

Advanced Enzyme Technologies Ltd.

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November 17, 2023

To

BSE Limited
Department of Corporate Affairs
P. J. Towers, Dalal Street,
Mumbai- 400 001
Scrip ID-540025

National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai- 400 051
Scrip Code-ADVENZYMES

Dear Sir/Madam,

Sub: Transcript of Conference call held on November 10, 2023 for Un-audited Financial Results for the quarter and half year ended September 30, 2023

In furtherance to our intimation letter dated November 01, 2023, please find enclosed the Transcript of the Conference call held on Friday, November 10, 2023 with Analysts and Investors for the un-audited Financial Results of the Company for the quarter and half year ended September 30, 2023.

The aforesaid information is also being uploaded on the Company's website.

Kindly take same on your records.

Thanking you,
Yours Faithfully,

For Advanced Enzyme Technologies Limited

Sanjay Basantani
Company Secretary and Head - Legal

Encl.: As above



“Advanced Enzyme Technologies Limited
Q2 FY '24 Earnings Conference Call”

November 10, 2023



**MANAGEMENT: MR. MUKUND KABRA – WHOLE-TIME DIRECTOR –
ADVANCED ENZYME TECHNOLOGIES LIMITED
MR. BENI PRASAD RAUKA – GROUP CHIEF FINANCIAL
OFFICER – ADVANCED ENZYME TECHNOLOGIES
LIMITED
MR. PARAG KATARIYA – GENERAL MANAGER,
ACCOUNTS – ADVANCED ENZYME TECHNOLOGIES
LIMITED
MR. RONAK SARAF – MANAGER, INVESTOR
RELATIONS – ADVANCED ENZYME TECHNOLOGIES
LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Advanced Enzyme Technologies Limited Q2 FY'24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ronak Saraf from Advanced Enzyme. Thank you, and over to you, sir.

Ronak Saraf: Thank you. Good evening, everyone. Welcome to Advanced Enzyme Technologies Q2 and H1 FY'24 Earnings Conference Call. I am Ronak Saraf, the Manager of Investor Relations here at Advanced Enzyme. We hope you all have gone through our financials, press release and presentation, which has been posted in the Investor Relations section of our website.

We have with us Mr. Mukund Kabra, Whole Time Director; Mr. Beni Prasad Rauka, Chief Financial Officer; and Mr. Parag Katariya, GM Accounts. Today, the management will discuss the performance and business highlights, updates on strategies and respond to any questions that you may have. As is usual, for ease of discussion, we will look at the consolidated financials.

Before we proceed, I would like to draw your attention to the forward-looking statement contained in the presentation. During our call, we may make forward-looking statements regarding our expectations or predictions about the future. Because these statements are based on current assumptions and factors that may involve risk and uncertainty, our actual performance and results may differ materially from our forward-looking statements.

So without any further ado, we shall commence this call. Over to you, sir.

Mukund Kabra: Thank you, Ronak. First of all, let me wish everyone, happy Dhanteras and happy Diwali. I really appreciate you all for taking out your valuable time on this Dhanteras, and I welcome you all to the conference call for the second quarter and half year ended 30th September 2023.

I would like to begin the discussion with a quick brief on macroeconomic scenario that are likely to have intended or unintended impact on the business. The economic landscape remain volatile, plus the inflation across the globe continues to challenge economic stability in various parts of the globe. The geopolitical situation also could have some impact on crude prices, increased interest rates and cautious spending by customers amidst global geopolitical stations. Specialty chemical industry is experiencing a slowdown on account of the sluggish export demand in some of the geographies like U.S., Europe and LATAM.

Despite all of these uncertainties, the company's overall performance improved on a year-on-year basis as well as on a sequential basis. The growth is essentially driven by demand in the domestic market and rest of the world market.

Now as far as the quarterly performance is concerned, we have achieved top line of INR1,578 million, growth of 14% on a year-on-year basis and 7% on a sequential basis in quarter two. Our

EBITDA stood at INR513 million, grew by 29% on a year-on-year basis and 17% on a sequential basis. We have witnessed a stellar growth of 34% in the bottom line on a year-on-year basis, while on a sequential basis, it grew by 20%.

There is improvement on margin side, EBITDA margin stood at 33% and PAT margin stood at 22% during the quarter two. Due to top line improvement and input cost stabilization margin has shown some improvement and is expected to be better going forward.

Talking about the segment-wise performance. The Human Nutrition segment outperformed during the quarter and remained a huge contributor in the revenue pie at 67%. It grew at 13% on a year-on-year basis and 7% on a sequential basis. Pharma, API and biocatalyst in domestic markets and nutrition in international markets primarily supported the numbers in the human nutrition.

Our Animal Nutrition business contributed 11% to the revenue in quarter two. This segment remained flat on year-on-year basis, while it grew by 9% on a sequential basis.

Bio-Processing segment is continuing the growth trajectory with around 26% on a year-on-year basis and 8% on a sequential basis, contributing 15% of the revenue. The part of Food business grew by 43%, and we have seen a 21% decline on non-food business on a year-on-year basis.

The Specialized Manufacturing segment contributed 7%, and grew by 24% on a year-on-year basis and 6% on a sequential basis.

We have recently got approval for street food this year filed with EFSA somewhere around in 2040. With this, I conclude my remarks, and now hand over the call to Raukaji and he will walk you through the financial and key subsidiary numbers. Over to you, Raukaji. Thank you.

Beni Prasad Rauka:

Thank you very much, Mukund. Good evening, everyone. I hope you all are in good health and wishing you all a very happy Dhanteras and a happy Diwali and prosperous new year. I am not keeping well so I have my colleague Parag., He will take you through the financials and key numbers of our subsidiary as well as the consolidated numbers. Thank you. Parag, over to you.

Parag Katariya:

Thank you, sir. Good evening, everyone. I will take you through the consolidated financials of our company for the second quarter ended 30th September and for the first half year of year 2024. I will first speak about the year-on-year basis, that is Q2 FY'24 vis-a-vis Q2 FY'23.

Revenue increased by INR191 million, that is 14%, from INR1,578 million to INR1,473 million. Our EBITDA increased by INR116 million, that is an increase of 29%, from INR397 million to INR513 million. Our EBITDA was contributing 29% in the last quarter, The previous year quarter, and now it is contributing to 33% to our company. Our profit before tax has increased by INR137 million, an increase of 40% from INR342 million to INR479 million. Our profit after tax has increased by INR89 million, that is a 34% growth, from INR263 million to INR352 million.

Now, I'll speak out about the quarter-on-quarter performance, that is a sequential basis. Our revenue increased by INR105 million. That is a growth of 7% from INR1,473 million to INR1,578 million. EBITDA increased by INR73 million, that is an increase of 17%, from INR440 million to INR513 million in the current quarter. Our profit before tax has increased by INR65 million, that is a growth of 16%, from INR414 million to INR479 million in the current quarter. Our profit after tax has increased by INR58 million, a jump of 20%, from INR294 million to INR352 million in the current quarter.

I will now speak about the performance of our few subsidiaries. One of our subsidiaries, JC Biotech, its half year numbers were -- it had a sale of INR308 million as compared to last year's half year of INR283 million, a 9% growth. Our EBITDA has de-grew over there by 21%. And in the current half year, the EBITDA stands at INR26 million as compared to INR33 million in the previous year. PAT has come down significantly. It has come down by 89%. And it is INR12 million -- it was INR1 million in the current half year as compared to INR12 million in the previous year.

Talking about another subsidiary, that is SciTech Specialties. Our half year contributed revenue of INR200 million in this current half year as compared to INR148 million in the previous year's first half. Our EBITDA is INR22 million in the current half year as compared to a loss or a negative EBITDA of INR5 million in the previous half year. Our profit after tax stood at INR8 million in this first half year as compared to a loss that was prevalent in the previous year's half year, that is INR22 million.

Now I will throw some light on our performance at Evoxx. Our revenue at Evoxx stood constant. It was INR117 million in the first half year of the previous year. And it is same at the current half year, that is INR117 million. EBITDA, we are -- this time we are having a negative EBITDA in Evoxx of minus INR4 million as compared to a positive EBITDA of INR22 million in the previous first half year. Our profit after tax stood at minus INR16 million as compared to INR2 million in the last year's first half year.

Now I will speak about our largest product, that is anti-inflammatory enzyme. In this period, we sold INR365 million worth of this product in this current quarter as compared to previous quarter, that is Q1 of FY'24, where we had sold INR352 million worth of material. On a year-on-year basis, we had again sold INR352 million worth of materials of this product in the last year September quarter. When we put across a picture for half year, in this half year, we have sold INR716 million worth of product. And in the previous year, it was INR631 million. From a percentage contribution to the entire revenue, it contributed to 23% in the current half year, whereas the contribution was 24% in the last year's first half.

Now I will give you some highlights about our top 10 customers. The top 10 customers have contributed 27% to our total revenue in this current year -- current first half year, and it was almost similar, standing at 27%, in the last year's first half year. The top 10 product has contributed 48% in the first half year, and it has contributed 45% in the last year's first half year.

Now about the B2C segment. The B2C segment has contributed \$1.14 million as compared to \$1.11 million during the same period in the previous year.

Now I'll throw some light on the research and development expenditure that we have spent during the half year. During the first half of the year, we have spent INR121 million in the current half year as compared to the INR121 million that we spent in the last year. Whereas the capex in this current half year is INR5 million. And in the last year's first half year, we had spent INR28 million as capex.

So on a totality basis, when we see including the revenue expenditure and the capex, in the first half year of this year, we have spent INR126 million as compared to INR148 million in the previous years, first half year. On a percentage basis, when we look at the total capex or total R&D spend that we have done as a percentage of our revenue, it stands at 3% during the period and it was 4% during the last year.

Now I shall keep the Q&A session open for everyone. Thank you.

Moderator: Thank you very much, sir. We take our first question from the line of Jainam Ghelani from Svan Investments. Please go ahead.

Jainam Ghelani: Wishing you and the whole team a happy Dhanteras and happy Diwali. So I just have a few questions. So what was our capacity utilization for this quarter?

Mukund Kabra: Ghelani ji, It's like very difficult to say the capacity utilization, but capacity utilization has increased from the earlier. And we are seeing more capacity utilization as we are moving forward. So probably by coming quarter end, we should be reaching about 70%.

Jainam Ghelani: Okay. And sir, basically, like since I just -- I'm a bit new to the company, so please pardon me. But I just heard that we haven't spent a lot on capex this first half of FY'24. So what is the peak revenue that we can achieve from the current capacities? And what are our plans going forward as to which segment is going to be the focus area?

Mukund Kabra: As far as the capacity equation is concerned, whenever we will reach to around 80%, we will start building up further capacity, and that's where we stand all the time. Because establishing the capacity also requires about 1.5 years, time. So that time, we will have to utilize for that. As far as the first half is concerned, like we are always very low on the capex. The capex, what like Parag has mentioned, is more on the R&D front, basically. And we expect about INR10 crores to INR15 crores, which is a maintenance capex every year, which we are expecting for the last few years.

Jainam Ghelani: And sir, what can be the peak revenue from the current capacities?

Mukund Kabra: It's difficult to say, but I would say maybe INR800 crores, INR900 crores, somewhere around that. Because it depends on the product mix, how it moves on.

- Jainam Ghelani:** Got it, sir. And sir, because chemical market, like the overall macroeconomic demand is low, but when do we see that our -- we can return to our older margins of 40-plus? Because I see that we've been -- like we were in that range for quite a few years.
- Mukund Kabra:** We expect the margins to improve further as we move on into the coming quarters, but it's difficult to go above 40% as of now in the newer features that is what we can pursue right now. But we expect to improve it further as we move on into the next and next quarter.
- Moderator:** Thank you, sir. The next question is from the line of Mr. Abhishek from Nirmal Bang Equities. Please go ahead.
- Abhishek:** Just first one from my end is basically, sir, can you elaborate more on the approval for two dossiers that we have received actually which you guys have filed in 2014 on the food front? Can you elaborate on the market opportunity there? And what sort of revenue should we expect then from each year? Can you please throw some light on that?
- Mukund Kabra:** We filed somewhere around 14 dossiers years in 2013, '14 and onwards. It's always like a long time for their approval. Just recently, we've got the two products. And I think those are the two different lipases. I need to go through that. There is somewhat demand is there, but then to really look into it. I can't give you the quick answer right now.
- Abhishek:** Sure, sure. Okay. So in terms of the products that got approved, I mean, the approval products, do you know any ballpark number in terms of market size currently in Europe for those products, similar products, let's say, from an industry perspective?
- Mukund Kabra:** There are different areas, and those areas are very difficult to talk about. Some of them bill user, some of them are in the biocatalyst areas. Some of them are in the food area directly. But to achieve the absolute dossier actual itself is a bigger achievement, had in mind we can -- going forward, we can have even make this as a business close to get the other people as per dossier as well get them approved. So achieving the approval itself is a big step. How much is the market? And what is the market is very difficult to say at this point of time.
- Abhishek:** Sure, sure. Okay. But considering the approval and also, you said that by end of 3Q we'll be nearing to almost 70% utilization. So is there any change in terms of capex for maybe, if not '24, but for FY'25, '26, do you see any acceleration in capex as compared to our old level?
- Mukund Kabra:** We won't be needing a very high capex, even though we decided to go for the expansion. Generally, we expect like somewhere around whenever we plan to do it, maybe INR40 crores, INR50 crores.
- Abhishek:** Per year, right?
- Mukund Kabra:** No, not per year. For one or two years.
- Abhishek:** One or two years, okay. Okay. And last one from my end, sir, can you share more light in terms of the demand outlook, especially on the Human Nutrition side? I mean, I believe that we are

doing well in terms of Animal Nutrition consistently on a quarterly basis. But the kind of quarterly run rate we are at in terms of the nutrition segment in international markets, so can you throw more light? I mean, how we should look at the segment from next one or two year's perspective both on the revenue growth perspective? And also, is there any challenges that we are facing in terms of pricing because of the competitive intensity and stuff like that?

Mukund Kabra:

So as you said, like our domestic from the nutraceuticals side has increased. Of course, you've been domestic, there are a lot of different parts, which is pharma -- API, the biocatalysis segment, and the probiotic segments. All the segments started contributing somewhat. The first half was as we were talking from the last two, three quarters, that the international Human Nutrition, particularly U.S., will slow down and this is the same case this quarter.

But as we move on, from the coming quarters, we expect years to start also contributing and they should come back. And we're talking from last two, three quarters that we expected the second half of this year has to pick up. We can see those signs at this point of time. But again, there is a lot of global war and all of those things are moving right now, and we don't know how it will impact or what it will impact. Given the normal circumstances, we expect better growth in the international market as we move on.

Abhishek:

Okay, okay. And sorry, one last one. We have deferred some improvement on a sequential basis as far as margins are concerned, and you have highlighted this earlier as well. But just one question considering all these near-term challenges, do we see any further upside to this 32%, 33% number? Or do you think it will take some more time to get back to our old levels, let's say, the 35% to 40% range, maybe in '25, '26?

Mukund Kabra:

We expect that we should improve from here onward as we move on the next quarter. As I was in the last few investors conference calls I already mentioned that as look, the U.S. starts contributing to this, we should have a better margin. And we expect this should happen from this quarter onwards. So we expect sequentially we should get back to those levels, but it will take some time.

Moderator:

We take the next question from the line of Aditya Shah from Vikram Advisory Services.

Aditya Shah:

So my first question is about the market share that we currently have in the products we do in India. And what is the vision that we have to have a particular market share in five years from now? That's my first question.

Mukund Kabra:

First of all, we command a good market size, and particularly the product segment where we are in India, we maintain more than 80% of the market share and we will continue to do that. As far as this is concerned, but the growth areas, as we were talking from the earlier, it is going to come from the biocatalyst area, from the food area, from the animal food area, probiotics areas. If we're really looking to the -- all of these areas, those are growing. Particularly the food area, it has contributed more than 43% in this quarter. And we are improving on all the segments.

Aditya Shah: So broadly, if I -- am I right in assuming that wherever the market of enzymes, market or probiotics market reaches in five years from now in India, we would at least come out of the market share of more than 50%, 60%. In most of the areas we operate?

Mukund Kabra: Yes. Most of the areas where we operate, difficult to say on the probiotics side because probiotics side, we are very late and there are a lot of players right now, so I won't comment on the probiotics side. On the enzymatic side, yes.

Aditya Shah: Okay. Sir, my next question is that today, we see a lot of global majors who are already large in size merging themselves, like, for example, Hansen and Novozymes, DSM already merged with Firmenich. So -- and there's obviously AB Enzymes, which is Associated British foods. So how do we see competing with these global majors on a global level? Because today, we have 50% of revenue coming -- more than 50% revenue coming from rest of the world, right? So how do we see ourselves competing with them? And do we have a cost advantage versus them? Or do we have a product quality advantage versus them?

Mukund Kabra: In the context with all of these people on the global layer, where we feel our strength, the areas which we don't feel we are on the strength, we don't go and conquer. So the strength comes from a lot of different areas, from some of the product security, right, comparative. We are not cheap producers, right? We have -- we are a quality producers, right? And we can compete with these guys on the global levels. We are present, and we compete with them only in the areas where we've feel comfortable.

Aditya Shah: Right. So the mergers between these majors one is not really of much importance you feel today for us?

Mukund Kabra: As of now, I don't feel like that is much of an importance to us. In fact, we really look at it in the their side, Their cost structure has gone out and they tried to get into these kind of mergers to take some advantage. But as of now, we are confirming we are okay.

Aditya Shah: Right. So regarding that, let's say, for growth in the coming years, let's say, five, 10 years or whatever, do you see this business area as enzymes and probiotics as a whole. For growth, Is it more possible towards organic growth? Or is it more via acquisitions?

Mukund Kabra: So acquisition is going to be one of the strategy. But our major focus is always under organic, and we always focus more on the organic.

Moderator: Thank you,sir. We take the next question from the line of Gaurav Nigam from Tunga Investments. Please go ahead.

Gaurav Nigam: Sir, first question on -- can you just -- in the Human Nutrition segment, can you share the numbers of India Pharma business and U.S. nutraceuticals business for the Q2 and first half on a Y-o-Y basis, sir?

Parag Katariya: Sure. I'll do that. The pharma sales in India is INR593 million in the current quarter. And on a year-on-year basis, it was INR440 million in the previous year. There is international sales is INR466 million in the current quarter. It was INR499 million in the previous year-on-year basis. On a totality basis, our revenues increased at INR1,060 million in current quarter and it was INR939 million in the previous year September quarter. That is how it is standing.

Now at the probiotic levels, in India, it is INR69 million sale in the current quarter. It was INR5 million on a year-on-year basis. Biocatalysis sale is INR77 million domestic. In the current quarter, it was INR65 million in -- on year-on-year basis on September '22. Our pharma sales is at INR447 million in domestic in the current quarter. It was INR370 million on a year-on-year basis in September '22.

And with respect to the international sales, our pharma sale was INR447 million in the current quarter, and it was INR459 million in the previous quarter, that is September '22. Probiotic sales on international was INR11 million in the current quarter. It was INR40 million in September '22 quarter. And biocatalysis international sale is at INR8 million in this quarter, whereas there was no significant sales in the last year's September quarter.

Gaurav Nigam: Got it, sir. Got it, sir. This is really helpful. Sir, one more question on the U.S. nutraceutical business. I think in the past few quarters, you have been alluding to it coming back up. I understand it is still taking time. I just wanted to understand what are the main reasons which are still taking some time for this segment to see the growth?

Mukund Kabra: Last time we mentioned overall, there is a slowdown into the demand, which is there. We are going with some innovative ideas and innovative products, and those took some time. So as you look -- the gestation time was about five to seven months. And as I was telling from the earlier also, we should start seeing this from this quarter onwards. It should -- gradually it should start building up.

Gaurav Nigam: Got it. Just a follow-up on this, sir. When you think about growth, is it end market growth which is causing the problem? Or we -- from a market share perspective, is there a decline in our market share in this U.S. nutraceutical? Or it's only the end market, which is causing this growth issue?

Mukund Kabra: I think it's the end market issue which is more there. On the demand side, basically, the demand has gone down to some level. But as I was telling from the earlier also, that we are improving with the new segments which we launch and with the emerging segments today that I was saying from this quarter onwards, we should have that back on track in the international market.

Gaurav Nigam: Got it, got it, sir. Sir, one more question on the Animal Nutrition segment. We started seeing some spurt of growth in that market. But I think from last quarter and this quarter, this has been kind of started muting. So is this, like, because Animal Nutrition is segment, which is both India and non-India segment, right? So where is this market we are seeing this kind of pressure? And what is our plan for that segment, sir?

Mukund Kabra: Our focus on the growth is mainly going to come from the international market, which is there, and that growth is still there. The domestic market is a little bit more under the pressure because there's a lot of different players and different things which are there. So we are working on the domestic market as well because there is a price pressure in the domestic market. International market is doing fine that there are like its own challenges which are there. For example, you're going to the African market, Egypt, and all of those areas, you see there are a lot of payment problems are going on.

So you go to the Argentina and those areas, and you will find that there is no dollars available to supply. So we don't want to like deal into those areas at this point of time. That is all that growth we cannot really see right now, which we are expecting to see because we cannot supply the material and then wait for the payments or we don't want to create the baggage. So those are the challenges at this point of time. And we'll see how the macroeconomics in the other areas looking as we move on.

Gaurav Nigam: Got it, got it, sir. And just a final question from my side, sir. When I look at the Asia ex India business, which segment do we operate here, sir? And which -- is it more like Southeast Asia? What is the segment which has certainly started performing for us? Just wanted to get some flavor on this Asia ex India business.

Mukund Kabra: So it takes all the registration in other areas, right? So we were trying to get the registration. It's a long process. And there are a lot of different players as well. So once you get registrations and other things in those areas, which we are working from the last few years, you start getting some of the business and some of the market shares from the Asian areas.

Gaurav Nigam: Got it, sir. But which segment it would be? This would be Human Nutrition, Animal Nutrition or like industrial, which segment?

Mukund Kabra: I was talking about the Animal Nutrition. I think your question was more on the Animal Nutrition on that side, right?

Gaurav Nigam: No, I was more looking at the geographical segments, so the entire Asia, that segment that you report. In that segment, that we can see our growth coming this quarter. So I was just wondering like within that Asia geography that we talk about, what is the underlying business composition? Is it Human Nutrition, Animal Nutrition or Industrials, which segment is this largely catering to?

Beni Prasad Rauka: For bioprocess food.

Gaurav Nigam: That bakery segment, sir.

Beni Prasad Rauka: Yes.

Moderator: Thank you. We take the next question from the line of Yash Tana from I Thought PMA. Please go ahead, sir.

Yash Tana: I'm slightly new to the company, so pardon me the questions have been answered, So my first question is, if I look at the long-term trend, probably a three or five year CAGR, on the U.S. front, we have been relatively flat. And I believe there were reasons for that, probably a loss of customer and then this slowdown. But U.S. being probably one of the bigger markets globally and one of the bigger markets for us as well how do we see growth in this segment coming in?

And I think you have mentioned that, that's a high profitably, high realization business as well. So from medium- to long-term perspective, probably a three to five year perspective, what are the new segments or what are the current existing segments? And how are we seeing growth in this side of the business?

Mukund Kabra: As we were mentioning from the last one, like we've launched some of the new products, some of the innovative areas, some of the innovative areas today, nutraceutical areas and we see that those products should be able to grow as we are moving into this quarter. So we can feel like some of the options that -- you need to wait and see to come out what will be the growth and what will be the percentage. As of now, it's very premature for me to comment on that.

Yash Tana: Right, sir. Probably, I mean, I'm just wondering that the sort of growth that we have shown in other areas, probably India and Asia or something, are we thinking that we can replicate that sort of growth in U.S. as well?

Mukund Kabra: See, the U.S. market is different and Indian markets are different. In the Indian markets, we have not operating exactly into the blend area, but more into the API areas or the people you are making into the API segments, where we are supplying enzyme. So those are typically little bit different businesses and different dynamics plays into those areas, right? But we expect a better growth as we move forward into the U.S. market. That's what I can say right now.

Yash Tana: Got your point. And on the other one, I think you answered to another participant on the merger between global players, and they are talking about cross-selling opportunities probably somewhere -- even lower times they stay in business -- and not doing business and vice versa. So if we see where they can cross-sell between their clients, how are we planning to sort of combat this, the merge of company that they will make after the merger.

Mukund Kabra: I don't feel like there is any problem into the areas because those areas -- our presence was very negligible where the Novozymes and Chr. Hansen work. The major competition, which was there from the Novozyme was in the food areas. Patient answers, we really don't compete to many of the places at this point of time. So it really doesn't matter like whether their businesses are merging or not merging.

Yash Tana: Sure, sir. Got it. Very helpful. And one final question on the margins. I believe you mentioned that it might be a little difficult to go above the 40% now. Whereas in the previous few years, we have said that our business is a business which can make margins above 40%. And you are given a range of 40% to 48% in the previous call. So I'm trying to understand what has changed there? Is it the pricing pressure from our clients? Or is it something on the cost side that we are saying that now going above the 40% markup seems a little difficult?

Mukund Kabra: There are a lot of factors which are -- a few of them are we already mentioned, look, the nutraceutical has to do better as we go on. There are certain other businesses which were being added up into the main composition, which were there earlier, like the specialty business or the other businesses which are very low margin side. So overall, the compromise is some kind of margins when you talk about the EBITDA versus like your top line. It is visible in a sense, as of now, we just want to hold. But you'll be able to go -- then we well be able to grow above 40% or something of that nature.

Yash Tana: Sir, you're essentially saying that the business mix has changed to a sort of lower-margin products, the overall businesses?

Mukund Kabra: Some of them are on the lower side, yes. You're right. Yes, SciTech, for example. And it takes some time for the core business to really take care of those areas as well.

Yash Tana: And one final question, if I may. So we said we didn't mention our capacity utilization. But we said that in the next probably coming few quarters or years, I didn't catch that correctly, we'll reach about 70%. So what sort of cost advantage -- I mean, what sort of a costs are fixed in nature versus variable in nature where we'll be able to see some sort of operating leverage play out as our capacity utilization increase?

Mukund Kabra: I don't feel too much of a difference it's going to make as our capacity is going to increase. Some of them will always be good. As you always see that if our top line grows by one, then our bottom line goes up by 2.5x. So those ratios are always there and those -- when the capacity equation goes up, those ratios are always there. But those are the coverage that I can see.

Moderator: We take the next question from the line of Umang Shah from Banyan Tree Advisors PMS Advisors. Please go ahead, sir.

Umang Shah: Sir, the largest product that we have which is pharma serratiopeptidase, right? That's sold only in the Indian market. And any reason why we do not export this product?

Mukund Kabra: We do export this product.

Umang Shah: What would be the breakup between exports and domestic?

Mukund Kabra: But the majority still comes from the Indian market, We have also filed this product for the novel food, and we are expecting some clearance. Earlier, we used to add some credit to the Europe as well, but the Europe sale has gone down because of the people are waiting for the novel food, there is requirement of novel food. So we did file this product for the novel food as well as we are filing this product into the -- some of the bigger Asian markets. As of now, the export market sale is somewhat into the U.S. in the nutraceutical areas and other areas, which is on a lower side when we talk about in relation to the domestic sales.

Umang Shah: And is this product sold in the U.S. market also?

Mukund Kabra: Not directly at the API, but mostly like into the nutraceuticals, in some other areas.

- Umang Shah:** Right, right, right sir. And sir, second question was, sir, the number of products that we have in our -- total number of products have more or less remained consistent over the years, right? Sir, I just wanted to understand how frequently do these products -- like what type of these products, do they -- what is the rejection rate when you're trying to launch a new product in the market? If you could give some insight on the same, it would be really useful.
- Mukund Kabra:** Can you please repeat, Umangji? I couldn't hear you.
- Umang Shah:** The number of products that we have are more or less consistent for many years now. So I just wanted to understand, are there -- are we introducing new products in the market? And if yes, do they get rejected? So I just wanted to understand the new product turnover that you have in the market.
- Mukund Kabra:** So there are two types of new products, which were going to the market, a few of them at the plants and a few of them are in the specialized enzymes, which you make. The list, what we mentioned, I haven't seen recently that I think like it was 68 plus or something like which we mentioned. And probably that is constant from some time. But it is not a constant. Actually, when we talk about plans, we think that it's taken care. We haven't really updated the numbers. We did come up with the new products. Every quarter, there is a lot of R&D and a lot of work is always going on. And every year like we are improving the product every quarter.
- Umang Shah:** Right, sir. And one final question was we own 60% of Advanced Bioagro. And who owns the remaining 40%?
- Mukund Kabra:** 40% is owned by Mr. O.P Singh.
- Umang Shah:** Okay. And how -- is that person the founder? Or how does this work?
- Mukund Kabra:** So on the Indian market, all the sales that is being up monitored by Mr. O.P Singh, who was a veteran into the animal food areas.
- Umang Shah:** Okay, okay. So does he also participate in our business? Or is he the owner? I mean, is it someone does not participant?
- Mukund Kabra:** I didn't get you.
- Umang Shah:** I'm saying is Mr. O.P Singh actively involved in the business?
- Beni Prasad Rauka:** Yes. He Is the managing director of the company and he therefore takes care of day to day affairs of the company, and his more focus is on sales and marketing.
- Moderator:** We take the next question from the line of Mr. Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: A couple of questions. The first one, while we're expanding the enzyme libraries, what sort of opportunity do we see in biomass processing, scarification and bioethanol production? If you can take us through the opportunity in terms of million.

Mukund Kabra: Honestly, our major area of focus, we make a food, biocatalysis and probiotic. Of course, if we are working in the sacrfication areas, we developed with some of the events right now. We are looking into the market size, market share, how do we take this into some of the geographies, if we can.

And we are working in all of these areas. Bioethanol is still for a longer distance as of now. Like we are developing some of the components which may require. We are talking to the fuel bio components companies, but I cannot talk about what can be the business or not. If the business will come, they will be additional and that will be a good supply.

Rohit Ohri: That's great to hear, sir. So we spoke about probiotics. And I know that this is still an untapped business for us, and they seem to be a lot of opportunities take us to what role can AETL play in this, if you can share some numbers on that?

Mukund Kabra: Most of the probiotics like what we focus is related to the competition -- combination of probiotics and Advanced can be get advantage. So a lot of nutraceutical products that you develop is more in a combination of that probiotics with some of the areas that really work very well to go hand to hand.

And that is going to our major focus areas. We may not be able to see into the to give a number. Because here, when we talk about the probiotics number, those spends only into -- those spends only manages a kind of a single product sale, which is there. But we see that there is a lot of opportunity in the combination of this and developing the new probiotics, which we can use it for our nutraceutical areas as well.

Rohit Ohri: Okay. Sir, how many of these combination molecules or enzymes or probiotics are currently in the pipeline, if you can share that?

Mukund Kabra: There are a lot of products which we sell into the nutraceutical product, maybe more than 50%, 60% of the products are with the combination.

Rohit Ohri: Okay. Sir, if we see the global probiotics is growing at around 7.5% CAGR. And if you see the global enzyme market, it is growing at something like 3.5% to 5% CAGR growth. Do you think that we will be growing slightly better than the industry rate? Or do you think that we can grow at a rate much fast or maybe double the rate of the industry level?

Mukund Kabra: What I can say is we will do it significantly better. Is it like what the numbers you are giving, 7.5% or 3% to 5%. That's what I can say right now.

Rohit Ohri: Okay, sir. And my last question is, if you observe the return ratios they have been declining from around 24%, 25% ROCE to somewhere around 11% now. And the ROE has also declined from

18% to somewhere like 9%, 10% So what sort of efforts are we putting to kind of revert back to these ranges of 23%, 24% ROE and maybe like around 16%, 18% ROE?

Mukund Kabra: Rauka ji is the right person to answer this. Right, Rauka ji?

Beni Prasad Rauka: So the efforts are like one thing, as Mukund has already mentioned, you might have seen on quarter-on-quarter, we are progressing. We are improving our EBITDA margin. That is one. And apart from that, we are sitting on a large cash. So those funds, we have to use over a period of time to see that we can get the kind of returns, which -- I mean, you are comparing with the previous year numbers.

So far, we are not able to get any kind of opportunity where we can invest that money. So we can expand our business, maybe it is a kind of inorganic growth. So we are working on that, and we are exploring a lot of such opportunities. Meanwhile, you might have also noticed that this year, the company has given a very handsome dividend, We also understand this point. So accordingly, we are addressing all such issues. And hopefully, in maybe if not in a couple of quarters, it may be taking a year or so, where you will see a lot of improvement going forward.

Rohit Ohri: So sir, if you are looking at some sort of also diversification, will it be in the same core domain as us? Or will you be looking at something that's outside?

Beni Prasad Rauka: It's in the same domain only It's our core business. So we will be always working on our core areas, which Mukund has already mentioned, it's like expanding our animal feed business, nutraceuticals, probiotics, biocatalyst business. So whenever we see any kind of opportunity where we could definitely add a lot of value to our stakeholders, so we will definitely work on it. And we are already working on such issues.

Moderator: We take the next question from the line of Shreyans Gathani from SG Securities. Please go ahead.

Shreyans Gathani: Happy Dhanteras, happy Diwali. I had a couple of questions. The first one was on the R&D spend. Sir, in the last few quarters, we've been mentioning that you want to up the R&D spend as a percentage of revenue. So as revenues go up, we're seeing like pretty much stagnation in terms of R&D spend even in terms of -- in rupee terms. So the percentage has been going down. So just wanted to know if we should expect an increase in that area? Or are you just looking at a similar level as the current spend.

Mukund Kabra: Shreyansji, happy Diwali and happy Dhanteras. Yes. So when we talk about R&D spend to go up, we are expanding, we are coming up to the R&D center which you are building up in Nashik. And the construction and the capital work is going on. So kind of some of the R&D spend is getting into the capital work right now, which we are spending.

One those R&D centers will be operating probably, in terms of rupees or in terms of absolute number, the R&D spend should go up. You are right, when we talk about the growth numbers to any of this percentage may remain flat, but we need to see.

- Shreyans Gathani:** Okay, okay. Because the R&D center that you mentioned in Nashik, in the last con call, you said it's just starting construction. So that will take time to improve, right?
- Mukund Kabra:** Have probably 1.5 years down the line, it should start like operational, the first phase of it. And it will take -- its little longer project, maybe four, five years, when we will develop the complement. But we should see some expenses will start going up from the 1.5 years, somewhere around that.
- Shreyans Gathani:** Okay. So until 1.5 years, there'll be more capitalization than income -- the expenditure side of it, right?
- Mukund Kabra:** Yes.
- Shreyans Gathani:** Okay. And my second question was on the capital -- capex for capacity expansion. So when you mentioned that it is around INR40 crores, INR50 crores. So how much in terms of percentage capacity would that -- how should we look at that in terms of like current capacity is certain amount? Like how much would that contribute to in terms of additional capacity?
- Mukund Kabra:** So maybe, look, if we can look into 25%, 30% increase?
- Shreyans Gathani:** Okay, okay. And last question, sir, if you could just give a small update on how the WELLFA brand is doing in India?
- Mukund Kabra:** So WELLFA brand is -- we haven't looked as we were mentioning, we don't expect too much of the sale in the first one or two years, and we will see how it works. At this point of time, it took -- some of the demand has picked up. I don't know the exact number in front of me. But those numbers are not really significant. When we're talking in the percentage terms, clearly, it is better 200%, 300%. But in terms of reflecting numbers, those are not really significant.
- Shreyans Gathani:** Okay, okay. Sir, just if I may ask one more question. So that's on JC Biotech. So you see the performance has degraded over the last -- in this quarter versus the previous year. So do we expect a certain improvement back on that front?
- Mukund Kabra:** We expect that as we move on into the further quarters, we'll let you know too. There are some kind of, I would say, repair and maintenance expenses which are on the higher side into the last two quarters, which comes out four, five years later. So we expect as we move on, it should improve.
- Shreyans Gathani:** Okay, okay. So the main margin deterioration, mainly because of the repair and maintenance cost, is what you say.
- Mukund Kabra:** Yes, in the last two quarters.
- Shreyans Gathani:** Okay, okay. So that is done now? Or is it good?
- Mukund Kabra:** I think more or less it's done.

Moderator: We take the next question from the line of Mr. Aditya Shah from Vikram Advisory Services. Please go ahead.

Aditya Shah: My first question in the follow-up is regarding the sales growth that we expect ourselves to achieve CAGR in the next five years. And the second question is regarding the ROE point that the previous participant pointed out. How do you view the goodwill that we carry, about around INR320 crores, INR330 crores on our books? And what is your view of getting it versus writing it off? And what is the ideal fixed asset turnover that we expect ourselves to achieve before we move some more organic growth?

Beni Prasad Rauka: Yes. I think the question, whatever I have understood so far, first thing I would like to address regarding the goodwill part of it. So goodwill as of now, I mean, there is no impairment. And going forward, because every year, the goodwill is to be tested. So whatever like investment we have done in our subsidiaries, so we have to do the fair valuation of that.

And if there are some such indicators, so that will be like second year going forward when we carry out that detailed exercise of impairment. So as of now, there's no challenge as far as goodwill is concerned. And another question, I might have missed.

Aditya Shah: Asset turnover. What is the ideal asset turnover that we expect ourselves to maintain or achieve? And once we -- what is the targeted ratio before which we have to go for further capex?

Beni Prasad Rauka: So I mean, it is not turn -- I mean, it's not directly linked with the kind of a turnover and fix. As Mukund has mentioned, when we raised to a capacity level of, say, about 80%, that is the time we have to think about it. Yes, we might have to add some more capacity. So right now, I mean, it is likely that whatever he has mentioned, it will be reviewed in the next year. As of now, the capacity utilisation is not so much.

And another point, I think I would like to draw to your attention is when we improve our productivity. So it definitely again adds to our capacity. So as we go forward, I think we will be able to see. As such, there are no basically that the turnover is based on some kind of investment in the fixed assets. But generally, I have said it is slightly about 2x or -- unless until you do a lot of trading. Because it is capital-intensive, I mean, project as such.

Aditya Shah: Right. But, sir, in my observation, just a suggestion, that we have observed is that usually when then there are 100% subsidiaries of the parent company, it makes absolutely no sense to carry on having the goodwill because it always drags the ROE. So is there any value that we see in continuing with the goodwill on our books? Because I think the major goodwill that comes from is Advanced Enzymes USA, which is our 100% subsidiary.

Beni Prasad Rauka: Correct. Absolutely right.

Aditya Shah: So what is the thought process behind carrying it? Because it is just dragging our ROE. If you break it down by INR300 crores, do you just imagine the ROE just goes up to 14%.

Beni Prasad Rauka: I agree with you. But then this is the requirement of accounting standards. So whenever we have acquired these companies, whatever value we have paid to acquire those businesses, we have allocated certain amount. So after -- in that allocation, whatever is left out, that is to be booked as goodwill. So I mean, if you write it off...

Aditya Shah: Sir, usually in my experience, I'm just giving you a suggestion, you can have board level discussion. But you see when acquisition happens, obviously there is a goodwill part. But usually, management write it off because it makes no sense carrying it.

It just dragged down the ROE. it is our 100% subsidiary. So yes, while acquiring it, you have a goodwill, fair. But after acquiring it and having the goodwill on the books sitting over there and dragging our ROE, this makes no sense.

Beni Prasad Rauka: I mean, you might be saying from your perspective. But we right now see it...

Aditya Shah: You can have a Board level discussion on this topic, sir, that's all I'm suggesting.

Beni Prasad Rauka: Yes, I know. But then we have to also look at whether as the accounting standards can we do such things, so that will be definitely another way of looking at it. So as of now, we don't see any kind of impairment. So impairment, if indicators are there, then that is the right time one can take that call.

Aditya Shah: Sure. sir, no problem, sir. You can think about it, what I'm saying.

Beni Prasad Rauka: And any other -- whatever you...

Aditya Shah: Yes. The first question, sorry, I forgot, was the sales growth that we expect ourselves to achieve in the next five years CAGR.

Beni Prasad Rauka: CAGR.

Aditya Shah: CAGR, yes, five years sales growth.

Beni Prasad Rauka: That I think Mukund will be able to guide you.

Mukund Kabra: So We will be expecting a double digit. I won't be able to give you the exact number as of now.

Moderator: Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to Mr. Ronak Saraf for closing comments.

Ronak Saraf: Thank you, everyone, for taking your valuable time for attending our earnings call. We will keep you posted for any further updates. I request you all to kindly send in your questions that may remain unanswered. An audio recording and the transcript of this call will be uploaded on our website in due course. Looking forward to host you all in the next quarter. Till then, stay healthy, stay safe. Happy Diwali. Safe Diwali to all.

Mukund Kabra: Thank you so much.

Beni Prasad Rauka: Thank you.

Mukund Kabra: Thank you. Happy Diwali.

Moderator: Thank you. On behalf of Advanced Enzyme Technologies Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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