

Moderator: Thank you. On behalf of Axis Capital Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.